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SOME ECONOMIC REASONS FOR THE MARKED CONTRAST IN JAPANESE AND CHINESE MODERNIZATION

As Seen in Examples from "Pre-modern" Shipping and Trading by Water

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1. INTRODUCTION

The purpose of this study is to examine the organization of certain Chinese shipping (and trading) enterprises in an attempt to throw some light on their compatibility to change and modernization, as compared with some Japanese counterparts.

The shipping industry has been selected because it is of key importance as a potential force in changing a feudalistic economy threatened with modern competition towards an integrated national economy capable of meeting this threat. An efficient shipping industry able to move goods cheaply and rapidly can stimulate industrial specialization and aid in developing both national and international trade. Such a modern shipping industry was achieved in Meiji Japan. We will try to see whether conditions of "pre-modern" shipping in both countries have been of assistance to modernization.

It is impossible in one article to cover the many aspects of the problem, so only certain examples will be given in hopes that they will be suggestive and indicative of the general patterns. For China, we will outline the native "junk" shipping and trading enterprises up to 1943, and the one important Chinese attempt at organization of a modern steamship line, the Chinese Merchants' Steam Navigation Company, from its inception in 1872 to its nationalization in 1932. This should afford a general view of Chinese shipping enterprise for this period.

For Japan, we will examine the organization during the *Tokugawa* period of shipping enterprises in the *Ōsaka*–*Edo* trade from 1624, when regular runs were instituted. Shipping between *Ōsaka* and *Edo* was the most important throughout the *Tokugawa* period, but there was also a very important increase in provincial trade and shipping and the rise of wealthy provincial merchants, especially in the late *Tokugawa* period. As an example of this

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phenomenon, we have selected the career of *Zeniya Gohei* 錢屋五兵衛, 1773—1852.

2. JAPAN

Due to the mountainous topography of Japan, even the major rivers are navigable for comparatively short distances only, and shipping by water is mainly by sea. During the *Ashikaga* period, sea-going vessels were used more for military and piratical purposes than for legitimate trade, and domestic trade was on a low level due to feudal localism and economic self-sufficiency. After *Hideyoshi's* defeat of *Shimazu* in *Kyūshū* in 1587, he prohibited pirate activities, and pirates disappeared, not to reappear in Japanese waters.[1] The restoration of peace saw a great development of overseas trade by Japanese merchant ships, but this vigorous activity was dealt a death blow by the exclusion edicts of 1638 which prohibited the building of ships of more than 500 *koku* (about 2.500 bushels) capacity, for the purpose of preventing ocean voyages.[2] Economic energies were then concentrated in domestic trade.

Under the "pax *Tokugawa*," with its building of *Edo* into a populous, largely nonproductive metropolis, the exploitation of mines in *Tokugawa* territories and the standardization of the currency, the *Tokugawa* territories (which included the major cities) were drawn together economically, and with the regular institution in 1634 of the *Sankin Kōtai* system of alternate residence in *Edo* for all *daimyō*, the *daimyō* were drawn into the developing national economy. The economic history of the period is one of change from feudal localism and self-sufficiency to an interdependent money economy and the parallel rise of commercial capital and the merchant class.

Both sea and land transportation experienced great improvements in methods, facilities and safety, during the *Tokugawa* period.[3] At the beginning of the period, however, with small boats hugging the dangerous coastline, without charts and without marine insurance, shipping was a hazardous business, but profits were extremely good for boat captains who were both skillful and lucky, as reflected in a common saying of the time, "A boat captain three years, and a secure future."[4]

1) Honjō Eijirō 本庄榮治郎, ed., *Nihon Keizaishi Jiten* 日本經濟史辭典 [Dictionary of Japanese Economic History] (Tokyo: 1939), 210.

2) George Sansom, *Japan, a Short Cultural History* (New York: 1943 ed.), 452; Sansom, *The Western World and Japan* (New York: 1950), 177.

3) Cf. Horie Yasuzō 堀江保藏, "Tokugawa Jidai no Rikujō Kōtsū 德川時代の陸上交通" [Overland Transportation in the Tokugawa Period], *Keizaishi Kenkyū* 經濟史研究, XI, 2 (Feb. 1934), 73–86.

