Journal of Economic Behavior & Organization 71 (2009) 623–637

Contents lists available at ScienceDirect

Journal of Economic Behavior & Organization

journal homepage: www.elsevier.com/locate/jebo

# The firm in early Modern China☆

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ARTICLE INFO

*Article history:*
Received 18 August 2007
Received in revised form 2 March 2009
Accepted 3 March 2009
Available online 14 March 2009

*JEL classification:*
M
N
O

*Keywords:*
China
Shareholding
Firm
The corporation

ABSTRACT

The Chinese shareholding entity had a long history supported by cultural and legal practices pre-dating the introduction of European business forms in China. In the absence of codified or systematic precedent-based private law, a culture in which contract was deeply embedded in daily practice and the state enforced private agreements sustained a growing commercial sector. Kinship practices were adapted to the needs of a merchant community seeking ways to pool capital and sustain firm longevity. These institutional developments help to explain Chinese adaptability to Western practices and the paradoxical persistence of Chinese practices after the promulgation of a Western-style company law.



## 1. Introduction

This article is part of a larger project in which I use the development of the shareholding company in China to examine the relationship between culture, law and economic growth. China provides a particularly interesting comparative case for scholars of private law, first, because of the unusual informal role played by law in the institutionalization of popular shareholding practices and second, because periodic reform of civil law throughout the twentieth century has created a living laboratory in which legislation and custom have competed to shape Chinese business practices and Chinese attitudes about the role of law and of the state in private transactions. Both processes have left their traces in court cases, genealogies, local histories, encyclopedias and the private papers of Chinese corporate entities.

This article provides background to the larger project by asking how a society whose most basic cultural identifiers reject the culture of the marketplace, whose moral and political culture is bound to the ascriptive ties of kinship and native place, and whose formal system of law virtually ignores the realm of private law produced the dynamic market economy

☆ Paper prepared for the First IERC Conference: *The Economic Performance of Civilizations*: *Roles of Culture*, *Religion*, *and the Law*, University of Southern California, Los Angeles, February 23–24, 2007.

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doi:10.1016/j.jebo.2009.03.002

that we now know to have existed in the late imperial period.[2] This study first examines the institutional foundations of the indigenous firm in China prior to enactment of China's first Western-based Company Law. It then provides a preliminary inquiry into the impact of Western law and business practice on the Chinese firm and proposes some ways in which a comparative approach to Chinese business can refine our understanding of the forces shaping the indigenous Chinese firm.

## 2. The Chinese "Family Firm"

As noted in Chan (1998), most of the literature on Chinese business history is focused on a familiar trope, the "Chinese family firm."[3] These Chinese family firms are generally thought to have been organized as simple partnerships, relying on household capital and the resources of kin and friends, demonstrating little separation of ownership and control, and providing neither clear separation between the claims of business and personal creditors, nor protections for the firm against claims by individual creditors against individual partners. The disposition of the family firm toward personalization is credited with reducing transaction costs and facilitating the acquisition of capital, but is also often blamed for limiting firm growth by limiting the field of potential investors. More importantly, personalization is seen as injecting into the culture of business irrational and corrupt practices grounded in "familism." Finally, frequent intrafamilial conflict during generational transitions is thought to limit the longevity of Chinese firms and thus their ability to act as engines of economic development. All of this of course should sound very familiar to scholars of Europe and the United States since many of the same things are said about family firms in the West (Colli and Rose, 2003). Where the historiographies differ is in the primordial significance accorded family and native place in the development of the firm in China.

Since very few Chinese firms with histories prior to the nineteenth century have left behind a record of their formation and their business dealings, much of what has been said about Chinese business practice has relied on the retrospective musings of early twentieth century writers. If we look at the footnotes of people writing about Chinese firms we will often see works such as the Chinese *Zhongguo shangye xiguan daquan* (A Complete Handbook on Chinese Commercial Customs), published in Shanghai in 1923 and the works of a handful of Western commentators such as Hosea Ballou Morse and Thomas Jernigan, both of whom wrote around the turn of the twentieth century.[4] Moreover, until recently, a large number of the empirical studies of Chinese firms in the nineteenth and early twentieth century have centered on the Chinese diaspora communities of Southeast Asia or Taiwan under Japanese colonial rule, where the conditions of marginal and colonial status may have fostered much more closed community-based practices than were possible or desirable on the Chinese mainland.[5] This is particularly important to keep in mind as we try to draw conclusions about mainland shareholding institutions, notably those based on extra-familial investment.

If we look at actual Qing dynasty (1644–1911) firms for which we have data, what do we learn about the structure of the firm? Two of the best studied firms are the Ruifuxiang company[6] and the Yutang company (Pomeranz, 1997). Both firms began as commercial enterprises. The Ruifuxiang company was founded in the seventeenth century by the Meng family in Shandong. Until the late nineteenth century its main business was wholesale and retail sale of domestic cotton cloth. We know little about the operation of the firm before the 1870s, but from surviving records the firm appears to be a classic family firm in which all shares were kept within the family, although day-to-day management of the firm's business appears to have been entrusted to managers who do not share the Meng surname (Chan, 1982, 223).[7] The Yutang company, also based in Shandong, was started in 1779 by a Suzhou migrant to north China and specialized in the sale of southern foodstuffs to sojourning officials and merchants. In 1807 the owner sold the firm to a partnership that included a man in the wholesale medicinal herbs trade named Bing and two upper degree holders named Sun.[8] From 1827 to the beginning of the twentieth century the firm was run by paid managers who had little or no equity stake in the firm (Pomeranz, 1997, 21–22).

[2] There is no longer any doubt among serious observers of China's economic history that significant market generated growth did take place in China during the several hundred years preceding the Opium War in the mid-nineteenth century. Pomeranz (2000), supported by the work of Li (1998) and others, argues that at least until 1800 the most advanced regions of China exhibited living standards equivalent to those of England during the same period. Thomas Rawski (1989) argues that even during the period between the World Wars, China's modern economy was laying down the foundations for the industrial growth of the late twentieth century.

[3] Chan's summary is based on several of the leading scholars writing about Chinese business, including Gary Hamilton, Rajeswary J. Brown, and S. Gordon Redding. Other scholars presenting useful summaries of the discourse on the "Chinese firm" include Pomeranz (1997) and Wong (1985).

[4] Chan (1998) makes extensive use of a volume by Wu Guichang et al. entitled Zhongguo shangye xiguan daquan (A Complete Handbook on Chinese Commercial Customs), published in Shanghai in 1923. Western accounts of dealings with Chinese businessmen also play an important role in the critique of Chinese business and the impact of state and legal institutions on business practices. Frequently cited English language accounts include Morse (1926, 1932), Morse et al. (1908) and Jernigan (1904, 1905).

[5] Braadbaart (1995), for example, suggests that the Chinese tendency to form family businesses in Indonesia was largely the result of discrimination that prevented them from seeking employment elsewhere.

[6] For a treatment of Ruifuxiang in English see Chan (1982). Strand (1990) discusses the Mengs as members of the Beijing merchant elite in the early twentieth century. The papers of the Beijing branch of the Ruifuxiang were edited by Economics Institute of the Chinese Academy of Sciences (1959).

[7] While some of these managers may have been sons-in-law, it is likely that some were also hired for their ability or emerged through the ranks of "blue gown" staff.

[8] Entry into the ranks of Chinese officialdom, from which was derived the highest social status (if not the greatest income) in late imperial China, relied on participation in a merit-based civil service examination system. Even those degree holders who did not achieve official postings were considered members of a small and exclusive elite who were presumed in official discourse not to mingle with the laboring or commercial classes.

Sichuan yields numerous examples of business partnerships, in part because it has one of the best preserved county level archives for the Qing period. I was able to examine over 100 nineteenth century business suits filed in this county, which was and remains one of the constituent counties of the most important commercial entrepôt in Western China, the municipality of Chongqing.[9] Here we find several models of business ownership. In the older guild controlled trades, the vast majority of firms appear to be single proprietorships or simple partnerships with native place guild affiliations. However, in the burgeoning coal and iron industry in the local foothills, the majority of firms were small partnerships frequently combining investment from unrelated parties, and sometimes incorporating labor shares (Zelin, 2006). Most of the investors in the latter firms investors appear to be rural people. In the case of the coal and iron partnerships we can assume that we are not simply seeing those partnerships that went sour because many of these coal mining partnerships become known to us when they are sued by local lineages claiming that coal mines are desecrating lineage graveyards, another common use of hillsides in China.

