

Conclusion: Toward "Bureaucratic Capitalism"

Despite their importance to the historian as indices of China's response to the West in the last part of the nineteenth century, the *kuan-tu shang-pan* industries remained marginal undertakings within their own environment. Their establishment and operation did not represent a fundamental break with the traditional agrarian economy and the conservative economic outlook which reflected it. China would have to go through three revolutions, foreign invasion, and civil war before a concerted and relentless effort to industrialize would be begun.

The *kuan-tu shang-pan* system was in fact a compromise with traditional institutions and patterns of behavior. It provided a vehicle whereby the overwhelming inertia of an imperial political system and Confucian ideology, the basis of which was a society founded on prescientific intensive agriculture, could be adjusted to the compelling need for modern industry and means of communication. But the modern-type enterprises started in China in the latter part of the Ch'ing dynasty failed to develop into a genuine "industrial revolution." Perhaps the most important lesson to be drawn from this checkmate is the following: one institutional breakthrough is worth a dozen textile mills or shipping companies established within the framework of the traditional society and its system of values.

Three examples will serve to suggest the whole. In terms of its ultimate contribution to economic change, to overturn the low status accorded to the merchant in traditional Chinese society would be a greater achievement than developing a coal mine. Similarly, replacement of the negative or passive attitude of the government towards economic activity (other than the preservation of the time-honored agricultural economy) would have far greater consequences than erecting two or three more plants like the Hanyang Ironworks. To put this point in another way, what was needed was the replacement of the traditional Chinese preoccupation with dividing a static economic pie — the agrarian surplus — among landlords, merchants, and officials, with a recognition of the need for and possibility of increasing the size of the pie. And, one more

example, the substitution of universal and specific criteria of managerial ability and business success for such diffuse and particularistic considerations as kinship ties and overriding obligation to family and clan would have greater influence on China's economic development than the completion of a railroad trunkline.

It may be argued that this dichotomy is a false one, that institutional breakthrough and the establishment of modern enterprises are in fact interdependent processes. From a long-range historical perspective this objection may be well-founded. The industries organized by Sheng Hsuan-huai represented a chipping away at institutional barriers and thereby contributed to establishing the preconditions for a later breakthrough. This study has perforce attempted to stay within the boundaries of economic and social history, but never with the presumption that the whole story of China's response to the West could be told from that vantage point alone. Certainly recent efforts to assess modern China's intellectual history, in particular the work of J. R. Levenson,¹ have demonstrated the extent to which once deep-rooted beliefs and traditional attitudes that had been an integral part of the old society were being undermined. And to this corruption of the traditional Confucian order the industrialization effort here described contributed its considerable share. Nevertheless, from the shorter perspective of an evaluation of China's pre-1911 industrialization effort, the *kuan-tu shang-pan* compromise did not materially undermine these institutional barriers. It came to terms with them, to all appearances because only by so doing could any progress at all be made in introducing enterprises of the type discussed in this study. After longer or shorter periods of initial success, these firms in the end were overwhelmed by the weight of traditional practices, bureaucratic motivation, and official exactions.

In the expression *kuan-tu shang-pan* itself, we see reflected a dichotomy between official (*kuan*) and merchant (*shang*) which reveals the underlying negative attitude towards commercial enterprise in a saturated agricultural society. The official (or government) was suspicious of the merchant who was a competitor with the landlord and bureaucrat for the surpluses of peasant production. Although he too, in the last analysis, lived on the proceeds of the traditional economy, the presence of the merchant might upset the equilibrium that had been reached among three interests: (1) the minimum return to the peasantry consonant with further production (and reproduction!); (2) rents and interest on usury for the landlord-gentry; and (3) the bureaucrat's perquisites in the form of taxation or less legitimate "squeeze." Therefore the activities of the merchant were regulated in the interest of the *status quo* by the official, whose existence was most directly dependent on the continued operation of the equilibrium. Government monopolies of

commerce in such essential commodities as salt and iron, which extend back at least to the beginning of the imperial epoch in the Han dynasty, are to be seen in this light. Through them the merchant was licensed and his activities kept within safe limits, while he and the government together shared in the profits of commerce.

