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## Augustine Heard & Co.: Building a Family Business in the China Trade (A)

Founded in 1840 in Ipswich, Massachusetts, Augustine Heard & Co. (AHC, in Chinese 琼记洋行) was a major American family-dominated firm in the China trade. Augustine Heard Sr. was the son of a wealthy Ipswich merchant. He spent a decade working for Russell & Co., then the largest American firm in East Asia, before starting his own business. His experience at Russell & Co. left him well versed in dealings with *cohongs* (公行), the intermediaries who held a monopoly on international trade with China through the port of Canton (Guangzhou), which until 1843 was the only open port on the China coast. As Heard expanded his firm's business, he enlisted his larger family in the effort, recruiting his nephews to come to China to seek opportunities that were "equal, if not surpassing, those available to the enterprising in a rapidly expanding America."<sup>1</sup> (See **Exhibit 1** for the Heard family tree, **Exhibit 2** for portraits of Augustine Heard, Sr. and his nephews, and **Exhibit 3** for a timeline of relevant historical events and key dates in the history of AHC.)

By the 1850s, AHC emerged as the third-largest American company engaging in trade in China after Russell & Co. and Perkins & Co. They also served as the American trading agent for leading British companies on the China coast, including Jardine Matheson & Co., and John Swire & Sons Ltd. Apart from its know-how in sourcing and trading commodities, AHC enjoyed the technological advantage of using fleets of American clipper ships that could travel across the ocean at speeds more than double that of their European competitors.<sup>2</sup> Like their British counterparts, the Americans also traded in opium, as a means to pay for tea and other Chinese exports.

But by the early 1860s, times were changing. The American Civil War (1861-1865) put a damper on American economic ability and capacity to engage in foreign trade. Innovations in transportation and communication technologies were changing the face of the China trade. The relatively open landscape in which AHC had thrived became more regimented as traditional Western institutions like banks and insurance agencies began to strengthen their presence in China. Chinese merchants became more sophisticated as well, diminishing the need for Western intermediaries. As Augustine Heard Sr. prepared to retire from his business in 1862, his four nephews, all partners in AHC and all having lived at some point in China, began a series of serious correspondence on the future of the firm. Could AHC afford to continue with business as usual? How should AHC adapt to the changing technological and

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institutional context of the China trade? Would the four nephews be able to share in the burden of carrying on their uncle's legacy?

## The Early China Trade

### 18<sup>th</sup> Century: From Tea to Revolution and Back Again

Sino-American trade was born of the colonial American addiction to tea. In pre-revolutionary America, as in England, consumption of tea grew from an upper class taste to become an increasingly popular drink across the colonies. However, no merchant from America could trade directly with China, due to the Navigation Act of 1663, which required all goods bound for the American colonies to be shipped through England. The British government gave the East India Company a monopoly on the importation of tea and added taxes to the already high monopoly price point. This was deeply unpopular with the American colonists and led—along with other grievances—to the Boston Tea Party in 1773, where tea was famously dumped into Boston harbor in protest of British trade and taxation policies. Growing tensions between the American colonies and London resulted in the American Revolutionary War.<sup>3</sup>

During the war with Great Britain, American merchants no longer had to abide by the Navigation Act and could engage directly in international trade. China was widely perceived as a fabulously wealthy and lucrative market for merchants. In 1784, a year after the Treaty of Paris confirmed American independence, the first American ship, the *Empress of China*, arrived in China, carrying silver and 30 tons of ginseng, and sailed home loaded with tea and silk.<sup>4</sup>

Chinese-American tea trade increased steadily. While European traders worked through centuries-old joint stock trading enterprises, such as the Dutch East India Company and the British East India Company, the Americans, newly arrived in the China trade, operated as private merchants who oversaw purchasing and shipping of goods from China with greater flexibility than their large European counterparts.<sup>5</sup> (The British East India Company lost its monopoly only in 1835, leading to the subsequent rise of private British trading houses.)

### 19<sup>th</sup> Century: Increasingly Complex Systems of Trade

By the early 1800s, the port of Canton greeted 36 foreign ships per year.<sup>6</sup> When the Napoleonic Wars disrupted European trade with China, the United States reaped the benefits of neutrality and increased its market share in China trade. In 1811, the United States became Canton's second largest foreign trading partner, according to custom figures.

During the period of the Canton trade system (1757–1842), Chinese *hong* merchants acted as the exclusive liaisons between American and other foreign traders and the Qing Empire, a monopoly that was established by edict of the Qianlong Emperor in 1760.<sup>7</sup> The *cohong*, the guild of *hong* merchants, were responsible for domestic sourcing, arranged for exports back to America, and ensured that Westerners followed customs and duty regulations.

*Cohongs* operated from what were called Thirteen Factories (十三行) on the banks of the Pearl River outside Canton. These factories were not manufacturing sites; rather, they served as warehouses, offices, and living quarters for foreigners.<sup>8</sup> Each factory was headed by a *hong* merchant. Prior to the First Opium War in 1842, American merchants could only purchase tea from Canton *hong* merchants. *Hong* merchants procured tea from other Chinese merchants, mainly from Zhejiang province in the

eastern part of China. The *hong* merchants profited greatly from their exclusive access to foreign traders.<sup>9</sup>

Samuel Shaw, an American consul in Canton, described the *hong* merchants as “intelligent, exact accountants, punctual to their engagements . . . [who] value themselves much upon maintaining a fair character. The concurrent testimony of all the Europeans justifies this remark.”<sup>10</sup> The *hong* merchants were known for their honesty and won the trust of foreign traders; one of the early Russell & Co. partners noted that they were “honourable and reliable in all their dealings, faithful to their contracts, and large-minded.”<sup>11</sup>

Even as trade between China and the United States grew and became increasingly institutionalized, financing this trade remained a perennial problem for American merchants, because they possessed few items the China market desired. In payment for tea, the Americans exported various marginal commodities, such as ginseng and sandalwood from Hawaii, fur from the American frontiers, and opium. Silver dollars and then London credit were used to make up the difference. During the early 19<sup>th</sup> century, American merchants engaged in a triangular trade, shipping goods to Europe or South America for Spanish silver dollars. The Spanish dollars were then brought to China to finance the trade for tea. By 1850, the gold and silver rushes on the American west coast allowed the China trade to be financed by American-mined precious metals.<sup>12</sup>

London credit supplemented payment in specie. Bills on London were a convenient and safe form of guarantee and gained popularity among American and Chinese merchants. From 1826, London banking houses issued credits and advanced them to American merchants. Operationally, bills were used for the purchase of goods in China, and the goods were then shipped to the United States; once the goods were sold, the trading house would pay the principal and interest due in London.

By the 1830s, bills on London were largely in the hands of the *hong* merchants, who accepted them from commission houses in China as payment. The availability of bills on London decreased American merchants’ reliance on the export of silver specie to China. In the 1820s and 1830s, American commission houses received bills on London directly. American commission houses advanced their American clients a substantial share of the funds required for purchase. This way, merchants from the United States were no longer obliged to borrow from London and only had to place their orders and agree to pay the cost of the goods and interest and commission charges. Commission houses drew bills for their clients on terms that would allow clients enough time to sell the goods and recover proceeds. The clients then paid the London bankers principal and interest and the commission house the balance of the charges. This credit system, though involving greater risk for the commission house, facilitated the expansion of the tea trade.