4) Akabori Kyūjirō 赤堀久次郎, "Tokugawa Jidai no Shōnin 德川時代の商人" [Merchants of the Tokugawa Period], in *Nihon Shōnin Shi* 日本商人史 [A History of Japanese Merchants] (Tōkyo: 1935), 203.

The trade between *Edo* and *Ōsaka*, the great collection and distribution center popularly called the "kitchen" of Japan, was predominant throughout the *Tokugawa* period, but most strikingly so up to about 1750. The size of the boats participating in this trade during the early years of the period ranged from 200 to 400 *koku* capacity. A company called the *Higaki Kaisen* 菱垣廻船 was organized among successful boat captains and began offering shipping services in regularly scheduled runs in 1624.[5] Business increased, but losses for the owners of goods were high, due to market price fluctuations, damage and shipwreck settlements, and dishonesty of boat captains. Therefore, in 1694, a guild of owners of shipped goods was organized in *Ōsaka* with 24 member companies and at the same time in *Edo* with 10 member companies (called the Tōkumi 十組, ten companies) which federated with the *Ōsaka* organization and supervised all settlements of losses, distributing them equally among the members. The number of member companies in *Edo* increased to 22 by 1716. Federation was facilitated by the fact that many of the *Edo* organizations were begun as branches by *Ōsaka* merchants, and the result was a type of cooperative marine insurance. With this protection, the shipping business flourished.[6] In addition, this made possible a close liaison which precluded the possibility of dishonesty on the part of boat captains, but it may well be asked what reason there was for the shipping company and their captains to provide safe, efficient and speedy service when the responsibility for loss to goods had been assumed by the owners. The answer was the development of the "bansen" 番船 which will be described later. The problem of fluctuating market prices was dealt with by a monopolistic regulation of supply through the "bansen" system.

In time, the exclusion edict was relaxed to permit coastwise boats up to 1,000 *koku* capacity, and the *Higaki Kaisen*, as well as other shippers, built many vessels with capacities up to 1,000 *koku*.[7] The company owned 160 boats in the 1770's, and specialized in the shipment of cotton, cotton textiles, oil, paper, medicines, sugar, iron, wax, and dried bonito, holding contracts with monopolistic organizations in *Ōsaka* and *Edo* which handled these commodities.[8] One authority describes the organization of this company as

5) Nihon Keizaishi Jiten, *op. cit.*, 1360.

6) *Ibid.* A more detailed treatment may be found in Honjo Eijiro, ed., *Nihon Kōtsū Shi no Kenkyū* 日本交通史の研究 [Studies in the History of Japanese Transportation] (Tokyo: 1929), 14–20.

7) Akabori, *op. cit.*, 202; *Nihon Keizaishi Jiten* (henceforth *NKJ*), 1360. No date is given for this change in policy.

8) *NKJ*, 142. For the shipping of tax rice, bids covering whole provinces were received by the authorities from contractors who hired private boats belonging to either merchants or captains. Freight charges were paid on delivery of the rice, and elaborate regulations provided for every possible contingent. Cf. John Henry Wigmore, ed., "Materials for the Study of Private Law in Old Japan," *Transactions of the Asiatic Society of Japan*, XX (1892), Supplement I, Introduction, Pp. 1–203. On tax rice, 182–6.

"similar to the present-day *Nippon Yūsen Kaisha* [N. Y. K. Lines]," and adds, "There was no trouble about trans-shipment due to the long term loading contracts with the owners of the goods."[9]

Saké was a commodity of great importance to all classes in *Edo*, whether fun-loving merchant, artisan or leisure class samurai. It was shipped in casks (*taru* 樽) from *Ōsaka* in the boats of the *Higaki Kaisen* until 1730, when the *saké* dealers broke away and formed their own shipping company, called the *Taru Kaisen* 樽廻船, which competed with the *Higaki Kaisen*, at first carrying only *saké*, but then adding other commodities. In 1772, however, the two companies amalgamated, agreeing to fix the number of shares and to continue operating under their own names.[10] At this time the *Taru Kaisen* owned 106 boats, making a total of 266 boats among them.[11] Rates for shipment of *saké* from *Osaka* to *Edo* were quoted year by year.[12]