The late nineteenth-century *kuan-tu shang-pan* industries continued this same pattern of relations between official and merchant. In most general terms, merchant management was to be guided by official supervision. There were two specific ways, moreover, in which the dominant role of the bureaucrat was maintained and the merchant pure and simple constrained. First, the treaty-port merchant who had made good tended to be assimilated to the official bureaucracy. He could and did use his money to purchase official titles, thereby acquiring not only the title but inevitably some of the outlook of officialdom as well. The comprador, whatever the extent of his contacts with Occidentals and with Western ways, thus identified himself with the traditional order and supported it with his contributions. Secondly, the position of the treaty-port merchant was never allowed to be secure. Like the salt merchants, who also depended on government favor and support, he was always liable to official exactions on his personal wealth or the assets of his enterprises.

But at the same time that the official sought to regulate mercantile activity and keep it within safe dimensions in regard to its scope and size, he was not averse to profiting personally from commerce. It was taxed and "squeezed" for the benefit of government coffers and private purses. Beyond this, and despite legislation forbidding it, the Confucian official would himself engage clandestinely in commercial activity under the cover of some merchant accomplice. This means of seeking after personal gain, however, was not equivalent to the legitimization of commercial endeavor or the acceptance of equal status for merchants as a class.

New motives for official involvement in commercial affairs appeared in the latter half of the nineteenth century. Out of the suppression of the great Taiping Rebellion, there came into existence a number of regional foci of political and military power headed by the gentry-officials whose armies had defeated the Heavenly Kingdom of Great Peace. While they did not openly contest with Peking for hegemony, Li Hung-chang and Chang Chih-tung in particular became the effective governors of north and central China respectively. The exertions of these regional leaders from the 1870's until the end of the century provided a sharp contrast to the passivity and weakness of the imperial government. It was Li and Chang who, proceeding on the basis of the "self-strengthening" ideology which they helped to fashion, sought to meet the

challenge, or threat, of the Occident. As part of their program of self-strengthening these officials sponsored the foundation of arsenals and then of commercial manufacturing enterprises within the regions that they dominated. But the *kuan-tu shang-pan* enterprises thus established did not represent to their patrons an effort to remake the fundamental bases of traditional society. These mines, textile mills, and so on, were at once to bolster Li's and Chang's regional power, and simultaneously to hold the line against the West while an effort was made to strengthen China's traditional bases. In the oft-quoted dichotomy, they were the "instruments" (*yung*) by means of which the "essence" () of traditional, Confucian, agrarian China was to be preserved.

While the industrialization effort of the late Ch'ing period was thus not designed to subvert the old order, the *kuan-tu shang-pan* firms which it begot did have to cope somehow with the principal obstacles standing in the way of the development of modern industry on even a limited scale. These impediments (which have had to be faced in more recent decades as well) may be conveniently summarized under five headings: foreign competition, governmental weakness, inadequate capital, technical backwardness, and deficient motivation.

This study has looked only in a cursory way at the problem of foreign economic pressure on China. A comprehensive picture of the impact of European manufactured imports, financial institutions, and shipping on China's nineteenth-century economy still waits to be produced. Undoubtedly, the handicraft textile industry, which had been an important supplement to peasant income, was undermined by imported Lancashire cottons. In the coastal carrying trade, native junks could not compete with steamers. And, from 1895, foreign manufacturing establishments in Shanghai and other treaty ports contended with Chinese firms for the domestic market. Given an artificially low tariff and the privileges of extraterritoriality, and able to depend on highly developed industrial economies in their home countries, foreign merchants and manufacturers operated at an advantage. Furthermore, the large indemnity and loan payments to foreign creditors after 1895 represented a siphoning off of a significant portion of China's all too small capital surplus. The sum of these developments was imperialist domination of the modern sector of China's economy, and the effect, on balance and when the political side of imperialism is taken into account, was probably to handicap economic growth within China.