Even while trade financing through credit and specie flourished, foreign traders also pursued trade of a product that would be desired by the Chinese as much as tea was in the United States and Europe. That product was opium, contention over which would mark China’s relations with the Western world for much of the 19<sup>th</sup> century.

## Opium and War in China

*We find your country is sixty or seventy thousand li from China. Yet there are barbarian ships that strive to come here for trade for the purpose of making a profit. The wealth of China is used to profit the barbarians. That is to say, the great profit made by the barbarians is all taken from the rightful share of China. By what right do they then in return use the poisonous drug to injure the Chinese people? Even though the barbarians may not*

*necessarily intend to do us harm, yet in coveting profit to an extreme, they have no regard for injuring others. Let us ask, where is your conscious?*

— Lin Zexu, Letter of Advice to Queen Victoria<sup>13</sup>

### *Origin and Growth of Opium Usage in China*

In the Tang Dynasty (618-907 CE), opium had been used for medicinal purposes to cure diarrhea and dysentery. Described by Song Dynasty (960-1279 CE) poet Su Dongpo (苏东坡), poppy seeds were added to porridge. Opium was also made into Chinese traditional medicine pills to be taken orally or mixed with other herbs. Recreational opium-smoking entered China later, alongside tobacco-smoking, with the practice of mixing opium with tobacco introduced to China by the Dutch traders in the Ming (1368-1644 CE) and Qing (1644-1911 CE) Dynasties.<sup>14</sup> It was not until the 1770s that the smoking of pure opium, whose morphine concentration was an order of magnitude higher than that of crude opium, became more prevalent, and mixing opium with tobacco was gradually phased out.<sup>15</sup> A highly addictive substance, the dire physiological consequences of pure opium consumption included cardiovascular problems, decreased body weight and slowed metabolism. The physical symptoms of withdrawal were even worse, including intense anxiety, muscle aches, insomnia, diarrhea, nausea, and vomiting.<sup>16</sup>

Despite its negative consequences, opium-smoking spread extremely rapidly in China across class and professional lines.<sup>17</sup> The Qing government recognized early on that the spread of opium was detrimental to the national economy and its population's health. In 1729, the Yongzheng Emperor issued the first anti-opium edict, ordaining severe penalties against the sale of opium for smoking and the opening of opium-smoking dens. In 1796, the Jiaqing Emperor renewed the edicts of 1729 with increased penalties and prohibited its medicinal use. In 1800, an edict was issued prohibiting all imports of opium.<sup>18</sup>

Still, by 1835, the total number of opium smokers in China was estimated to be between 4 and 12 million, including about 90% of officers and soldiers in the imperial military. By 1837, opium constituted 57% of all imports into the country.<sup>19</sup> Strict imperial edicts had been no match for the highly incentivized foreign traders, led by the British, who had long had an interest in promoting the use of (and addiction to) opium as a means of balancing an overwhelming trade deficit.

In 1838, the Daoguang Emperor appointed Lin Zexu as the Imperial High Commissioner to curb the opium trade in Canton. On March 18<sup>th</sup>, 1839, Lin ordered the *hong* merchants to inform the foreign traders to surrender all opium. A series of events starting on March 24<sup>th</sup>, when armed men besieged 11 *hongs* at Lin's command, led to the arrest of 16 foreign merchants, who were supposed leaders of opium importation. The 16 foreigners were required to leave Canton on May 23<sup>rd</sup> by the High Commissioner and the viceroy, and over 20,000 chests of opium were seized and destroyed. Commissioner Lin also requested that foreign merchants sign bonds promising that they would never attempt to introduce opium to China; many foreign merchants complied in order to preserve their legitimate trade in other commodities.<sup>20</sup>

### *The First Opium War (1839-1842)*

Far from solving China's opium trade problems, Lin's actions set off fierce reactions from the British seeking to protect their trade advantage. Objecting to the seizure of "hostages" and the confiscation of goods without compensation, cascading hostilities led to the attack of a Chinese blockade by British warships in late 1839. The small British forces were quickly victorious. The Treaty of Nanking, signed on August 29, 1842, ended hostilities and had wide ramifications for subsequent foreign trade in China. The treaty provided for the payment of a large indemnity by China, the opening of five ports for foreign

trade and residence, the ceding of Hong Kong to Great Britain as a colony, and the guarantee of the right of British citizens to be tried by British courts. Other Western countries quickly demanded and were given similar privileges. The treaty brought an end to the “factory” system, as Canton was no longer the sole place for foreigners to trade in China.

### *Compradors: The New Intermediaries*

The end of the Opium War had heralded the end of the *hong* monopolies, the opening of new ports on the China coast, and the ascendance of a new class of merchant go-betweens: the compradors. Chinese compradors served as trading house employees, managers, or, sometimes, independent merchants. Compradors lacked the power of the monopoly that had lent strength to the *hong* merchants and formed a different type of relationship with foreign traders. Neither party possessed complete control, but the relationship proved mutually advantageous. Bridging the gap between East and West, the comprador was instrumental in modernizing China’s economic systems, social institutions, and general business practices and cultures.<sup>21</sup> Over time, compradors also became investors in foreign firms with which they did business, and many compradors later founded their own enterprises.

### *The Second Opium War (1856–1860)*

In the mid-1850s, while the Qing government faced multiple domestic rebellions,<sup>a</sup> the British sought to extend their trading rights in China. The second Opium War broke out when Chinese officials boarded a British-registered ship, the *Arrow*, while it was docked in Canton, arrested several Chinese crew members (who were later released), and allegedly lowered the British flag. The French joined the British in this war after the murder of a French missionary in the interior of China. British and French troops began military operations in late 1857. They quickly captured Canton, deposed the city’s intransigent governor, and installed a more compliant official. In April 1858, allied troops in British warships reached Tianjin (Tientsin) and forced the Chinese to enter negotiations. The treaties of Tianjin, signed in June 1858, provided for the residence in Beijing for foreign envoys, the opening of several new ports to Western trade and residence, the right of foreign travel in the interior of China, and freedom of movement for Christian missionaries.

The British withdrew from Tianjin in the summer of 1858, but they returned to the area in June 1859 (en route to Beijing to sign the treaties) and were shelled by Chinese shore batteries in Dagu and driven back with heavy casualties. The Chinese subsequently refused to ratify the treaties, and the allies resumed hostilities. In August 1860, a considerably larger force of warships and British and French troops destroyed the Dagu batteries, proceeded upriver to Tianjin, and in September, captured Beijing and plundered and then burned the *Yuanmingyuan*, the emperor’s summer palace. Later that year, the Chinese signed the Beijing Convention, in which they agreed to observe the treaties of Tianjin and ceded to the British the southern portion of the Kowloon Peninsula adjacent to Hong Kong.<sup>22</sup>

When England and France resorted to force against the Qing government at the end of 1856, many American traders urged their government to join forces with the European powers. They even sent lobbyists to Washington in 1856 to persuade the new administration to adopt their ideas. The Pierce administration, however, did not believe the situation in China warranted war. As long as trade did

<sup>a</sup> The Taiping Rebellion (1850–64), which started in the southern province Guangxi in 1851, spread to the Yangtze valley by the end of 1852. After the seizure of Wuchang in January 1853, the rebels immediately proceeded down the river, threatening the treaty port of Shanghai. While some Americans initially sided with the Christian Taiping rebels, they soon switched their support to the Qing government when the devastating toll of the civil war on the import trade (and, thus, on the bottom lines of the American trading companies) became clear. For more on the Taiping Rebellion, see Stephen R. Platt, *Autumn in the Heavenly Kingdom: China, the West, and the Epic Story of the Taiping Civil War*, New York: Knopf, 2012.

not suffer serious interruption, the United States would remain passive and neutral. The trade obstacles created by the Chinese, officials in Washington predicted, would be resolved by the British and French. Facing the threat of civil war in America, Congress did not approve involvement in a conflict in distant China.