The Zigong salt yard, in the southern part of Sichuan province, provides still further evidence of non-kin investment and business partnerships (Zelin, 2005, chapter 2). Here commercial capital was critical to the early development of firms formed to drill brine wells and establish salt evaporation furnaces. In the case of Zigong, many investors were wealthy salt merchants from outside the province who had dominated the long distance salt trade. They were later joined by local landowners and smaller Sichuanese merchants with managerial and occasionally technical expertise. Most likely as a result of concentration of business opportunities at Zigong, a kind of venture capitalist appeared at the yard, known as a *chengshouren*, who specialized in bringing together investors and locals with potential well land. As a result, Zigong produced large-scale investment by households, lineages and business firms with no obvious kinship or other ascriptive ties to their fellow shareholders. By the late nineteenth century many Zigong firms were also using "professional" managers, often men who were recommended by firms with whom the Zigong firms did business or who apprenticed at the countinghouses of firm units.

The Zigong case is particularly valuable because of the magnitude of the surviving data available and its long temporal scope. The wealth of business contracts in Zigong's archives yield clear evidence of the evolution of shareholding forms in response to the changing requirements of business. The earliest shares were framed as limited tenure leases, with the immovable property of the firm reverting to the landowner after a period of years. It is not surprising then that these early investors saw their investments as giving them the physical right to partake of a portion of the output of the enterprise (in this case brine from a well). As the capital and technical requirements of ventures grew, and as well drilling gave rise to brine evaporation, salt distribution and other ancillary business processes, shareholders increasingly saw themselves as joint participants in a common venture in which their interests were expressed in dividends and their supervisory role was increasingly limited to shareholders' meetings. By the early nineteenth century a number of forces operated to clarify the character of the share as a transferable commodity held in perpetuity. At the same time intra-industry rules were devised to avoid hold-up by weaker investors and facilitate the flow of new capital into existing companies.[10]

## 3. Characteristics of the Qing business environment

Under what kinds of institutional arrangements did these business relationships evolve?[11] In important respects early modern Chinese merchants enjoyed an institutional environment that was a mirror image of their counterparts in the more advanced economies of the West. One of the prominent characteristics of the early modern Western European state was the increasing involvement of government in the regulation of commerce and its expansion beyond state borders. While the role of the state in economic affairs had been a matter for frequent debate during China's long imperial history, by the sixteenth century state power and intervention in economic affairs, except as they impinged on the state's ability to collect as taxes a relatively small portion of GDP (largely from agriculture), were no longer viewed as tightly linked. The Qing state, whose strength can be measured by its success in almost doubling the size of the Chinese empire, provided business with a surprisingly weak regulatory framework.[12] Although the late imperial state is frequently portrayed as exercising tight controls over merchants and markets and exacting large sums in the form of irregular levies, there is little empirical data to support such a picture for the early part of the dynasty. On the contrary, by the Qing period the freedom to establish and participate in the market was largely unfettered,[13] major hereditary occupational classifications had been eliminated, and geographic mobility had been extended to the frontiers of the empire and beyond. Although officials were often heard complaining that all the people cared about was profits, the only limits placed on private transactions in the Imperial Code were bans on deceptive practices, excessive interest and monopoly trading.[14]

[9] This sample included all coal mining disputes and all suits filed by merchants between 1800 and 1870.

[10] See Zelin (2005, 42–44) for a description of the practice of *shangxia* share transfer whereby the original investors in a well could transfer a portion of their equity stake to a new owner group in exchange for a reduction in their claim to future profits and protection against liability for future claims against the well.

[11] The importance of institutions no longer needs defending, although much work remains to be done on the relationship between culture and institutions and the manner in which institutions change and respond to external pressures. See for example North (1990, 1994) and Williamson (2000).

[12] For a more complete analysis of the laissez-faire economy of the Qing see Zelin (2004a).

[13] The main exceptions to free markets were monopolies granted to limited groups of merchants exchanged in long distance commerce in commodities such as tea, salt and monetary metals.

[14] For example article 149 of the Qing Code prohibits interest in excess of three tenths per month or total interest that exceeds the principle originally borrowed. See Xue (1970), a punctuated reprint of a late Qing annotated version of the Qing code that contains invaluable data on the origins of many Qing substatutues.

In fact, these market regulating statutes do not seem to have been used very often. Far more important among the civil matters dealt with in the Imperial Code were those statutes and substatutes[15] designed to sustain the patriarchal, patrilocal, and patrilineal Confucian family system. Thus the Code had much to say about marriage, ritual succession, adoption, and the support of elderly parents. Equal male succession to household property was largely a matter of custom, albeit custom strong enough to have survived from as early as the Han dynasty [206 BCE–220 CE].[16] The noted annotator of the Qing Code (Xue, 1970), states explicitly that the statutes do not deal with household property, but that the substatutes make up for this lacuna when they treat succession to ritual responsibilities.[17] The link between household property and the ritual responsibilities of sons further explains the Code's proscription of the disposal of household property by anyone other than the senior male of a household (Xue, 1970, 259, Article 88). In this the Code enforced the custom that imparted almost all rights to property to collectivities known as households (*jia*) and not to individuals.

The Code also acknowledged the customary practices whereby property was passed on to new generations through household division (*fenjia*) (Xue, 1970, 259, Article 87),[18] a formal process by which a man extended to his sons equal shares of the household property, after which they were said to have established their own households. During the late imperial period the details of the division were usually memorialized in a household division contract. At the same time, laws of ritual succession gave agnatic kin claims to property when a household produced no male heir. As a result, all Chinese men possessed a mental flow chart of agnatic property linking cousins and uncles as well as sons and fathers. This often formed the basis for robust economic collaborations. Thus, the pooling of resources along kinship lines in China was not merely a matter of trust. It also reflected a multilayered sense of common ownership that would play an important role in the development of shareholding institutions.

The second set of institutions of importance to the history of the firm is the lineage and lineage trusts. In China it was the responsibility of male descendents to perform ancestral rites honoring their predecessors in the agnate chain. It was from this responsibility that the link between property and ritual succession was derived. At least as early as the Song dynasty [960–1279] families were encouraged to ensure the appropriate performance of these rites by sequestering a portion of the patrimony of each generation in the form of an endowment that could not be divided. As important as they were, the status of such endowments appears to have been enforced largely by custom and in the self-regulating rules of individual lineages.[19] Custom regarding the indivisibility and intergenerational transfer of trusts was not given recognition in the law until the 1750s.[20]

Most households were too poor to sequester land as a perpetual trust, but scholars have long recognized the lineage as a fundamental organizing construct in Chinese society. In addition, the lineage with an endowment or trust had an important institution at its disposal for the enforcement of lineage solidarity and the sheltering of lineage wealth.[21] Considerable controversy surrounds the role played by the trust in the development of Chinese business practices. While the most important asset held by lineage trusts was land, by the Qing period many lineages parlayed their landed wealth into human capital through the use of wealth to train sons for the imperial civil service examinations and into non-landed wealth in the form of investment in trade, manufacturing and partnership shares. I would argue that as templates for the creation of shareholding corporations and as potential pools of wealth available for investment lineage, trusts were a critical component in the cultural construction of the Chinese business entity.

We get bits and pieces of information about such trusts in lineage genealogies, even though most of the trusts themselves and the contracts that created them are now gone. A good example of the kind of material a genealogy might contain was discovered by David Faure. According to a contract copied into the genealogy of the Guan lineage, in 1632 each of four branches of the lineage contributed to the creation of a lineage trust, which the contract explicitly stated would be used "to put out capital (*ben*) to seek a profit (*li*)." Participation in the trust was limited to lineage members, but only those who contributed were made holders of the endowment's shares. Moreover, as Faure (1989) notes, it was the size of one's contribution to the total capital fund that determined one's shares.