In the early days of the *Higaki Kaisen*, there was a great demand for *saké*, cotton and cotton textiles in *Edo*, largely unfulfilled until the new crop was harvested each year. It was difficult for producers in the *Ōsaka* area to meet the demand, and the result was that some produced inferior products in their haste to beat their competitors to the *Edo* market with the first cotton textiles or *saké* of the season. This was unsatisfactory to all, because hastily made goods of poor quality had the initial advantage, and the bulk of the production was dumped on the *Edo* market within a short period of time, with a resultant lowering of prices. There was also an overburdening of boat facilities during the rush periods. Therefore, the major producers decided to cooperate for mutual advantage. When the crops were in, an agreement was made which fixed an adequate amount of time for production, alloted to each producer a certain number of boats of similar size and type, and set a day and hour for the first fleet of the season to set sail from *Nishi no Miya* harbor, near *Ōsaka*. There was great interest in the race. It took about three days and nights for the fastest boats, with favorable winds, to go the distance of some 400 miles. The first boat to reach *Uraga* was given a plaque inscribed with date and numbered "first boat" (*ichi ban sen* 一番船). The next boats to come in were numbered, in order, second, third, etc. All

9) Akabori, *op. cit.*, 202.

10) *NKJ*, 1360.

11) *Ibid.*, 142.

12) Wada Atsunori 和田篤憲, "Bansen to Seishu Torihiki no Kanrei 番船と清酒取引の慣例" [The Customs of *Bansen* and Transactions in Refined *Saké*], in Honjō Eijirō, ed., *Nihon Kōtsū Shi no Kenkyū*, *op. cit.*, 433–4. Available records show a gradual rise from 1726, almost doubling by 1835. 1726 and 1835 are the first and last dates available. The rise was from 45 to 82 *momme* silver per horse load (about 300 lbs.), but this rise may have been largely a function of inflated currency.

boats in such races were therefore called "*bansen*." The owners of the first boat's cargo benefited, as *Edo* purchasers paid a premium for "first goods." The winning boat captain was presented with a *haori* 羽織 (a silk cloak) and a bonus, but, most important, he gained such prestige that he never had to worry about customers to load his boat with goods. As a matter of fact, there was such competition among owners of goods to secure the services of the boats and captains with the best records that the shipping companies had to limit the size of their cargoes. The number of boats in each race varied from five to fifteen, and the races were carefully spaced to avoid the disadvantages of any oversupply in *Edo*. This was the *bansen* system, which proved so satisfactory for cotton and *saké* to both shippers and owners of goods that it came into quite general use, and in 1847, both the major companies put all their boats on the *bansen* system, no matter what the goods to be shipped.[13)]

There were cases where the shipping companies were not simply shippers. In the case of *saké*, the producers did not maintain an agent in *Edo*, and relied upon the *Taru Kaisen* to sell the *saké* for a commission in addition to the regular shipping fees. *Wada* says, "The *Edo saké* trade from the first was a commission trade carried on simply by trust. This commission trade did not escape certain defects, but it cannot be overlooked that it achieved a major and effective role during this period. It is perhaps enough to know how far trade had progressed, by realizing that already at this time such a large commercial enterprise was carried out on the basis of trust."[14)]

The *bansen* system served to develop highly skilled boat captains and crews with considerable pride in their efficiency. Safety of their boats was in their own and their company's interest, and safety of the goods shipped part of their pride in their efficiency. Speed, of course, was a basic ingredient of the system. The system persisted well into the Meiji period, when the old companies were gradually replaced by the steamers of such modern companies as Mitsubishi and Mitsui. It "provided for co-existence and mutual benefit, and was a good solution to problems of the time."[15)]

Official connections with trade were generally of two types in Tokugawa Japan. The first, and traditional one, was based on a policy of restraining the development of the money economy. This policy gave reason

13) This account is condensed from Wada, *op. cit.*, 420–29. He has found documentary evidence of the existence of the *bansen* system in 1738, but it actually was in existence quite a number of years before that date, he says. *Ibid.*, 420. Documentary evidence is fragmentary, but at least as early as 1809 owners of goods could obtain *bansen* shipment of their goods for an added fee of 1 *momme* per horse load.

14) *Ibid.*, 447–8.