President James Buchanan continued his predecessor's China policy. The United States avoided involvement in the Second Opium War and tried to take advantage of the conflict between China and the European powers to negotiate a new treaty more favorable to the American trade. The Americans finally had their wish fulfilled in the Treaty of Tianjin of 1858, the benefits of which would extend to all foreign powers. Through the treaty, foreign trading companies gained access to 11 new ports, including Hankou and Nanjing, and the importation of opium was legalized.<sup>23</sup>

## Augustine Heard & Co.

### *Augustine Heard: Building a Family Business in a Time of War*

Augustine Heard grew up in Ipswich, Massachusetts, surrounded by ships and sailors and the success of his father, John Heard, a shipping merchant who was active in the West Indies. He attended Phillips Exeter Academy in New Hampshire, but never graduated. At a young age, Heard became captain of his own brig. He traveled to ports as far-flung as Rio de Janeiro, Liverpool, and Canton, battling weather, disease, and pirates, and soon earned a reputation as a skilled navigator and merchant. Augustine gave up his seafaring ways and joined Russell & Co. when he was 45.

The American firm Russell & Co. was established in Canton in 1824 by Samuel Russell, who began as an apprentice clerk for a maritime merchant in Middleton, Connecticut. In 1830, Augustine Heard became a partner in the firm. Four years later, poor health forced Heard to return to Boston, where he remained actively involved in the business until frictions within the company prompted him to leave the firm in 1840.<sup>24</sup>

That year, Augustine Heard Sr. started his own trading house with partners Joseph Coolidge and George Basil Dixwell, just as Britain and China were in the throes of the First Opium War. The war provided new opportunities for American traders, who had long played second fiddle to the English, as the English who had been forced to vacate Canton during the war relied on American firms to oversee their transactions. AHC served in this capacity for Jardine, Matheson & Co., a powerful British trading firm that had thrived after the end of the East India Company's monopoly on Sino-British trade. AHC's relationship with Jardine, Matheson & Co during the war brought in commissions on trading worth over \$10,000,000 annually.<sup>25</sup>

Despite receiving such large commissions, AHC remained a small firm during its early years. All responsibilities were divided between the three partners and three associates, including John Heard, the first of Augustine Sr.'s four nephews to join the family business, who had arrived in Canton in 1841 at the age of 17.<sup>b</sup> The associates took care of bookkeeping, letter copying, and other clerical tasks while

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<sup>b</sup> Childless and having never married, Augustine was devoted to his nephews, the four sons of his brother George Heard: John, Augustine II, Albert, and George. All four would eventually join the business in China, doubtless inspired by advice such as that received by John from Augustine, Sr.: "I could make money enough to get away as quickly as possible, and that he had no doubt that I could do better here." (John Heard to Elizabeth Heard, November 6, 1841. Elizabeth Heard Papers, Baker Library, Harvard Business School.)

Augustine Heard Sr. was responsible for tea purchasing, Coolidge for import management, and Dixwell for general management (including taking charge of the firm's opium trade).<sup>c,26</sup>

The removal of British traders from Canton fortuitously coincided with American-made advances in shipping technology that bolstered the prospects of American firms like AHC. Newly designed American clipper ships (the word "clipper" signified speed) had narrow hulls and large sails that enabled sea travel at speeds of up to 19 miles per hour, significantly faster than the average merchant ships which traveled just five to seven miles per hour. (See **Exhibit 4** for images of a clipper ship and a steamship.) American traders could deliver the freshest tea possible, make more trips annually, and outpace authorities when smuggling opium.

AHC was eager to take advantage of this new technology, and, in the mid-1840s, commissioned the Gardner shipyard in Baltimore to build two vessels, the *Frolic* and the *Dart*. The firm wanted vessels that were fast and light enough to outpace competitors but big enough to carry a significant amount of freight. Baltimore-built vessels, often outfitted with cannons, were especially known for their speed. With its massive sails, the *Frolic* could make headway even on calm days when other ships remained becalmed. In the early 1840s, along with Russell & Co., Olyphant & Co., Perkins & Co., and W. S. Wetmore & Co., AHC became one of the largest American trading houses in China. (See **Exhibit 5** for a comparison of the financial performance of AHC with Russell & Co, and **Exhibit 6** for AHC's Profit and Loss Statements from 1845-1863.)

### *New Market Conditions and New Partners*

The upheaval of the First Opium War and the purchase of clipper ships had allowed AHC to establish itself in the Canton trade system, but by 1843, that system was fading, and a new era of trade emerged in the recently opened treaty ports. The ownership structure of AHC changed at this point as well, when, after the war, Coolidge left China for England. As John Heard recalled in his diary:

Uncle Augustine called me into his room and asked me to sign a paper that he handed me. I did so and went back to my desk, hardly giving the matter a thought, supposing I had simply witnessed something. Uncle Augustine came to me shortly afterwards putting the paper before me, and saying, "You sign very carelessly, you should be careful to see what you are about." I looked at it and found it was one of a set of the Articles of Copartnership of the new firm of Augustine Heard & Co., by which the house was divided into thirds, Uncle Augustine and Dixwell having one-third each and the other third divided between [Joseph] Roberts and myself, I having two parts and he one. I could hardly believe my eyes!<sup>27</sup>

Along with the co-partnership came payment of back wages for the three years John Heard had worked for the firm (he came in without expectation of salary, and expressed surprise in his journal at the sudden windfall of \$6,000 in payment for three years work). (See **Exhibit 7** for the changing ownership structure of AHC over time.) Shortly after installing John as a partner, Augustine Heard Sr. retired from his role as active head of the company in 1844 and left China.

The change in leadership coincided with a temporary lull in the pace of the business, as Jardine, Matheson, & Co. had been able to resume full control of their business following the Treaty of Nanking.

<sup>c</sup> When Augustine Heard questioned the extent to which the company was involved in the opium trade, John Heard explained, "The opium business is the best business we have, not only from the direct, but for the collateral profit it induces. It also affords an excellent vent for exchange from America, rendering us independent of the demand for bills." (John Heard to Augustine Heard, June 8, 1845. EM-4-2. Augustine Heard & Co. Records, Baker Library, Harvard Business School.)