The *kuan-tu shang-pan* system attempted to cope with foreign economic domination by the grant of monopoly rights to industries established under official auspices. This in effect was to guarantee to Chinese firms at least that portion of the market which the government was able to influence. The China Merchants' Company's tribute rice franchise, or

Han-Yeh-P'ing's concession to supply rails for the Peking-Hankow railroad may be cited as examples. In addition to its monopoly status, the *kuan-tu shang-pan* firm in its early years might sometimes secure short-term government loans to tide it over until it had raised adequate capital from private investors. But neither the imperial government nor the regional patrons of these enterprises were in a position to alter the basic facts which secured the position of Western commerce and industry in China. Li Hung-chang, despite much pressure on him, was able to keep foreign textile mills out of Shanghai until 1895; but after the disastrous defeat by the Japanese, even this last defense was breached. Only in 1928 did the Nationalist government recover tariff autonomy; and only under the present Maoist regime have the provisions of the Shimonoseki Treaty been effectively repealed.

The growing impotence of the imperial government in the last decades of the Ch'ing dynasty has been noted by many students. In part this development can be ascribed to its increasing financial embarrassment, in part to the ignominy of successive defeat in three wars and the effects of an almost successful peasant revolution, certainly in part to aggravation of Sino-Manchu differences as the dynasty weakened. Peking was unable to assume the direction of even a limited program of self-strengthening and modernization. Possibly the situation would have changed radically if the "Hundred Days Reform" of 1898 had had a more happy outcome. But the "Manchu Reform Movement" which followed was at best designed only to maintain the dynasty. In these circumstances, the *kuan-tu shang-pan* pattern permitted some degree of leadership in "foreign matters" to be given by powerful regional figures such as Governor-general Li, and by those gentry-officials who, like Sheng Hsuan-huai, saw the importance of economic self-strengthening. Sheng's shortcomings as an industrial entrepreneur resulting from his family, local, and class loyalties set limits to what he could achieve. In like manner, the type of regional power which Li Hung-chang held could not take the place of a vigorous, national directing authority comparable, for example, to the Meiji oligarchy which governed Japan.

The political weakness and disunity of China continued on into the Republican era as major obstacles to economic development. Even the period of Kuomintang hegemony was never so free of internal dissension or external aggression that the government, had it so willed, could have undertaken and supported a program of all-out industrialization. For the Communist regime, the transformation of China into an industrial power has become the first goal of a powerful state apparatus able to subordinate all else to its achievement.

Inadequate capital accumulation was, of course, endemic to China's circular flow economy. Furthermore, such savings as were realized were

normally, for reasons of security and prestige, put back into agriculture, either by the purchase of additional land or in the form of loans, often at usurious rates, to the peasantry. To secure capital for their projects, Li Hung-chang and Sheng Hsuan-huai turned to the treaty-port compradore who, since the "opening" of China, had been making his fortune in Shanghai and elsewhere from the profits of trade with the foreigner. Compradore capital, however, was strictly limited in quantity. The profits of China's foreign trade, and of banking in the treaty ports and shipping between them, even if they had gone entirely into Chinese purses, were not a broad enough foundation on which to base a large scale industrialization effort. Moreover, there were strong pressures to invest these funds not in modern industry but in real estate and pawnshops. The fact of Sheng's own investment in the *kuan-tu shang-pan* enterprises which he managed suggests that, to some degree, these firms could also attract capital from the gentry-landlord class, especially as a handsome guaranteed return on the investment was an essential ingredient of the *kuan-tu shang-pan* formula. Utilization of the proceeds of taxation on agriculture, as in Meiji Japan, to start certain key industrial projects on their way was interdicted by the political circumstances of China in the nineteenth century. At best, Sheng's firms could sometimes secure short-term government loans through the intervention of their provincial patrons. In short, the savings potential of the agricultural sector of the economy was hardly touched at all as a possible source of industrial capital.