The Guans provide an early case of what seems to have become increasingly common in the surviving records of lineage trusts. A recent field study of popular customs in Anhui yielded 26 contracts documenting resource pooling among rural

[15] The late imperial code was organized according to the administrative portfolios of the main central government ministries. Statutes were most often adopted from the codes of earlier dynasties, while sub-statutes functioned to bring law into accord with changing political, social and economic conditions.

[16] See Wakefield (1998) and Shiga (1978). By custom, shares among sons were to be divided equally. This was tempered by smaller shares accorded sons not borne by legal wives and by the occasional larger grant to a son taking on special responsibilities to care for elderly parents and perform ancestral rituals.

[17] Wakefield (1998, 21–25) notes that stories from Sima Qian's *Shiji* and Ban Gu's *Hanshu* refer to equal inheritance by sons, a custom that is repeatedly enforced by the state in court cases, while never achieving the status of codified law. Some flexibility was retained in the treatment of adopted sons, sons of concubines and sons who took responsibility for caring for aging parents. The rights of widows with regard to their husbands' households' property was dealt with in the statutes relating to the naming of a successor where a household had produced no sons (Xue, 1970, 246–247, Article 78-1, 78-2).

[18] It should be noted that in the typical "thou shalt not" format of the Code, this statute does not establish the practice of family division, but rather acknowledges its legal status by forbidding family division while parents and grandparents are still alive, unless the aforementioned family elders have given their approval for family division to take place.

[19] Ruskola (2000, 1617n45) provides an excellent summary of the literature on lineage trusts. Note in particular Twitchett (1959) on the Fan charitable estate, believed by most Chinese to be the model for the lineage trust throughout the late imperial period.

[20] Sub-statute 93-4 of the Qing Code, promulgated in 1756, outlawed the private disposal of ritual and charity land (Xue, 1970, 275).

[21] While lineage estate lands may have been exempt from tax in the Song period the one advantage pooled land does not seem to have enjoyed during the Ming and Qing dynasties is tax exemption. For example, Zheng (2001, original Chinese edition 1992) provides several accounts of lineage trusts on which taxes were paid.

residents.[22] Among them, the earliest, dating from 1607, refers to jointly held land among members of the Wang lineage in She county, while an Yi county contract from 1639 records two households descended from a common ancestor who established a fish farm to fund their ancestral sacrifices.

In the case of Zigong salt manufacturers, lineage trusts were explicitly formed as a way to amass and incorporate business property and protect it from the predations of household division, even though the language of formation was that of ritual and ancestral veneration. Here, all members of the households who first invested in well development and their subsequent descendents became shareholders in the trust. Profits, after subtracting for business expenses and a rough calculation that we can identify as depreciation, were distributed annually among the holders of shares (see Zelin, 2005). While lineage trusts themselves remained closed corporations whose memberships were determined by birth, trusts behaved like individuals in the market place, buying and selling salt manufacturing shares and developing portfolios that included both wholly owned family firms and shares in a variety of non-kin ventures.

The creation of lineage trusts was particularly common among southern Chinese and was carried by Chinese migrants to Southeast Asia and the Americas. Indeed, we get a sense of the role of lineage trusts in business and investment when we examine their activities in colonial contexts in which they came up against the common law prohibition on perpetuities that could not be shown to benefit charitable or religious associations. The judicial archives of the British colonial regimes in both Malaya and Hong Kong contain examples of lawsuits in which family members seeking to divide lineage trust property successfully deployed the British prohibition on perpetuities precisely because the common law courts recognized the purely money-making character of these asset protecting entities (Matsubara, 2004 and Chung, 2003).

We should keep in mind that even without dedicated resources, it was common for members of a single patriline to maintain ritual and affective ties that could be mobilized in times of economic or political crisis.[23] In China the lineage was such a potent cultural construct that even fictive ties could be transformed into binding ties through the activation of lineage forms. In fact, one could make the argument that the lineage becomes the model for the organization of secret society lodges and native place associations in the late Qing period. Again, although we have long been familiar with certain aspects of these associations, it is only recently that access to local archives has demonstrated their corporate character. Among the more provocative evidence of this are the contracts uncovered by Richard Belsky (2005), which make it clear that the native place lodges founded in Beijing by sojourning degree holders and officials from particular native places were not merely places for officials to meet, eat their native food and speak their native dialect; they were also corporations with endowments created through donations and dues and managed in much the same way as the lineage trusts to which the majority of these lodge founders most likely belonged.[24]

The key point here is that by the Qing, the institution of the lineage trust, deeply embedded in the ritual and moral construction of the patriline, had become a popular device for the protection of investable assets. By creating a trust a successful merchant could keep his company intact, allowing each of his sons to succeed not to bits and pieces of the firm, but to equal shares in an undivided pool of assets that could likewise be passed on to their heirs (see, for example, Watson, 1990 and Zelin, 1990). As my study of Zigong business disputes has shown, a large proportion of the investors in Chinese businesses were not individuals, or even individual households, but were constructed as trusts, in large part because of the legal protections that a trust afforded collective assets.

The third institution that helped to structure Chinese business was the contract culture that appears to have solidified by the fourteenth century (Hansen, 1995) and permeated most aspects of Chinese life by the Qing.[25] Hansen notes that contracts were so important a part of Chinese life that long sections of a 14th century Mongol–Chinese language textbook were devoted to their usage and construction (Hansen, 1995, 140). The authors of this book would undoubtedly have agreed with a statement made by Oertai, the great Manchu Governor-General and architect of *gaitu guiliu* (the integration of aboriginal tribes into the Chinese bureaucratic system during the Qing dynasty) when he wrote to the Yongzheng emperor [1723–1735] that one of his key tasks as a civilizer of the Miao people would be to teach them to accept private property based on written contracts (Woodside, 2002).

By the Qing dynasty few Chinese could avoid familiarity with the use of contracts. The six rites of marriage were often initiated with the negotiation of the marriage contract and almost every household had the experience of drawing up a contract of family division. Contracts were used to tenant land, lend money, and even to adopt children and distribute the rights that such children would have within the patriline.

As scholars continue to uncover new troves of shareholding contracts, they have also revealed the variety of purposes to which a shareholding entity might be devoted in the late imperial period. For the Ming dynasty (1368–1644) Michael Szonyi (2002, 187, 245fn67) has uncovered contracts by which people of different surnames joined in the creation of shareholding entities for the payment of taxes, as well as a contract by which a whole community agreed to distribute benefits from public goods, in this case, the harvest of clams from local sandbanks. Myron Cohen has shown that contracts formed the framework

[22] This study was led by Tian Tao as part of an ongoing project to collect and publish pre-1949 contracts that have survived in China in private hands.

[23] Philip Kuhn (1970) discusses the role of lineages in the formation of local militia during the Taiping Rebellion in the mid-nineteenth century.

[24] Of course, while the members of a native place association enjoyed the facilities and non-tangible benefits of members, unlike lineage trust members, they did not receive a share of profits, which were plowed back into the association for the common enjoyment of members. Belsky notes that the fuzziness of ownership in this instance presented a problem for communist authorities after 1949.

[25] For a broad overview of the role of contract in the construction of property rights and the organization of business see Zelin et al. (2004).

for rural non-kin asset pooling for the upkeep of temples and support of festivals celebrating local deities. By the Qing, shares in non-kin shareholding entities of this type had already become commodities that generated dividends and could be bought and sold.[26] Contracts recently discovered by Tian Tao and his team of investigators demonstrate that contracts were also used to raise funds and structure non-economic activities such as local self-defense, collective litigation and the settlement of vendettas. We should also note that while shares in lineage trusts were not part of an open financial market, lineage trusts themselves became investors in shares, thereby contributing to the general availability of liquid assets.

Hansen (1995, 43) notes that by the Tang dynasty (618–907) the state had decided to stay out of the way of private contracts. By the Qing the state increasingly appears as the enforcer of contracts while continuing to refrain from interfering in their content. From the lawsuits generated over breach of contract in the Qing, we get a sense that contracts had a hyper-binding meaning in popular culture, to the point that people in the Qing were known to memorialize even illegal acts by the signing of a written agreement, as if the presentation of, say, a contract to sell your wife, would be proof to the court that the act was enforceable instead of punishable under the law (Sommer, 1999).