Rather than acting as an agent to an established house, AHC found itself returning to the more traditional model followed by American commission houses. In contrast to large British merchant houses like Jardine, Matheson, & Co., AHC relied on capital supplied by principal constituents, usually merchants interested in selling Chinese tea in the United States, Canada, or other parts of the English-speaking western world. The constituents would advance money to purchase tea, which AHC would source and ship to the constituent. AHC's profit came almost solely from commissions based on the cost of the export. (See **Exhibit 8** for a notification of AHC's permission to export and notification of tax payments, ca. 1855.) It was a relatively low-risk, low-reward model in which ties between AHC and its principals were largely based on personal relationships.<sup>28</sup> John Heard was particularly risk averse, avoiding shipping during times of tumult and analyzing business results over a number of years.<sup>29</sup>

Even with Heard's relatively conservative approach, risk was difficult to avoid. The slow speed of communication meant that prices and quantities of goods were based on old and imperfect information. Tea prices in the American market fluctuated drastically and quickly, changing the value of exports and commissions.<sup>d</sup> Changing prices of tea based on crop output was another source of uncertainty for AHC, as was the currency exchange market (changes in the relative values of Chinese and American silver and British gold could wreak havoc on the company's bottom line). Given such unpredictable circumstances, the AHC partnership agreement limited the extent to which partners could use the firm's own capital (already a small sum) to pursue speculative commodity trading. Such limits turned out to be prudent, as AHC was much more successful as an agency than merchant house: partners were limited to \$150,000 per year of speculative investment, and from 1844 to 1858, their on-house accounts showed consistent losses, totaling \$196,000 (in contrast with \$72,000 in income from such ventures during the same period). A mantra often heard at AHC was: "Never forget we are a commission house."<sup>30</sup>

Still, John Heard was pleasantly surprised by his accumulation of wealth in such a short period in China and encouraged his younger brother to join him.<sup>e</sup> Augustine Heard II arrived in 1847 and became a partner in 1850. From that point on, the four brothers served the company through an informal rotation schedule, each taking turns leading the business from a China base. With Augustine Heard II settled in and running the business in China, John Heard left to travel the world and return at various times to the family home in Ipswich. He continued serve as the company's representative when needed; once, for example, he traveled to Hamburg to confront an agent of the delinquent Russian American company.<sup>31</sup>

Albert Heard came to China after graduating from Yale and became a partner in 1856, the same time that Augustine II went home and John returned to China to take his place. In 1857, John Heard reported that the company was generating annual profits of \$180,000 to \$200,000.<sup>f</sup> Participation in the family firm helped the nephews expand both their wealth and skills. Just one year after arriving in

<sup>d</sup> As historian Stephen C. Lockwood noted, "The adjusted commodity prices for Hyson tea per pound in the United States, for example, showed a surprising lack of pattern. In New York, Young Hyson prices varied from 20 to 46 cents during 1856–1859 and Taiping prices in 1860–1861 fluctuated between 26 and 52 cents per pound." (p. 13)

<sup>e</sup> Reflecting on this decision many years later, John wrote, "Indeed, I was already worth more than I had ever expected to be, and under such circumstances I could not help advising that [Augustine Heard II] should come to China, and follow the career that I was already running in. Looking into this by the light of subsequent experience, it was a mistake. It is never well to put all one's eggs into one basket!" (John Heard, *Diary*, 1891. FP-4: p. 59. Augustine Heard & Co. Records, Baker Library, Harvard Business School.)

<sup>f</sup> All currency values in this case are historical currency levels. The purchasing power of \$180,000 in 1857 is equivalent to just over \$5 million in 2015 dollars. (Samuel H. Williamson and Lawrence Officer, MeasuringWorth Web site, <https://www.measuringworth.com/uscompare/relativevalue.php>, accessed June 17, 2016.)

Canton, Albert Heard described his own transformation: "Then a boy with anxious and aspiring hopes now as it were a man, doing a man's part and a serious sober part, responsible too, then looking forward to unknown duties and strange scenes, now those duties are familiar. Then not even a clerk now a merchant & a head man of a firm. Truly I am changed."<sup>32</sup>

Similar to many of the commission houses of the time, AHC relied much on kinship for expansion, and the Heard family members exercised tight control over the firm's activities and monies. "[A] firm had generally become identified with a stem family or families and its . . . dynastic alliances," as Jacques Downs, a scholar of American trade in China, commented.<sup>33</sup> While AHC had many partners over the years, close familial relations were critical to the running of the company. John and his brothers benefitted from the wisdom of their uncle and from each other's counsel. John, for example, noted his Uncle Augustine's immediate attentiveness to him upon his arrival in China. "Uncle Augustine is very kind to me. When he is not busy he always seems very glad to converse with me... and manifested a mostly friendly interest in my well doing."<sup>34</sup>

### *Expanding New Businesses to New Locations*

In 1857, AHC decided to move its main office from Canton to Hong Kong due to the tensions that ultimately led to the Second Opium War. (See **Exhibit 9** for images of the Hong Kong office in 1860 and 2016.) This was a timely move, as the aftermath of the Second Opium War destroyed the Canton trade system that had limped along since 1842. John Heard recalled, "Canton had been bombarded by the English and French forces . . . and the old factories, the scene of so much interest and happiness, were destroyed forever."<sup>35</sup>

From its new headquarters in Hong Kong, AHC continued to expand its operations. After the Second Opium War, the opening of new ports and river ways sparked tremendous growth in trade and had vast implications for the balance sheets of companies like AHC. Westerners could now purchase tea and silk directly from farmers and merchants in the Chinese interior at lower prices. Increased engagement with the interior came with potential hazards. No treaty protections existed in interior areas. Like other houses, AHC also made large advances to Chinese traders for the purchase of tea. Augustine Heard II wrote, "At first money went into the country to some extent in January, and more largely in February and March, and did not come back in the shape of tea till May... It was a great risk to run." He went on to praise the trustworthiness of the compradors on which AHC depended, noting how easy it might have been for the compradors to take advantage of AHC, since "they had only to come back and say they were very sorry, but they were robbed and lost everything in their possession" and AHC would have no legal recourse. Instead, "of the hundreds of thousands of dollars we sent into the country.... I never heard that anyone lost anything. I doubt if there is another country in the world where such an experience is possible."<sup>36</sup>

Access to China's interior was supported by another technological advance in shipbuilding: the steamship. With their shallow draft, steamships could sail closer to land and venture into rivers. John Heard decided to take advantage of the new technology, and wrote, "In 1859 or 1860, I carried out a plan I had often thought of. This was to order a river steamer from America... I was convinced that from the opening of China which could not fail to result from the [Second Opium War], steamers must be much wanted. So I sent Captain Johnson to America to build and bring out a steamer of 700 tons. The steamship the *Fire Dart* alone turned a profit of \$175,000 in its first year."<sup>37</sup> Steamships were not just valuable for trade within China; whereas a clipper ship could make the trip from New York to Canton in 90 days, steamships traveled from New York to Hong Kong in 75, and from London to Hong Kong in just 60.

The opening of the coastal and Yangzi River ports tilted the commercial center of China to Shanghai, which, Albert Heard predicted in 1861, "would rival Calcutta in five years." Hong Kong was only "made by the mails" and Canton would "never recover."<sup>38</sup> In the 1850s, AHC established another branch in Shanghai, as well as agencies in Amoy, Ningbo, Jiujiang, Hankou, and Tianjin, as well as Bangkok. Later, AHC even expanded to Japan, with offices in Yokohama, Nagasaki, and Hyogo. Even with so many branch offices, decision-making at AHC remained highly centralized. The Hong Kong-based head of house was responsible for the finances of all the offices, sending out instructions to all AHC outposts through biweekly mail ships.