China's government in the Republican era remained as completely divorced from control of the land tax revenue as its Ch'ing predecessor had been. The present regime, by means of forced savings in agriculture and the employment of the labor surplus in the countryside on capital construction projects — both policies made possible by the degree of its political control — is making a relentless attempt to overcome the shortage of capital.

The fourth problem to which the *kuan-tu shang-pan* system had to adjust was one of an environment characterized by a profound technical backwardness. There were neither trained personnel experienced in the management of industrial projects nor facilities for training them. This situation was met in a partial way by the employment of those same compradores whose capital was sought for the new enterprises. Some, like Tong King-sing, had acquired considerable familiarity with the operation of the foreign firms who employed them or in which they had invested. They were thus better qualified than the usual run of lower rank officials to handle the business end of the China Merchants' Company and other firms. But the number of such qualified persons was never large, and in any case the treaty-port merchant suffered from

certain severe disabilities. Despite his business experience he was not technically trained; the more technical aspects of the companies' affairs had to be put in charge of foreign employees. Thus the Telegraph Administration employed Danish technicians, the China Merchants' Company had the services of Morse and the marine superintendent Roberts, Danforth supervised the Hua-sheng Cotton Mill, and Maitland the Imperial Bank of China. Sheng Hsuan-huai's establishment and support of modern schools in Tientsin and Shanghai were limited efforts to solve the problem of providing Chinese technical personnel to staff his enterprises.

Moreover, the compradore, even if he had purchased official rank, did not have sufficient influence to manage the complex official transactions in which the *kuan-tu shang-pan* firms were continuously involved. This responsibility was assumed by the official managers, such as Sheng Hsuan-huai, for the enterprises in which they had an interest, and by such men as Chang Chien for other companies. By specializing in the direction of the affairs of modern-type industrial enterprises these men were departing somewhat from the pattern of the theoretically omniscient Confucian official. Much of Sheng's official career was devoted to the administration of such projects and to the conduct of negotiations with foreigners. He acquired thereby a competence as an executive which was acknowledged by his Western peers. Notwithstanding their specialization, the official managers of *kuan-tu shang-pan* undertakings remained officials; it was their place in the Confucian bureaucracy which provided the leverage indispensable for conducting the official business of the firms they headed.

In the Republican period, a greater number of Chinese studied abroad, and the development of a modern educational system in China itself was furthered. But in terms of the potential need—if radical economic changes were to be undertaken—the number of trained personnel supplied was minute. And these people for the most part were absorbed into the government bureaucracy. The supply of competent technicians and executives has continued to be a major problem for the industrialization program of the Communist regime. Even with the aid of Russian experts and an expansion of the educational system, the matter is still a long way from solution.

The problem of motivation has come up several times throughout this study. Within its terms is encompassed a psycho-ideological block which played its part in obstructing a solution in each of the areas just discussed. "Self-strengthening," which underlay the establishment of the *kuan-tu shang-pan* firms of the late Ch'ing period, proved too shallow a font of inspiration. Its failure can be attributed to the fact that it was not accompanied by the institutional changes which might have mar-

shaded the support of wider circles of the populace behind it. Only such a transformation could have overcome, at least in strategic areas, the weight of family and local ties, the low valuation of mercantile and industrial activity, and the shortcomings of the traditional relations between official and merchant. These remained a drag on the outlook and response even of those men most directly connected with trade and industry. Apparently nationalism, unaided, was not a much better motor than self-strengthening, although this judgment may need to be modified by a consideration of the totally unfavorable international circumstances in which the Kuomintang government existed after 1931. The present regime has sought to combine nationalism with Marxism-Leninism as a generator of change — with what success in the long run remains to be seen.