While the state refrained from legislating for the economy, in the courts the state collaborated in the development of robust local business cultures by enforcing the agreements that businesses undertook. In this sense then, China followed a hybrid pattern that I have, for want of a better term, called informal or unlegislated law, in which custom was neither overridden nor integrated into the formal legal system nor left simply, as in the social capital models proposed by development economists, to local solidarities to enforce (see High et al., 2005). Instead, the Chinese contract became the law's guide to the obligations desired by the parties and became the state's to enforce if the state desired a smoothly running marketplace.[27]

## 4. Legal protections in the absence of company law

It is not surprising that little has been written on the legal protections to companies under Qing rule. Most of the evidence we have of shareholding entities consists of contracts that establish the internal relationships among investors, but can shed little light on the relationships among firms and between firms and individuals. Nevertheless, we have been able to establish that Chinese shareholding entities had certain qualities of legal personhood. They could invest as an entity in other entities, their shares could by contractual agreement be made transferable, and particularly by establishing the entity as a lineage trust, shareholders could ensure the longevity of the entity beyond the life of the original partners. In this sense China can be said to have had a concept of a corporate entity, although without all of the characteristics that contemporary Western law associates with the corporation.

These missing characteristics are critical to the development of the modern Western business entity. In particular are two forms of asset partitioning that Hansmann et al. (2006) refer to as "owner shielding" and "entity shielding." By owner shielding they mean limited liability, rules that shield shareholders from responsibility for company debts in excess of their individual investments. Less commonly discussed, but of equal importance are what they call entity shielding, rules that protected the firm from the creditors of its individual shareholders and other entities in which they were investors. Hansmann et al. (2006) argue that whereas strong entity shielding could be achieved only through law, limited liability could be negotiated on a case by case basis through the contractual agreements reached between firms. Nevertheless, it was through legislation that limited liability was generally achieved in both the Civil and Common Law systems of Europe and the U.S.

To date no study has been made of contracts between Chinese firms to determine if any contain stipulations of limited liability. No distinction was made between personal debt and business debt in the law of the Qing. In view of its hands-off treatment of most economic issues, it is significant that the late imperial states made the recovery of debt a state matter. Not only did the state establish graduated corporal punishments for those who failed to pay their debts. It also undertook to recover and return to the creditor such funds as had been defaulted (Xue, 1970, statue 149).[28] Despite the law, many debt-related disputes would have been handled within guilds and few guild records survive. However, among the surviving 131 19th century lawsuits originating in Ba county, Sichuan that I examined in the 1980s, not a single one contained evidence that a firm's owners were not fully liable for its debts. Similar evidence may be found in disputes among firms operating in Zigong, Sichuan, even for the early twentieth century (Zelin, 2004b).

Despite claims by some scholars that in China no conceptual distinction was made between personal assets and assets of the firm, there is some evidence that such distinctions were important to the success of partnership arrangements. For example, in 1755 the Yue family, owners of the Beijing Wanquan tang medicine shop, sold half ownership of the shop to a second party. The contract establishing the new partnership stated

[26] Cohen (2004) provides the best description of share commodification in rural China.

[27] While most Chinese firms operated without the benefits or restrictions provided by guilds, the rules and mediating bodies established by guilds have some similarities to the autonomous contracting systems found in the diamond and cotton exchanges described by Bernstein (1992, 2001). Although we have far less information about the private ordering systems operating in imperial China, it is important to note that they did not shun the state courts as absolutely as do Bernstein's diamond and cotton traders. The magistrates' courts could play the role of court of last resort even among members of the same trade. Indeed, it is likely that the possibility of litigation outside the guild framework aided in maintaining guild discipline.

[28] Significantly, the original Chinese text of this clause states "whosoever shall owe a private debt and shall breach his contract and not repay. . .." The Qing Code expressly forbade powerful creditors from seizing property from their debtors and required that the default be reported to the state. This was likely to avoid violent confrontations and exploitation of weaker borrowers.

> "Because matters in the shop are numerous and we cannot manage them alone, today we willingly sell half of our shop name and equipment and furnishings to the X surname, to be their property in perpetuity. In the presence of the hosts and guests, family and friends, we declare: the debts of this shop to other shops, new and old, and the unpaid bills of our former investor will be taken care of by the inner partnership of the shop. As for the money the Yue's owe [in taxes?] and private debts, these belong to the Yue's to repay themselves; they will not have anything to do with [the new investors]. . ..."[29]

Contractual stipulations partitioning the obligations of the well drilling partnership from those of the original owner of the land were common at the Zigong salt yard as well. There the links to earlier land sale customs whereby a new buyer was contractually released from any pre-existing claims to the land are clear.

Partnership contracts often included rules of behavior for the partners themselves. Robert Gardella's (2004) study of 26 partnership contracts in the John Hayes collection at the Hoover Institution notes the prevalence of "house rules" against such activities as using the company's chop for private business dealings, borrowing from the company treasury, and hiring friends and relatives.[30]

Nevertheless, the Qing code (and its late imperial predecessors) was a particularly poor instrument for the enactment of laws pertaining to business. Although it dealt with a number of civil matters, including marriage and property, its overall structure was that of a list of proscribed behaviors and their punishments. If entity shielding required legislative action by the state, then the internal logic of the Qing Code precluded the introduction of these two important aspects of the modern business form prior to China's exposure to Western business law. As we will see, even after this exposure, the benefits of incorporation did not appear unequivocal to all Chinese firms.

## 5. The early impact of Western business on Chinese business organization

The institutional environment under which firms like Ruifuxiang, Yutang, the numerous firms operating at the Zigong salt yards and the partnerships whose traces are now emerging from other local archives operated did not fundamentally change until the twentieth century. What did change were the Chinese political environment and the universe of non-Chinese business arrangements against which Chinese businesses competed and were measured. The West is often credited with bringing the idea of the joint share company to China, and the Qing state is frequently indicted for its slow progress in adopting a Western-style company law, embodying joint stock, limited liability and legal personhood.[31] In the remainder of this study I will attempt to reposition our inquiry, asking first what the foreign businesses in China had to contribute to existing Chinese business forms and then turning to a preliminary examination of the organization of Chinese business during the last years of the Qing dynasty and the first decades of the Chinese republic.

The first Western business entities with which Chinese merchants had contact were chartered companies such as the British East India Company (BEIC). Participants in an official monopoly in which investment was pooled and deployed in trade and not manufacture, BEIC merchants would not have appeared alien to the Chinese guild merchants with whom they interacted before the BEIC's charter came to an end in 1834. Moreover, as Paul Van Dyke (2006) has shown, Western and Chinese merchants operating out of Macao and Canton in the eighteenth century had no difficulty engaging in joint Sino-Western commercial side ventures memorialized in carefully written contracts. Both groups flourished as a result of grants from their respective governments of monopoly trading privileges in specific territories both owed those privileges to the importance of their tax farming responsibilities for their respective state's finances, and both saw their privileges erode as their role in public finance declined.[32]

Despite these early contacts between Chinese and foreign merchants, the most important conduits for the transmission of Western ideas about business were established in the nineteenth century as Chinese merchants went to work in foreign firms. These so-called compradors worked largely for Western trading firms, gathering market information, acting as interpreters, guaranteeing the solvency of Chinese native bankers and merchants, and purchasing inland products (Hao, 1970a, 3). Many compradors acquired Westernized tastes and were able to cultivate new social leadership roles as a result of their ties to

[29] "Chongmen wai wanquantang yaopu ziliao jilu" [A compilation of materials of the Chongwen gate Wanquantang medicine shop] in *Qingshi ziliao*, volume 1, 1980, cited in Zhang Zhongmin (2002).

[30] Twenty-three of the 26 contracts contained such prohibitions.

[31] A recent argument along these lines was put forward by Deng Jianpeng in an article on shareholders' rights (see Deng, 2003, 3–4). Deng argues that the establishment of so-called *guandu shangban* [official supervised and merchant managed] and *guanshang heban* [official-merchant jointly managed] enterprises in late nineteenth century was necessitated both by the absence of shareholding as a Chinese institution and the danger that companies formed in imitation of Western corporate forms would be prey to official predation without the protection of powerful bureaucratic sponsors. What Deng and others overlook is the powerful incentive to limit the development of private shareholding entities these companies provided officials. Indeed, as quasi-monopolies with strong ties to the finances of territorial bureaucracies, these industries were not entirely unlike the chartered monopolies that formed the prototypes for early English business corporation (see Harris, 2000, 41–58). It is also not surprising that many observers of post-reform China see in these hybrid companies the early cousins of some of China's most successful contemporary firms.