In a trade environment in which information was shared through biweekly mail ships, a key role of agencies like AHC was to share information with its principals, which it did through circulars that included information about the size of the tea crop, sales, and current prices, and were often accompanied by personal letters written by a house partner. In 1863, AHC sent out 199 circulars, of which 121 went to companies through American ports (including Boston, New York, San Francisco, Baltimore, and New Orleans), 50 to ports of the British Isles (including London, Glasgow, and Manchester), and eight to Australia. The remaining 20 went to an assortment of ports, including Sitka, Halifax, Manila, Singapore, Marseilles, Paris, and St. Petersburg.<sup>39</sup>

From its Hong Kong base, AHC began to expand its modes of commerce beyond the commission model that had dominated its operations in the 1840s. AHC charged commissions for the amount bought and sold and for oversight of purchasing, selling, insuring, and shipping. With the profits earned, the firm improved its operations and branched out into ancillary services such as insurance and banking and even an ice company and rice-clearing mill. These ancillary services were opened to smaller houses in China that could not afford to establish such services in-house, and provided a growing portion of AHC's income in the 1850s and 1860s.<sup>40</sup> AHC also began to explore joint-account shipping, in which AHC pooled capital with merchants (first, Chinese, and later, after the Civil War, Americans) to fund shipments and then shared profits proportionally. In 1859, AHC had approximately 60 joint-account local shipments, with several such agreements for overseas shipping as well.<sup>41</sup> By 1860, AHC purchases came to \$1.5 million; 25% was funded through the firm's money and the rest through credit.<sup>42</sup> London merchant banks such as Baring Brothers & Co. and, later, Fearon & Co. provided AHC with credit and the China trade in turn brought a significant increase in banking profits.<sup>43</sup>

By the early 1860s, John Heard, who had long been the head of AHC, felt it was time to step down. The youngest and last of John's three brothers to serve in the family business, George Heard, had arrived in China in 1859, serving first as secretary of the American delegation for the Treaty of Tientsin and then as the business manager for AHC. On his departure from China for America on December 1, 1862, the same year Augustine Heard retired from the business, John Heard wrote, "I had begun to think of going home and of giving Albert my place at the head...I left the house firmly established, rich, and second to no other American house in China. Indeed, I doubt if many would not have called it the first."<sup>44</sup>

### *Lifestyle of the Heards in China and Hong Kong*

As AHC had branched out into new ports, its employees enjoyed far greater freedom in accommodation and entertainment. Whereas in Canton, John Heard had bemoaned the fact that "we were not allowed to go beyond the limits of the factories (about a hundred yard square) except to the 'Hongs' and for exercise on the river,"<sup>45</sup> he found himself much more comfortably accommodated in Hong Kong: "I prefer Hong Kong decidedly to Canton. Business was more easily carried on there, it is

true, but [in Canton] there is . . . that sensation of restraint which was always more or less irksome. . . You can walk, ride or drive here as far as you like, and there is a constant excitement of arrivals."<sup>46</sup>

In Canton, American merchants had had to acclimatize themselves to the intricacies and nuances of the trading business as well as a foreign climate, diet, language, and the occasional violence that erupted in the treaty ports. In Hong Kong, by contrast, the Americans and British were able to shape much more of their environment. They organized boat clubs, and regattas were held in the spring and autumn. Other recreational activities included billiards, bowling, cricket, fencing, amateur theatricals, and reading in lending libraries established in the treaty ports. Augustine Heard II explained that "it was the dream of all, partner or clerk, to 'get away to Macao for a week or two,'" a place Westerners appreciated for its European ambiance.<sup>47</sup> A Portuguese-occupied territory since the mid-16<sup>th</sup> century, Macau "looked like paradise" and "the hills and the bay with its islands were as beautiful as ever," as John Heard commented.<sup>48</sup>

Western traders maintained close relationships with Chinese merchants. Even after the end of their monopoly, the *hong* merchants cultivated close relationships with Western traders and provided them with valuable guidance. Still, the Western traders' protected life in the treaty ports also created a narrow view of Chinese society and their impact on it. Many were unaware that the outflow of silver from China contributed to a serious financial crisis for the Chinese economy.<sup>49</sup> The Heard family, like other Western traders, had come to China to realize their fortunes quickly. In the insular treaty port communities and mercantile mindset in which they lived, they held themselves to a different standard regarding the moral implications of their work, including the opium trade. While being rational and industrious, foreign traders were known to be free from "pressures from family, custom, religion, or law", and would "wrest [their fortunes] from China and go home to practice their ethics."<sup>50</sup> As renowned China trade scholar Jacques Downs remarked: "Living as a privileged minority in well-upholstered comfort, insulated from, but extracting fortunes from various kinds of exploitation, Americans in treaty-ports could hardly be expected to develop enlightened social attitudes. . . . Because they saw their residence as temporary, and they knew that a fortune was self-justifying at home, Americans were less willing to disturb the mores of treaty-port culture."<sup>51</sup>

## Challenges

After significant success in the 1840s and 1850s, AHC faced a new economic and technological environment in the 1860s. During the decades preceding and during the Civil War, the United States was largely focused on domestic matters. During the late 1850s, the United States' trade with China had already begun to decline. Domestic industries in the rapidly industrializing northern states and changing tastes undercut demand for Chinese imports: cotton replaced nankeen, American pottery factories replicated Chinese designs on porcelain, and coffee imported from Central and South America began to replace Chinese tea in U.S. markets. From 1861 until 1865 the Civil War consumed the resources of the American economy. While war raged in the United States, conditions in the China trade were changing rapidly.<sup>52</sup>

Whereas American shipbuilding had once been unmatched with its innovative clipper ships, European shipyards surged ahead in the manufacture of steam-powered vessels, which quickly came to dominate the ocean trade routes. New generations of expensive steamships chugged past not just clippers but older steamships as well. Large firms that had access to sufficient capital to purchase newer, faster ships gained advantages both through the faster transport of goods and, more importantly, information. Jardine, Matheson, & Co., for example, purchased a steamship in the late 1850s that traveled from Hong Kong to Singapore in four days less than the mail steamship that other,

smaller firms like AHC relied on for the transmit of information, giving that firm a distinct advantage.<sup>53</sup> Although AHC had purchased a steamship in 1860, American design in this new technology was still behind that of Europe.

Advances in communication technology further threatened the role of trading houses like AHC. Telegraph wires began to shorten the time needed for communication between New York, London, and Hong Kong throughout the 1860s.<sup>54</sup> The telegraph brought significant improvements to the way business was transacted, but in many respects, it signaled danger for AHC. The new invention reduced the time between orders and transactions, provided more up-to-date information on fluctuations in costs and prices, and secured faster credit from banks. These advances made it less risky for smaller firms to compete and easier for Chinese merchants and compradors to become brokers. Thus, while expensive steamships improved prospects for the largest houses and telegraph technology empowered small houses and brokers, medium-sized operations like AHC benefitted least from these advances. Competitive brokers now also included Chinese merchants, who had been busy acquiring the modern financial and commercial skills and knowledge needed to displace their Western counterparts. Chinese compradors played a significant role in the early industrialization of the country by investing their wealth in modern business enterprises, including steamships, mining, machine manufacturing, and textile mills.

Ancillary financial and insurance services had contributed to AHC's bottom line, but in the 1860s Western banking institutions began to enter China, squeezing out the role of houses like AHC. The banks' presence eliminated AHC's profitable role as a broker of currency exchange. The stream of private deposits, which had supplemented AHC's cash flow, began to slow to a trickle as other consumers preferred banks to houses.<sup>55</sup> In short, almost every aspect of the business environment that had allowed for AHC's success was in flux. As Albert Heard noted in 1861, "Anybody who has been two years out of [the China trade], now knows only just enough about to be sure to go wrong if he relies on his previous experience."<sup>56</sup>

## The Decision

The Heards, like many American traders, were essentially merchant-adventurers whose aim was to amass great wealth within the shortest time possible. By 1861, large profits were no longer so easily made in China, particularly for medium-sized agency houses like AHC. The American Civil War had curtailed the availability of credit in China from American principals and was reshaping the demands of the American market. The increasing use of telegraph and ocean steamers shortened the communication and transportation time between the United States and China. The role of AHC was in jeopardy.