The *kuan-tu shang-pan* enterprises which faced these obstacles were all pioneering ventures. Their promoters were undertaking industrial projects for which there were no precedents on the Chinese scene. That they operated at all in the unpromising circumstances that have just been described, weighs somewhat in the balance against their failure to develop into a more extensive industrial revolution. One outstanding feature of the record of these firms, as presented in the preceding chapters, is the appearance over and over again of the same names, of the same small group of men whose funds and enterprise made possible the initiation of the China Merchants' Company, the Telegraph Administration, the Hua-sheng Mill, Han-Yeh-P'ing, the Imperial Bank of China, and other like undertakings. The corollary to this phenomenon was the passing back and forth among these firms of the same limited supply of venture capital. These circumstances are of course a reflection of the shortages of capital and trained personnel which have already been recounted. They also highlight the pioneering aspect of the *kuan-tu shang-pan* companies: a few men operating on the margin of the traditional society to establish institutions which in the long run would contribute to the disintegration of the old order.

Despite their pioneering character and the fact that they were only a handful, the *kuan-tu shang-pan* companies controlled by Sheng Hsuan-huai showed a range and diversity which are altogether remarkable. Heavy industry (coal and iron mines, a steel plant), light manufacturing (textile mills), communications (a steamship company, telegraph lines, and railroads), and finance (a modern-style bank) were all represented. It is undeniably a considerable achievement for one man to have pioneered in all these fields, especially in the unpropitious environment of late Ch'ing China. It is all the more notable that Sheng should have undertaken and managed these enterprises while follow-

ing an active political career in Peking. While due credence must be given to the well-founded belief of his contemporaries that more than a little of Sheng's fortune was founded on corruption and sharp dealing, and that a substantial part of his political influence was purchased, there nevertheless remains a residue of achievement which establishes him as an exceptional personage.

Sheng and his associates realized good returns from the enterprises they directed. When even their legitimate profit averaged 8-10 per cent on their investment, these men, who also had access to large unrecorded perquisites, would certainly have acknowledged that their venture was being amply rewarded. The rich fruits enjoyed by the promoters and shareholders were not, however, reflected in the growth of their projects. So long as the barriers described above were not shattered, there were definite limits to the growth potential of these enterprises. Since they were unable to break out of the framework of the old order, an accommodation had to be found to the traditional society and its values. In the enterprises which have been described, this accommodation invariably took the form of accenting the monopoly patents which the firms in question had received. The possibility of expansion was circumscribed by foreign economic pressure, official indifference if not outright rapacity, capital and personnel shortages, and by the total framework of values in which the *kuan-tu shang-pan* enterprises existed. Their monopoly position, however, could be relied on to sustain the profits and perquisites and protect the capital investment of the promoters. In a word, after an initial period of growth and expansion, the modern-type enterprises which Sheng Hsuan-huai founded tended to be transformed into institutions for the protection of bureaucratic capital.

While the *kuan-tu shang-pan* industries did not eventuate into a basic transformation of the Chinese economy, they unhappily foreshadowed a pattern of industrial organization which would be continued in China until the middle of the twentieth century. Sheng may be seen as standing halfway between the "self-strengtheners" and such successors in more recent times as Liang Shih-yi and Yeh Kung-cho of the so-called "Communications Clique," and T. V. Soong and H. H. Kung of the Kuomintang. While Li Hung-chang did not hesitate to profit personally from the enterprises that he sponsored, his support of modern-type industry was clearly part of a larger concern with diplomacy and national defense and with the development of his regional power. For Sheng, the acquisition of a large fortune from his modern industrial and commercial firms was still in large part a means to acquire political power and office, the highest goals of traditional Chinese society. In the cases of Liang, Yeh, Soong, and Kung, men originally of

only moderate personal means, what stands out is the direct utilization of their high places in the governing bureaucracy in order to benefit their private economic interests or buttress those of their political group. Here we may see a link between the *kuan-tu shang-pan* system, which conditioned efforts at industrialization in the late nineteenth century, and the "bureaucratic capitalism" of more recent decades, which stood in the way of efforts to modernize China within a democratic framework.