[32] In the English case reliable excise and customs taxes lessened the importance of the BEIC as a source of revenue, making other arguments for its dissolution more palatable to Parliament and crown (Harris, 2000). Motono (2000, in passim chapters 3 and 4) makes the provocative claim that native-place based guilds broke down late in the nineteenth century when the ability of any firm to buy an outward transit pass giving its goods the same low tax rate as goods moved by a foreign firm eliminated the benefits of monopoly and the government's ability to use Chinese guilds as bodies to control and tax native place merchants.

Western businessmen. They also accumulated considerable wealth as a result of their association with foreign firms, wealth they often invested in modern industrial enterprises.[33] It comes as no surprise that it was largely comprador capital that the Qing state targeted when it introduced its famous policy of state-supervised merchant-managed industrial development (*guandu shangban*) in the second half of the nineteenth century.

To what extent did compradors bring to Chinese business practice knowledge of a new and better way of doing business? Perhaps less than we have been led to believe.

It is easy to forget that the firms that first employed Chinese compradors, such as Jardine, Matheson and Co., Dent and Co., Russell and Co., Butterfield and Swire, E.D. Sassoon and Co., Augustine Heard and Co., and others were not the hierarchically organized limited liability corporations that formed the basis for the second industrial revolution of late nineteenth century America. Most were trading companies, followed by a small number of firms engaged in banking, mining, shipping and consumer-oriented manufacture and export processing, largely tea and silk (Hou, 1965). Of these, the vast majority was British and operated under British law, which itself adopted its first incorporation law in 1844 and the limited liability corporation in 1855–1856. Prominent firms such as those of E.D. Sassoon and Elly Kadoorie remained family firms even when operating in areas governed by British law. Others, functioning in a manner similar to "managing agencies" in India, began as private partnership firms managing a portfolio of joint stock companies (Misra, 1999, 22–23). Shares in Jardine Matheson were not publicly traded until 1961. Moreover, as described by Carol Connell (2003, 100), the key to Jardine Matheson's success was a longstanding, dense network of relationships with buyers and suppliers, as well as informal financial credits, all of which were central to the business strategies of Chinese firms as well.

The absence of a company law in China had not prevented the development of shareholding entities prior to the influx of foreign firms and at least some Chinese investors appear to have had little trouble translating this experience into the purchase of foreign shares. One indication of the openness of Chinese investors to new modes of business was the rapidity with which Chinese merchants saw the usefulness and profitability of insurance. As early as the 1830s Chinese investors subscribed to shares in the Union Insurance Society, a firm established by Dent, Beale and Company out of Macao. Chinese investors continued to invest in Western insurance companies and may have accounted for as much as 50% of the capital in Western insurance companies active in China during the late nineteenth century (Hao, 1970a, 252–253).[34] While the insurance industry in China absorbed considerable Chinese capital seeking a profitable home, there were no institutional obstacles to the formation of Chinese insurance companies. Among the early Chinese insurance companies was Renqihe Insurance, founded as a subsidiary of the China Merchants Steam Navigation Company, China's first steamship company plying the Yangzi in competition with Western firms.

Prior to the implementation of a company law in China, foreign firms operating on Chinese soil could incorporate in their home countries, in Hong Kong and later in Shanghai. Chinese capital also moved into shares in these firms, providing an important source of funds for foreign manufacturing, transport and banking on Chinese soil. Yen-p'ing Hao points to the almost 16,000,000 Tls.[35] in Chinese capital in firms like the Shanghai Steam Navigation Company, Ewo Silk Filature, and the Trust and Loan Company of China, Japan and the Straits. Chinese businessmen even sat on the boards of several foreign firms (Hao, 1970a, 57, 58. 246).[36] However, the legal status of Chinese investment in foreign firms prior to the 1880s remained ambiguous. The Chinese state appears to have been unwilling to uphold the rights of Chinese nationals investing in companies registered off shore and organized in a way that had no legal standing in China.[37] At the same time, the rights granted by foreign firms to Chinese investors appear to have been a hybrid, neither fully participating in firm oversight like the shareholders in a wholly Chinese owned firm, nor partaking of the limited liability of fellow shareholders of foreign origin.[38] Despite this legal ambiguity Chinese investment is estimated to have comprised about 40 percent of total investment in foreign firms in China in the late nineteenth century, most of it in the form of portfolio investments, sought for the dividends they produced (Motono, 2000, 137–140).

British business interests were the most vociferous in seeking a change in Chinese law, largely to avoid the kinds of problems that arose when Chinese investors bought shares in British firms.[39] The British government, on the contrary, opposed the extension of the Companies Act of 1862 to allow the registration of British firms on Chinese soil, in large

[33] Hao (1970b, 4–5) notes the significant participation of compradors in the steam shipping industry in China, including 78% of the subscribed capital of the China Merchants Steam Navigation Company. Compradors also invested in China's first large-scale mining enterprise, machine manufacturing, and textiles.

[34] I have not yet been able to determine whether such insurance companies were organized as limited liability companies, but it is likely that they were not. See Harris (2000, 106–107) on the dominance of unincorporated firms in the English insurance industry.

[35] The tael was a Chinese unit of account equal to a Chinese ounce of silver.

[36] Indeed, Hao notes that Chinese investment would have been higher, but many firms limited the number shares that could be subscribed to by Chinese investors.

[37] In the 1890s Chinese shareholders locked in a dispute with the Bank of China, Japan and the Straits Limited sought help from the Shanghai circuit intendant [*daotai*] in an effort to force the British-registered company to cease calls on their shares. The circuit intendant refused on the grounds that "if Chinese merchants go into partnership with foreigners for the purpose of trade and disputes occur they cannot be settled according to Chinese law nor can they be settled by Western law or do the provisions of the treaties apply." In the opinion of the circuit intendant, Chinese investors put their money in foreign firms at their own risk (Motono, 2000, 140).

[38] At least some of the shares in foreign firms on Chinese soil held by Chinese nationals were referred to as *fugu* or auxiliary shares, so called because they did not entitle the shareholder to vote for company officers or participate in management decisions (Deng, 2003, 3).

[39] An 1882 article in *Shenbao*, an influential Chinese language newspaper founded in 1872 by a British merchant, urged Chinese nationals to invest in shares and called for the promulgation of a Chinese law comparable to the Western law that had attracted Chinese investors to Western companies. However, it

part because British Courts (even those in the Chinese treaty ports) would be unable to exercise authority over non-British shareholders.[40] Indeed, foreign calls for the promulgation of a Chinese commercial code appear to have focused on providing foreign interests with the ability to own property and distinguish between their own debts and those of their compradors (Motono, 2000, 66).[41] Chinese authorities, for their part, had little interest in enabling Chinese investment in foreign firms and worried about loss of revenue when Chinese investors sheltered their investments within Western firms that were not subject to Chinese domestic taxes.[42]

## 6. Guandu shangban enterprise

Prior to the turn of the century Chinese authorities appear to have been less concerned with the harmonization of Western and Chinese shareholding practices than they were with steering potential Chinese investors in the direction of domestic industrial enterprise. Their first attempt at state directed industrialization came in the form of the so-called "self-strengthening" movement of the 1870s and 1880s, whereby powerful provincial governors attempted to create an industrial economy through a combination of bureaucratic supervision and merchant management/investment [*guandu shangban*]. As Chan (1977) demonstrates, *guandu shangban* industry was short-lived, replaced by private investment by the end of the century. It is often argued that officials embarked on this project because China lacked a tradition of shareholding business investment, but as we have already seen, this was not the case. Moreover, the evidence of Chinese investment in foreign firms, including portfolio investment, indicates a large pool of capital looking for somewhere to go. Tim Wright's work on the coal mining industry and my own work on the Zigong salt manufacturers show that where there were profits to be made, Chinese capital, even large-scale patient capital, could be found (Wright, 1984; Zelin, 2005).[43] The fact that these two examples of large initial investment in Chinese enterprises are in extractive industry is not surprising. Prior to the introduction of mechanized production most enterprises in China did not incur large start-up costs. Firms like Ruifuxiang and Yutang could begin as small businesses and grow through reinvestment of profits, loans (usually in forms similar to bond sales) and sale of additional stock. This would no longer be the case when the government set its sights on the building of arsenals, railways, shipping companies, and mechanized factories of various kinds.