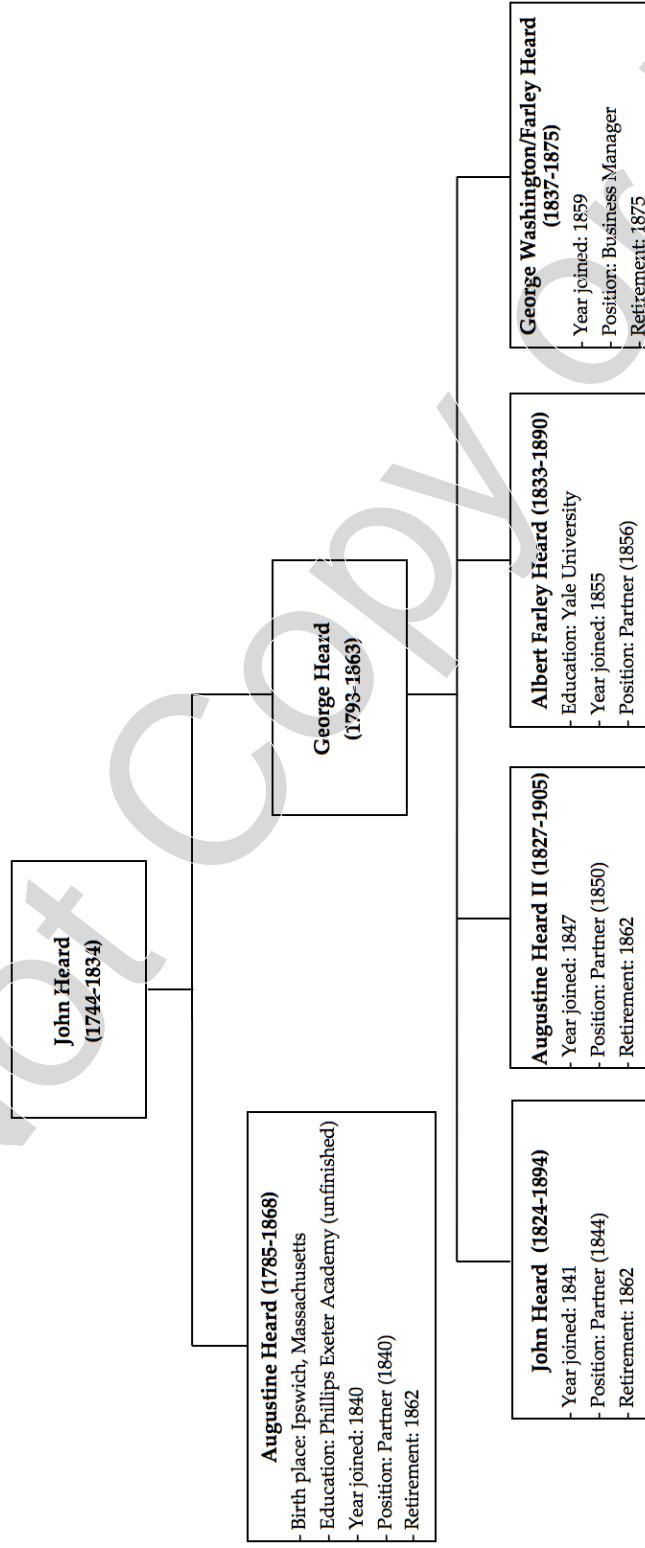
In 1862, Augustine Heard Sr. retired from the firm and left his nephews to face the tremendous transformations in the China trade. Looking at the business records and accounts during the early 1860s, some of the Heard brothers realized it might be time for them to move on to a new stage. In 1861, Albert had already argued to his brothers, "I am becoming more and more convinced that we must change [sic] somewhat our style of business. We have no orders in hand, had none last year, and if we had desired to operate in Green teas beyond a few £1000 at our own we had nothing to buy *with or for*. Comm[ission] pur[chases] . . . are a myth."<sup>57</sup>

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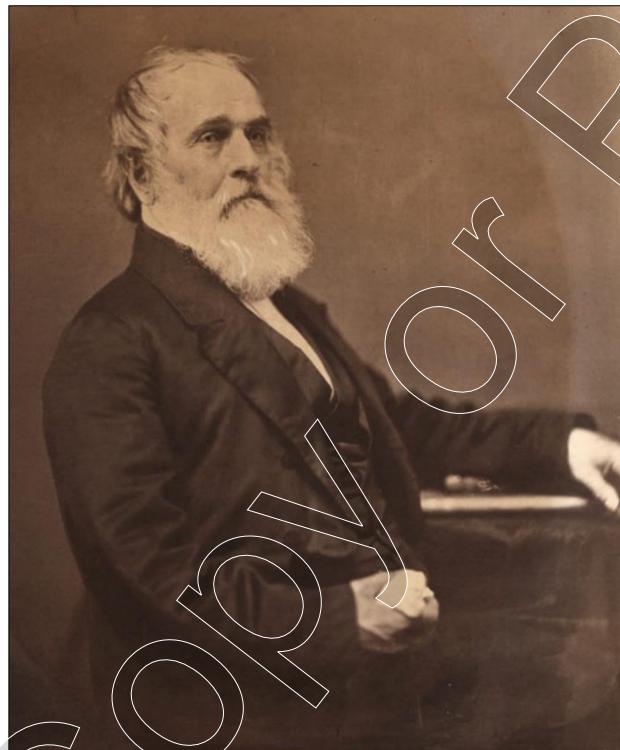
<sup>53</sup> In 1871, telegraph lines connected the three cities without the need for intermediary ships.

Not all the nephews were equally convinced of the need for a drastic change. Augustine II wrote to Albert in 1861, "Never forget we are a Comm House & that on our Comms we rely to save ourselves. Therefore speculation should be undertaken to secure Comms, not vice-versa. The history of the operations of the House, as John will tell you, teach this in trumpet tones."<sup>58</sup> With Augustine Sr. as a silent partner from 1844 to his retirement in 1862, the nephews had successfully shared leadership of the firm. But they faced important decisions on which they fundamentally disagreed. Was there still a role in the China trade for the traditional commission house? Could AHC expand into other opportunities in trade, either within China or internationally? As Western financial institutions became more formalized, could some of AHC's ancillary services spin off into successful independent operations? How would the nephews, who had long led this family firm through a strong tradition of shared leadership, decide on their collective future?

**Exhibit 1 Heard Family Tree**



Source: Prepared by casewriter.

**Exhibit 2 Heard Family Portraits****Augustine Heard, Sr.****The Heard Nephews**

Source: Top: 'Augustine Heard.' Portrait Photograph Collection. Harvard Business School. Bottom: Aymon. "Les quatres fils." [The Four Heard Brothers.] 1950.001.0468. Courtesy of the Ipswich Museum, photographer Stoney Stone.