State sponsorship was not necessarily an indication of hostility to private enterprise as some have argued. State intervention can be understood more profitably in the following terms. On the one hand, state-merchant collaborations would have a better chance of success in competition with already established foreign rivals because they would receive state supports in the form of subsidies and monopolies. In an international treaty environment that denied China the use of tariff and tax policy to protect domestic industry, the *guandu shangban* firm was the only protectionist tool at the disposal of the Chinese state. At the same time, for the provincial officials who sponsored these industrial enterprises, the *guandu shangban* company became a vital source of revenue at a time when the traditional mainstay of imperial finance, the land tax, was increasingly difficult to collect. What appears as official hostility to private enterprise might be better understood as official reluctance to allow competition with firms that had become as important as a source of government revenue as they were as elements in a blueprint for economic development. Rather than a continuation of state economic domination, *guandu shangban* (and its successor, *guanshang heban*) marked a dramatic change in Chinese state engagement in the private sector. From a legal and economic system in which government intervention in the market was almost nil, late Qing officials, particularly at the provincial level, endorsed policies designed to control the market in an effort to limit foreign involvement in the inland economy and augment the revenue streams of provincial governments.

Some *guandu shangban* enterprises, such as the arsenals and shipyards built in the 1860s, were of a strategic nature and would not have been obvious targets of investment for Chinese businessmen. However, by the 1870s provincial officials began to use the tools of the state to, as Li Hongzhang put in it a letter about the China Merchants Steam Navigation Company (CMC), "get a share of the foreigners' profits" (Lai, 1992, 142). The use of the state to stimulate private investment was not without precedent. Inviting merchants (*zhaoshang*) was used to involve private shipping in the transport of tribute rice along the Grand Canal in the early nineteenth century (Leonard, 1996, 70–71), to encourage private merchants to engage in the copper trade with Japan, and at various times, to encourage private development of mines in Yunnan and Shaanxi (Sun, 1992, 13; Wei and Lu, 1981). This was different from the establishment of so-called government monopolies for the marketing of salt and tea in that *zhaoshang* represented an acknowledgment that the state should not control certain activities that it had previously banned or retained for itself. Li Hongzhang's original goal for the CMC fit the *zhaoshang* pattern by providing government incentives for merchants to invest their own capital in company shares. Moreover, at no time did the state prohibit businessmen from bringing together capital and forming businesses on their own.

also remarked on the lively trade in company shares that already existed in the absence of a company law (*Shenbao* June 13, 1882, in Shanghai Municipal Archives, 1996).

[40] The English Joint stock Company Act was extended to the International Settlement in Shanghai in 1875 (Motono, 2000, 68). It appears that early calls to harmonize laws by treaty were rejected by both Western and Chinese authorities, in part due to the variety of laws in force in the West.

[41] More research is required to understand fully the varied interests expressed by members of the foreign and comprador community.

[42] This differential in the treatment of domestic and foreign firms resulted from the stipulation in the so-called 'unequal treaties" that limited China's ability to assess inland duties on foreign goods to one assessment valued at 2.5% of the value of the goods.

[43] In the Zigong case, it could take as much as Tls. 30,000 and 10 years to open a brine well. Many attempts failed, but the profits to be had if a well succeeded were large.

Between 1872 and 1883 management of the CMC was left to its merchant investors. Government subsidies, largely in the form of preferential use of company ships to move tribute rice, assured large profits during these early years of the firm. As Lai Chi-kong reveals, the corruption, inefficiency and bureaucratization that Albert Feuerwerker has attributed to *guandu shangban* enterprise was a result of changes undertaken from the 1880s onward (Lai, 1992, 147–152; Feuerwerker, 1958). In 1883 the government replaced merchant management with bureaucratic management. From then on merchant support for the firm weakened, company funds were increasingly donated to support the government and reinvestment to maintain wharfs, build warehouses and buy new ships declined. Moreover, in shipping and in other industries, government interest in protecting its own revenues from industry led to the erection of entry barriers to privately invested competitors.

In the end the principle of *guandu shangban* did not provide a template for the kind of government support for early industrialization that scholars like Gerschenkron (1962) have argued was critical for the development of later industrializing countries. By the 1880s a beleaguered Chinese state increasingly diverted the income from *guandu shangban* companies directly into ventures of a less commercial nature. Li himself diverted CMC funds to the Beiyang Navy and other projects (Lai, 1992, 150). Moreover, newly recovered from massive rebellions in the mid-nineteenth century and engaged in wars with the British, then the French, then the Japanese and then with the whole foreign community and the so-called Boxer rebels, it was difficult for the Qing government to provide the transportation infrastructure and institutional supports that would have encouraged greater private investment in industrial enterprise.

By the early twentieth century manufacturing had increased significantly, almost all due to private investment. The vast majority of Chinese manufactures were consumer goods, with cotton textiles occupying first place. Modest strides were made in mining, iron and steel, and machine manufacture as well. Thomas Rawski estimates that factory production grew by an average of 8.1 percent during the years 1912–1936 (Rawski, 1989, 70–71).

## 7. Chinese business in the early twentieth century

In 1904, during the last decade of Qing dynasty rule, China promulgated its first company law. The biggest innovation in the law was the creation of a legal basis for limited liability. Although the law laid out four categories of companies (co-partnership, limited company, joint stock company, and joint stock company limited), really only the ability to limit liability distinguished the new rules of the game from the way firms had been organized in the past. A co-partnership was defined as an "association of two or more persons who have combined their capital in some business enterprise and chosen one name under which to operate." Because liability was unlimited, the law required one or two of the largest shareholders to be responsible manager(s) of the firm. A partnership could be limited if the investors clearly stated that their liability was limited to the amount of capital they put into the firm (Williams, 1905). The key difference that the law acknowledged between a co-partnership and a joint stock company was the number of partners in the latter, which, in keeping with the British practice, had to be 7 or more. While no mention is made of how partners might come together in a co-partnership, the language of the articles on joint stock companies, limited or unlimited, laid out rules for public offer of shares, the selection of shareholder representatives to verify full subscription of shares, and registration of the company with the newly established Board of Commerce. All of this was new. The remainder of the law dealt with the rights and duties of shareholders, the establishment of Boards of Directors answerable to the shareholders, and requirements for audit, board meetings and accounts.[44] No distinction was made among types of firms with regard to registration with the Board of Commerce, and the only requirement for registration was submission of a statement containing the type of business, number and value of shares, method by which shareholders would be contacted, location of the main office, names and addresses of organizers and examiners, and when the firm would expire (if applicable) (Williams, 1905, 16). Most striking was the absence of any effort to address the most ambiguous aspect of China's imperial legal system: the unit of ownership. At least until the promulgation of the Nationalist Party's Civil Code in 1929 the law remained silent on the critical matter of whether an individual could own property (including shares) or whether the household continued to be the unit of ownership among citizens of the Chinese state.[45]

William Kirby's (1995) seminal article on Chinese business incorporation begins by noting that only a small portion of Chinese firms actually registered with the Board of Commerce as limited liability joint stock companies. Kirby concludes that the Company Law (and its successor in 1914) had a limited impact in large part because Chinese firms, organized around family capital, wanted to avoid the gaze of both the state and the public. The Nanyang Brothers Tobacco Company, Kirby reminds us, did register but also did their best to maintain family control of their firm. The famous Rong brothers' industrial empire (largely in cotton and flour mills) was "registered as a series of unlimited liability companies because Rong Zongjing did not want outside interference in the way he ran his firm" (Kirby, 1995, 50–51).

The Chinese failure to develop a sustainable share market is clearly part of the reason so few limited liability firms were registered with the state (McElderry, 2004). The unstable politics of the post-1911 years may also have played a role in

[44] This last provision also reflected the practice of Chinese firms. General Managers were characterized as running the day-to-day business of the firm. The Board of Directors, rather than the full shareholders' meeting, would undertake examination of the books at the annual accounting. This was to include examination of the company's books, a summary of its business during the year, proposals for dividend allocation, and an accounting of the full capital stock of the firm (Williams, 1905, 35–38).

[45] I would argue that even after the promulgation of a new Civil Law in 1929, the status of the household remained unclear, although new rules of inheritance implied that individuals could own property. However, this is a story for another study.

discouraging firms in this regard. The fall of the Qing dynasty in 1911 brought about important changes in the political structure of the Chinese state. From 1912 until the founding of the People's Republic in 1949, China was ruled by a succession of republican governments presiding over more or less compliant regional and provincial governors often referred to as warlords. Complicating these regional struggles for dominance was the contest for national leadership being waged between the Nationalist Party and its allies and the burgeoning supporters of the Chinese Communist Party. Competition among these groups continued even into the period after 1937, when China became embroiled in a full-scale war with Japan.

In my own work on the Zigong salt manufacturers I found that increasing pressure for tax revenues and the constant threat of warfare discouraged the kind of vertically and horizontally integrated company form that had thrived there before the turn of the century. The entrepreneurs of the late 1920s and 1930s preferred the organization of business groups in which like-minded investors came together for particular deals (Zelin, 2005). Inter-firm investment and interlocking directorates may have appeared safer ways to develop a business empire during these turbulent years. In a 1933 survey of 2400 factories in 17 provinces, the Nationalist government of China found that 994 (40.82%) were partnerships, 682 (28.21%) were companies (LLCs?), 561 (20.21%) were sole proprietorships, and 163 (8.13%) government owned and operated.[46]

## 8. Some twentieth century firms

I would like to end this study with a brief examination of three twentieth century firms with very different investment patterns, business strategies, and organizational plans. My purpose is to argue that, in the final analysis, we cannot point to any one business model as the Chinese business model. Rather, Chinese entrepreneurs responded to market conditions in different ways, bringing with them their own experience, but also molding the lessons of their pasts to contingencies of the present. In this they were not unlike economic actors elsewhere.

Of these three firms, the one that most clearly fits the model of the familial firm is the Dasheng cotton textile company established in the late nineteenth century by Zhang Jian. Zhang was a holder of the "palace graduate" degree (*jinshi*), the highest degree in the imperial civil service examination system. His Dasheng venture was a product of the late Qing self-strengthening movement. The idea to build a textile mill in Nantong, on the northern bank of the Yangzi River in Jiangsu province, came not from Zhang Jian himself, but from the Jiangsu-Jiangxi Governor-General Zhang Zhidong. Nevertheless, Zhang Jian initially sought to establish a wholly private company based on investment from a group of local and extraprovincial businessmen. When extraprovincial support withdrew (for unknown reasons), Zhang Jian had difficulty raising the additional capital necessary to build a modern textile mill (Köll, 2004, 63–64).[47]

Köll attributes the difficulties faced by Zhang Jian to the absence of a national capital market and to Zhang Jian's own weak ties to local financial networks. China was slow to develop equity markets, and banks did not begin to play a significant role in company finance until the early twentieth century (McElderry, 2004).[48] Nevertheless, the notion that Chinese firms suffered a unique disadvantage in the absence of a national capital market is strained. Even the New York Stock Exchange traded largely in utilities and railway stock before the turn of the century. Whatever form company finance took, be it stock or bonds, most firms in the nineteenth century appear to have been financed by local savings. Where Zhang Jian's venture initially suffered, then, was in his lack of ties to local businessmen. This is in marked contrast to the entrepreneurs who developed the Zigong salt firms and the Yutang Company. It also differentiates Dasheng from firms whose start-up capital was lineage-based, such as those of the Rong brothers, Nanyang Brothers and Ruifuxiang.

Financing difficulties had a profound impact on the structure of Zhang Jian's firm. Unable to bring together sufficient investment capital, Zhang turned to the state for assistance in acquiring the machinery needed to open his plant. In return for equipment that Zhang Zhidong was unable to use, half the shares in the new company were given to the government. In 1901, when the company issued share certificates, the total capitalization was listed as Tls. 500,000, half of which was in the form of machinery contributed by the government and half in private investment, only a portion of which was subscribed at this time (Köll, 2004, 64–67). It is not clear how the firm jettisoned its government ties, but with the passage of China's first Company Law, Dasheng registered as a limited liability enterprise. By 1910 Dasheng had developed into a large diversified company with many small shareholders. Its subsidiaries included an oil mill, flour mill and steamship company. In addition, the firm had over a dozen affiliated companies tied to Dasheng through interlocking investment and directorates. Its subsidiary, Tonghai Land Reclamation Company, based on a land grant from the government, grew both cotton for the mills and grain for affiliated distilleries, providing the firm with profitable backward linkages (Köll, 2004, 136–137).[49]

Dasheng displayed many qualities of a modern firm. Day to day business of each unit of the firm was under the control of professional managers answerable to a central office in Shanghai. In accord with the Company Law, the firm held shareholder meetings, published annual company reports and observed the accounting standards of its day, and as Köll ably demonstrates, Dasheng implemented modern shop-floor routines and disciplines.

[46] Jindai zhongguo shiliao congkan xuji (Supplementto Collected Materials on Modern Chinese History, 174, cited in Fang, 1989, 46).

[47] In the end most of the investors in Dasheng were local cloth merchants, but their participation seems to have depended on support from Shen Xiejun, a prominent member of the Nantong merchant community.

[48] On bank finance in the twentieth century, see Cheng (2003).

[49] Other backward and forward linkages existed among other firms in the group as well.

At the same time, Dasheng's roots in the era of *guandu shangban* appear to have persisted in the form of paternalistic management at the very top. Zhang Jian's management style bore a striking resemblance to that of men like Li Hongzhang and Zhang Zhidong, high government officials who treated the firms that they spawned as quasi-personal property to be used to further a broader development agenda. Funds from the Number One Dasheng mill were used to finance subsidiary and affiliated companies without granting the Dasheng shareholders equity in the new firms, and funds from the Dasheng group as a whole were liberally distributed to Zhang's favourite charities and causes. That same centralized structure, managed through the financial office in Shanghai, was what gave Zhang control over the resources of Dasheng's constituent firms. From 1910 to 1920, Dasheng looked like a well managed, expanding, hierarchically organized business group. Rising cotton prices began to limit growth in the early 1920s. And when company growth ceased, the practice of inter-company finance, upon which Zhang Jian's business strategy was based, began to collapse (Köll, 2004, 189–99). Zhang Jian died in 1926. Although his son continued to play a leading role in the firm, neither institutional nor personal means were sufficient to shield it from the impact of warlords, gangsters and the Japanese.

The Jiuda Company was also founded by a powerful member of the Jiangnan elite.[50] Fan Xudong founded the company in 1914 in order to develop modern technologies for the production of salt in China. Beginning with one plant, the company grew by 1933 to seven plants in Tianjin and a refinery in Zhejiang. In 1917 Fan Xudong founded Yongli Chemical Industries to take advantage of Jiuda's brine resources for the production of soda ash. In 1922 the group expanded further by acquiring shares in a second modern salt manufacturing firm, the Yongyu Salt Refining Co. In the same year it founded the Golden Sea Research Institute of Chemical Industries to conduct industry-related research. Members of the Jiuda group also had shares in dockyards, salt pans, and partnerships in refined and unrefined salt distribution franchises. Moreover, "directly or through nominees, company employees, and pseudonyms, the group held substantial interests in several companies such as three firms that distributed unrefined Lianghuai salt, Tianjin Steamship Navigation Co., Ltd., and Bohai Chemical Works." (Kwan, 2005, 396) Finally, the group appears to have been able to take advantage of the reputation it carefully cultivated as a patriotic business group to beat out its English and German competitors for a large sulphate works in Nanjing (Kwan, 2004, 2005).