**Exhibit 3** Timeline of Relevant Historical Events and Key Dates in the History of AHC, 1757–1862

Select Relevant Historical Events	Year	AHC Events
Canton trade system initiated to govern foreign trade in China	1757	
First American ship arrives in China to join the tea trade	1784	
Jiaqing Emperor prohibits the import of opium.	1785	Augustine Heard Sr. is born
	1800	John Heard is born
	1824	Augustine Heard II is born
	1827	Augustine Heard became a partner in Russell & Co., an American commission house in the China trade
	1830	
	1833	Albert Heard is born
	1834	Augustine Heard returns to Boston
	1837	George Heard is born
Lin Zexu destroys 20,000 chests of opium, leading to the First Opium War between Britain and China	1839	
	1840	Augustine Heard Sr. leaves Russell & Co. and establishes Augustine Heard & Co. in partnership with Joseph Coolidge and George Dixwell
	1841	John Heard arrives in Canton to join AHC
First Opium War is ended by the signing of the Treaty of Nanjing. The Qing empire opens five ports, cedes Hong Kong to Britain, and pays an indemnity. The <i>hong</i> system is abolished	1842	
	1844	
	1845	Augustine Heard Sr. returns to the United States and retires from his role as active head of the company. Coolidge also leaves the firm. John Heard and Joseph Roberts are made partners
	1847	AHC commissions clipper ships the <i>Frolic</i> and the <i>Dart</i>
Taiping rebellion begins	1850	Augustine Heard II arrives in Canton to join AHC; Dixwell returns to the United States
	1852	Augustine Heard II becomes a partner in AHC. John Heard returns to Boston, Augustine leads China operations
Second Opium War between Great Britain and China begins	1856	Albert Heard becomes partner in AHC; Augustine II returns to Boston; John Heard returns to China
	1857	AHC moves main office to Hong Kong
Treaty of Tianjin is signed by France, the United Kingdom, Russia, and the United States, opening additional Chinese coastal ports as well as inland rivers, especially the Yangzi River, for trade	1858	Augustine II marries Jane De Conick in Boston
	1859	
Second Opium War ends with the British capture of Beijing and the ransacking of the Old Summer palace	1860	George Heard arrives in China to join AHC
American Civil War begins	1861	AHC orders its first steamship, the <i>Fire Dart</i>
	1862	Augustine Heard Sr. retires from silent partnership in AHC

Source: Compiled by casewriter from Harvard Business School Baker Library Heard Family Business Records.

**Exhibit 4** Clippers and Steamships

Source: Top: James E. Buttersworth. Ship, outward bound, ca. 1855 (c) Mystic Seaport, Photography Collection, Mystic, CT, #1949.3174. Courtesy of Mystic Seaport, Mystic, Connecticut. Bottom: The Steamship 'Firedart.' Courtesy of the Ipswich Museum, photographer Stoney Stone.

**Exhibit 5** Comparison of Financial Performance of Russell & Co. and Augustine Heard & Co. (in USD)

	Russell & Co.	AHC
Partner's Capital (1855)	400,000	353,000
Partner's Capital (1861)	500,000	517,000
Gross (1858–1859)	307,000	194,000
Net (1858–1859)	253,000	80,000
Shanghai net	133,000	63,000
Foochow net	18,000	38,000
Hong Kong net	104,000	25,000
Net (1859-1860)	270,000	111,000
Shanghai net	156,000	39,000
Hong Kong & Foochow net	114,000	104,000

Source: Lockwood, p. 121.

Exhibit 6 AHC Statement of Profit and Loss, 1845-1863, in thousands of USD

Year	Gross	Net	Comm*	AHC Total			AHC Hong Kong			AHC Shanghai			AHC Foochow		
				House		Special Accounts	Operating Expenses		Comm Expenses	Operating Expenses		Comm Expenses	Operating Expenses		Comm Expenses
				Operating Expenses	Account Shipments		Operating Expenses			Comm Expenses	Operating Expenses		Operating Expenses		
1845	48	39	34	8	--**	--	--	--	--	--	--	--	--	--	--
1846	47	32	28	10	--	--	--	--	--	--	--	--	--	--	--
1847	65	51	46	13	--	--	--	--	--	--	--	--	--	--	--
1848	52	11	31	28	--	--	--	--	--	--	--	--	--	--	--
1849	66	27	43	27	--	--	--	--	--	--	--	--	--	--	--
1850	57	17	38	15	--	--	--	--	--	--	--	--	--	--	--
1851	68	39	32	22	--	--	--	--	--	--	--	--	--	--	--
1852	104	69	--	--	--	--	--	35	25	9	--	--	--	--	--
1853	111	14	--	--	(50)	Exchange: 50	28	25	66***	--	--	--	--	--	--
1854	221	200	--	--	50	Exchange: 50	50	20	50***	--	--	--	--	--	--
1855	76	32	--	--	--	--	21	19	15	--	25	--	--	--	--
1856	195	96	--	--	--	Interest: (27)	33	19	51	--	58	--	--	--	--
1857	224	179	--	--	--	Exchange: 22	42	25	52	--	71	--	--	--	--
1858	219	109	--	--	--	--	59	38	51	--	71	--	--	--	--
1859	194	80	98	59	(30)	Exchange: 38	25	35	47	24	109	26	--	52	--
1860	202	111	139	90	18	--	51	46	50	30	90	38	14	70	--
1861	168	15	111	101	(40)	--	48	55	30	35	93	33	11	62	--
1862	379	182	150	108	(98)	Steamers: 185	47	49	83	59	175	20	--	28	--
1863	181	53	134	123	--	Steamers: 7	33	39	76	71	144	25	--	36	--

Source: Lockwood, p. 32.

Note: \* Comm refers to Commissions; \*\* -- indicates no data available; \*\*\* figures refer to combined commissions for Shanghai and Foochow.

**Exhibit 7** Selected Years of Ownership Data of AHC, 1840-1862 (by percent owned)

	1840	1844	1856	1859	1862
Augustine Heard Sr.	33.3	33.3	8	12	--
Joseph Coolidge	33.3	--	--	--	--
George Dixwell	33.3	33.3	--	--	--
Joseph Roberts	--	11	--	--	--
John Heard	--	22	30	24	34
Augustine Heard Jr.	--	--	25	22	15
Albert Heard	--	--	15	20	23
George Heard	--	--	--	--	5
William Comstock	--	--	10	10	--
Robert I. Fearon	--	--	--	--	5
E. F. Parker	--	--	12	12	15

Source: Adapted from Lockwood, p. 122, by casewriter.

Exhibit 8 Permission to Export and Notification of Export Taxes, ca. 1855



Source: Heard Family Business Records. Harvard Business School.

**Exhibit 9** Hong Kong Office of Augustine Heard and Co.**Residence of Augustine Heard and Company, Hong Kong, c. 1860**

The building was later modified and is now known as the Former French Mission Building (2016)



Source: Top: M17297. Peabody Essex Museum, Salem, Massachusetts. Bottom: Courtesy of Kitty Chow, Harvard Business School Asia-Pacific Research Center, Hong Kong.

## Endnotes

**Note: The extensive records of Augustine Heard & Co. and the Heard family are held at Harvard Business School's Baker Library Special Collections.**

<sup>1</sup> Stephen Lockwood, *Augustine Heard and Company, 1858-1862: American Merchants in China* (Cambridge, MA: East Asian Research Center, Harvard University, 1971), p. 51.