Unlike Dasheng, whose capital came largely from local merchants, Jiuda drew on a national capital market. However, this did not make it any less dependent on personal relationships to attract investors. Man Bun Kwan notes that Fan Xudong's public offering of shares in the new firm was stymied not only by the immaturity of China's capital markets, but also by investors who were loath to risk their money in a business in which the government had traditionally maintained a monopoly.[51] Fan therefore turned to members of his own family for his initial capital and relied on the support of an old family friend, Liang Qichao, to encourage investment from among a number of China's leading politicians.[52]

Jiuda itself and many of its associated companies appear to have been registered as unlimited liability joint stock companies. However, until the 1930s it is not clear how the business of the various firms were coordinated. Most likely, as in the case of the firms associated with Dasheng, the strong personal presence of Fan Xudong was key. The fact that Fan served as unpaid general manager at Jiuda, Yongli and Yongyu suggests that his function was as an organization node rather than as an operational officer. It was not until 1932 that the Yong-Jiu-Huang joint office was established to coordinate business and finances among the group's many constituent units. However, even before centralized management was institutionalized in 1932, the Jiuda group functioned as a multi-divisional conglomerate, taking advantage of synergies among member firms to create backward and forward linkages. In the area of marketing the group relied on contractually established franchises, often taking advantage of the firm's own shareholder network. Jiuda's key products, salt and chemicals, made it an important factor in China's twentieth century industrial development, and by maintaining its own research and development facilities and through skillful alliances with competing firms, Jiuda was able to compete with foreign firms, not only in the Chinese market, but eventually in the Japanese market as well (Kwan, 2005).[53]

The China Egg Products Company (CEPC) differs from the two twentieth century firms discussed above in its origins, organization and the nature of its market.[54] Chinese eggs and egg products found a large industrial and consumer market in Europe. Prior to WWI a number of foreign firms pioneered the processing of whole Chinese eggs and egg products by means of dehydration, preservation of liquid eggs and later refrigeration. WWI impaired the ability of many foreign firms to compete in the Chinese market, providing a window of opportunity for Chinese investors in textiles, flour milling, and so on to recapture home markets and grow their own manufacturing capacity. In the case of egg products, the war cut off key sources of European supply, opening the way for China to take over the European imported egg market.

The CEPC was founded by merchants who had originally joined forces in the wholesale egg trade, buying eggs from farmers and selling to the largely Western owned albumin factories such as those owned by IEC, a subsidiary of Union Cold Storage, in Hankou. According to Chang (2005), CEPC was the brainchild of Chinese egg wholesalers who saw the profits

[50] Jiangnan is the name applied to the prosperous Lower Yangzi region encompassing Shanghai, Jiangsu province, southern Anhui province, northern Jiangxi province, and northern Zhejiang province.

[51] Unlike Sichuan, where salt production was free of government interference, sea salt was produced at licensed salterns.

[52] Liang was a leading public intellectual and journalist and served as a cabinet minister in the administration of the first president of the Chinese republic (Kwan, 2005).

[53] The most important R&D achievement of the firm consisted of the backward engineering of the solvay process for the production of sodium carbonate or soda ash, an essential component in the production of glass, chemicals, detergents and other products.

[54] This discussion relies on the work of Jennifer Cheng (2005).

being made by foreigners and their own control over the egg market challenged by foreign attempts to purchase eggs directly from the farmer. With their pooled savings, the CEPC hired foreign engineers to help set up their own refrigeration plant. Within a few years CEPC established themselves as a Chinese subsidiary of Swift and Co., giving them access to both markets and technology. Although CEPC continued to rely on a personalized egg merchant network to assure egg supply from the Chinese countryside, in other respects it was organized like a modern multidivisional firm, with backward linkages to egg supply networks, forward linkages to marketing subsidiaries in Britain, and an increasingly diversified product line. In 1928 it registered as a limited liability company in China. By the 1930s it was involved in cold storage, frozen fish, and ice, and its warehouses served a growing number of the new businesses emerging in Shanghai.

Despite the different strategies these firms pursued, they all exhibited the kind of entrepreneurship that we are now accustomed to think of as associated with Chinese business. All of these Chinese firms (and others that space prevents us from discussing)[55] took advantage of new technologies. Zigong salt producers introduced steam pumps, and their most productive wells were fully mechanized by the 19 teens. CEPC and Jiuda sought out Western production technologies, CEPC by hiring Western engineers and Jiuda by breaking the patent of the leading manufacturer of soda ash. Even Ruifuxiang, a retail firm that is often portrayed as conservative for its resistance to mechanization, was a pioneer in introducing Western luxury items to Chinese consumers. In the absence of a national share market, each of these firms took advantage of both political and familial networks to bring together investment capital. At Ruifuxiang and Dasheng paternalistic management resulted in weak shareholder rights. However, at the Zigong firms Jiuda and China Egg Products, shareholders appear to have enjoyed the rights and duties laid out in the Chinese Company Law. Networks played a role in the operations of each of these firms, but in different ways, sometimes in acquiring capital, sometimes in marketing. At Ruifuxiang and Dasheng, paternalistic management appears to have been enabled by the local and familial characteristics of the shareholding cohort. At China Egg Products the original shareholding cohort took advantage of its ties to egg wholesalers who continued to operate within the Chinese countryside, but the firm they established had all the characteristics of a modern hierarchically coordinated multidivisional firm. Finally, it is interesting to note that the more these firms interacted within a national and/or international market, the more likely they were to incorporate as limited liability companies. In this regard it is interesting to note that the Zigong firms did not incorporate and remained throughout this period tied largely to the economy of southwest China. However, it is clear that the larger the unincorporated firms themselves became and the more inter-firm investment that took place, the more likely a firm was to become embroiled in legal disputes resulting from unlimited liability (see Zelin, 1994).

## 9. Looking ahead

In this article I have tried to provide a basis for the study of the complex evolution of the Chinese shareholding corporation in the twentieth century. Contrary to popular beliefs, Chinese businesses entered the modern period equipped with a highly flexible repertoire of institutions born of China's household and lineage property regime and centuries of experience writing contracts and enforcing them, when necessary, in the courts. While the pre-1904 Chinese legal code provided no guidance in the regulation of shares and shareholding, the legislative gap was filled by a plethora of sample business contracts in encyclopedias, trade rules, and other social capital that enabled the formation of lasting partnership agreements enforced by the state. Within particular industries we can likewise detect systems of private ordering governed by industry-based codes of conduct and managed through the arbitration bureaus of local Chambers of Commerce.[56]

By the turn of the century Chinese investors and entrepreneurs would be exposed to the emerging corporate form that we associate with high-capital industrialization. China's short-lived experiment with state-run industry was not emblematic of a Chinese approach to business, nor did it preclude the continued elaboration of private sector business forms. When the Treaty of Shimonoseki that ended the Sino-Japanese War of 1894–1895 ordained the legalization of foreign manufacturing on Chinese soil, Chinese business was exposed in new ways to the business forms of the second industrial revolution. By 1904 pressure to provide investors in China with a corporate form commensurate with that of their foreign counterparts resulted in the promulgation of China's first company law.

The shift from business self-regulation to a system in which the state legislated business behavior was one of the great changes brought about by the Chinese legal reforms of the early twentieth century, yet we still know little about how the new relationship between business and the law played out in day-to-day practice. The twentieth century saw dramatic struggles to define the rights of Chinese domestic shareholders as well as to establish the responsibilities of managers and their relationship to household and lineage-based wealth. During the course of the half century between the promulgation of China's first company law and the founding of the People's Republic, Chinese businesses drew on a wide variety of legal and cultural resources, domestic and foreign, to achieve their goals. Thus, just as important as a continued investigation of the new "rules of the game" established by the Qing and early Republican governments will be our attempts to understand the way in which existing Chinese forms of business organization served the interests of investors and managers and the ways in which the new civil law framework of the early twentieth century became a part of Chinese business and popular culture.

[55] Unfortunately there are still very few detailed studies of China's historical business organization. Some recent contributions not mentioned above include Cochran (2000), Kwan (2001), Meissner (2005), and Chan (2006).

[56] For an example of such private ordering in action see Zelin (1994).

If we are successful in pursing this line of inquiry, we will not only have the basis for assessing China's pre-revolutionary performance, but we will also have a valuable aid to understanding the dramatic growth of small and medium-sized business in China today, most of which, like their predecessors in the early twentieth century, have access to neither formal credit markets nor the courts in solving the quotidian problems of manufacturing and commerce.

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