<sup>2</sup> Jean G. Vaucher, "Development of Sailing Ships," University of Montreal Web site, April 2014, [http://www.iro.umontreal.ca/~vaucher/History/Ships\\_Discovery/](http://www.iro.umontreal.ca/~vaucher/History/Ships_Discovery/), accessed June 13, 2016.

<sup>3</sup> Dorothy Schurman Hawes, *To The Farthest Gulf: The Story of the American China Trade* (Ipswich, MA: The Ipswich Press, 1990), p. 6.

<sup>4</sup> Hawes, p. 9.

<sup>5</sup> Yeng-P'ing Hao, *The Comprador in Nineteenth Century China: Bridge Between East and West* (Cambridge: Harvard University Press, 1970), p. 28.

<sup>6</sup> John King Fairbank, *Trade and Diplomacy on the China Coast: The Opening of the Treaty Ports, 1842-1854* (Cambridge: Harvard University Press, 1953).

<sup>7</sup> Jiabin Liang (梁嘉彬), *Guangdong Shisan Hangkao [Survey of the Thirteen Factories 广东十三行考]* (Shanghai: National Institute for Compilation and Translation, 1937).

<sup>8</sup> Charles M. Dyce, *Personal Reminiscences of Thirty Years' Residence in the Model Settlement: Shanghai, 1870-1900* (London: Chapman & Hall, 1906).

<sup>9</sup> Weng Eang Cheong, *The Hong Merchants of Canton: Chinese Merchants in Sino-Western Trade* (Richmond, Surrey: Curzon, 1997).

<sup>10</sup> Samuel Shaw, *The Journals of Major Samuel Shaw* (Boston: W. Crosby and H. P. Nichols, 1847), p. 183.

<sup>11</sup> William Hunter, "The Fan Kae" before Treaty Days, 1825-144 (London: Paul Trench and Co., 1882; reprinted, Shanghai: Oriental Affairs, 1983), 24 as cited in Sibing He, "Russell and Company and the Imperialism of Anglo-American Free Trade," in Kendall Johnson ed., *Narratives of Free Trade: The Commercial Cultures of Early US-China Relations* (Hong Kong: Hong University Press, 2012), p. 85.

<sup>12</sup> John King Fairbank, *Trade and Diplomacy on the China Coast: The Opening of the Treaty Ports, 1842-1854* (Cambridge: Harvard University Press, 1953).

<sup>13</sup> The Chinese Repository, vol. VIII, no 10 (February 1940): 497-503.

<sup>14</sup> Weiyuan Yao (姚薇元), *Yapian Zhanzheng Shi Shikao [An Investigation into Opium War 鸦片战争史实考]*, (Wuchang, China: Wuhan University Press, 2007), p. 9.

<sup>15</sup> Yingyan Gong (龚缨晏), *Yapian de Chuanbo yu Dui Hua Yapian Maoyi [The Spread of Opium and the Opium Trade in China 鸦片的传播与对华鸦片贸易]* (Beijing: The Oriental Press, 1999).

<sup>16</sup> Christina Hantsch Bardsley, "Opioids," in Rosen's *Emergency Medicine 8<sup>th</sup> ed.*, eds. John A. Marx, Robert S. Hockberger and Ron M. Walls, (Philadelphia: Elsevier Saunders, 2014).

<sup>17</sup> Jean Chesneaux, Marianne Bastid, and Marie-Claire Bergère, *China: from the Opium Wars to the 1911 Revolution* (New York: Pantheon Books, 1976), p. 55.

<sup>18</sup> Hosea Ballou Morse, *The International Relations of the Chinese Empire* (Taipei: Book World, 1960), p. 173.

<sup>19</sup> Chesneaux, Bastid, and Bergère, p. 54-6.

<sup>20</sup> Peiming Yu (俞沛铭), *Yapian Zhanzheng [Opium Wars 鸦片战争]* (Beijing: Zhonghua Book Company, 1965).

<sup>21</sup> Hao, p. 207.

<sup>22</sup> J. Y. Wong, *Deadly Dreams: Opium and the Arrow War (1856-1860) in China* (Cambridge: Cambridge University Press, 2007).

<sup>23</sup> Michael L. Carrafiello, "Diplomatic Failure: James Buchanan's Inaugural Address," *Pennsylvania History: A Journal of Mid-Atlantic Studies* Volume 77, Number 2, (Spring 2010), p. 145-165.

<sup>24</sup> Lockwood, p. 5.

<sup>25</sup> John Heard, *Diary*, (Unpublished autobiography), 1891. Augustine Heard & Co. Records, Baker Library, Harvard Business School, FP-4, p. 37, <http://nrs.harvard.edu/urn-3:HBS.Baker.GEN:8784824-2012>, accessed June 15, 2016.

<sup>26</sup> John Heard, p. 37-8; Jacques M. Downs, *The Golden Ghetto: The American Commercial Community at Canton and the Shaping of American China Policy, 1784-1844*, (Hong Kong: Hong Kong University Press, 2014), p. 196.

<sup>27</sup> John Heard, p. 51-52.

<sup>28</sup> Lockwood, p. 9-11.

<sup>29</sup> Lockwood, p. 15.

<sup>30</sup> Lockwood, p. 32-33.

<sup>31</sup> John Heard, p. 104-5.

<sup>32</sup> Albert Farley Heard, January 16, 1855. Augustine Heard & Co. Records, Baker Library, Harvard Business School, HP-1, p. 31.

<sup>33</sup> Downs, p. 219.

<sup>34</sup> John Heard to Elizabeth Heard, November 6, 1841. Elizabeth Heard Papers, Baker Library, Harvard Business School.

<sup>35</sup> John Heard, p. 115.

<sup>36</sup> Lockwood, p. 45

<sup>37</sup> John Heard, p. 123.

<sup>38</sup> Lockwood, p. 109.

<sup>39</sup> Lockwood, p. 18.

<sup>40</sup> Lockwood, p. 36.

<sup>41</sup> Lockwood, p. 34.

<sup>42</sup> Hao, p. 75.

<sup>43</sup> Downs, p.196; Lockwood, p. 23-24.

<sup>44</sup> John Heard, p. 157.

<sup>45</sup> John Heard, p. 32.

<sup>46</sup> John Heard to Elizabeth Heard, May 15, 1857. Elizabeth Heard Papers, Baker Library, Harvard Business School.

<sup>47</sup> Augustine Heard II, *Old China and New*, Presentation to the Mercantile Club in St. Louis, 1894. Augustine Heard & Co. Records, Baker Library, Harvard Business School, GQ-2-2, p. 20. <http://nrs.harvard.edu/urn-3:HBS.Baker.GEN:8784200>, accessed June 15, 2016.

<sup>48</sup> John Heard, p. 58.

<sup>49</sup> Geoffrey G. Jones, Elisabeth Koll, and Alexis Grendon, "Opium and Entrepreneurship in the Nineteenth Century," HBS No. 805-010 (Boston: Harvard Business School Publishing, 2016).

<sup>50</sup> Downs, p. 335.

<sup>51</sup> Downs, p. 340.

<sup>52</sup> Lockwood, p. 103.

<sup>53</sup> Lockwood, p. 104.

<sup>54</sup> Lockwood, p. 104-5.

<sup>55</sup> Lockwood, p. 108.

<sup>56</sup> Lockwood, p. 109.

<sup>57</sup> As quoted in Lockwood, p. 112.

<sup>58</sup> As quoted in Lockwood, p. 112.