15) *Ibid.*, 447.

for the enforcement of contributions in the form of "thank money," gifts and forced loans from merchants usually in compensation for monopoly rights, and occasional confiscation of merchant wealth as punishment for conspicuous extravagance on the part of merchants.[16] It was the policy of the *bakufu* and of many of the less progressive *daimyō*. The other type of connection was new in the *Tokugawa* period, and was created by the attempt of some *daimyō*, particularly of the *tozama* ("outside") *daimyō*, to utilize the developing money economy.[17] This was done by the formation of alliances with merchants to monopolize certain specialty products within the *han*, mostly for export to other *han* in order to bring in needed currency. Of some 260 *han*, at least 60 carried on official monopolies of some type.[18] This development sprang from the necessity of *daimyō* to sell in *Ōsaka*, the central market, their surplus tax rice and other products collected as taxes. They built warehouses in *Ōsaka* to be able to sell when prices were high, and some realized that profits could be made by having their "protected merchants" (*goyō shōnin* 御用商人) buy other products within the *han* to be sold in *Ōsaka*. It was natural that such *daimyō* would use their political power to establish monopolies within their territories of such products as salt, paper, wax, textiles and food products. So long as these monopolies yielded a good return to the *daimyō*, the officials left all the details to the protected merchants, who exploited in their own interest their far greater knowledge of trade, while taking care not to invoke official rage and arbitrary exactions.[19]

In order to move their rice and other goods to *Ōsaka* and *Edo*, *daimyō* used both privately owned boats and their own "official" vessels. The latter provided them with both regular and emergency means of travel, and were ostensibly for military purposes, but "behind the scenes" they were used as instruments of commerce. Akabori adds that "It is needless to say that the merchants engaged in this protected business did not miss the opportunity to profit by it."[20] The rise of provincial merchants which is a striking feature of the middle *Tokugawa* period onward was generally, but not entirely, within the feudal framework.[21] The pattern of this rise is some-

16) Horie Yasuzō, "An Outline of Economic Policy in the Tokugawa Period," *Kyoto University Economic Review* (henceforth, *KUER*), 15, 4 (Oct. 1940), 58.

17) *Ibid.*

18) Horie Yasuzō, "Clan Monopoly Policy in the Tokugawa Period," *KUER* 17, 1 (Jan. 1942), 31.

19) *Ibid.*, 31-52.

20) Akabori, *op. cit.*, 203.

21) Endō Masao 遠藤正男, "Zeniya Gohei no Kaga Ryōnai Rōsoku-za Appaku Jiken 錢屋五兵衛の加賀領內蠟燭座壓迫事件 [The Incident of Zeniya Gohei's Pressure on the Candle Guild within the Territory of Kaga], *Keizaishi Kenkyū* 經濟史研究 46 (Aug. 1933), 38-54; 47 (Sept. 1933), 162-174; 49 (Nov. 1933), 286-302.

what similar to that already seen in the shipping companies of *Ōsaka.* In response to new economic conditions, small merchants began individual enterprises, but as trade became more regularized and as they grew and became more successful, the tendency was to find security and more regular profits in cooperative monopolistic organization. However, there were cases where individual enterprisers were able to build up their own organizations with their own increasing capital, competing successfully with other merchants and entrenched monopolists, to find themselves in a position where they could seek official protection only where it was to their benefit, leaving other activities relatively free of official connections. The rise of this type of provincial merchant is admirably demonstrated in the career of Zeniya Gohei 錢屋五兵衛.

Zeniya Gohei (*1773—1852*) was born in *Miyakoshi*, a port town in *Kaga*, the largest single *han* in Japan, under the powerful and conservative *daimyō* family of Maeda, and he made *Miyakoshi* the headquarters for all his far-flung commercial activities.[22] Gohei's father alternated between, and sometimes combined, a small shipping business, a money exchange and a usury business. However, in his later years the family fortunes were at a very low ebb, and he abandoned the shipping business which he found full of dangers and losses.[23]

In accordance with his father's desires, Gohei operated a pawn shop and a second hand dry goods store, and also dealt in soy sauce and timber until he was 39, when his father died.[24] The next thirty years saw an unprecedented commercial expansion from these humble beginnings.

Gohei was untraditional in not following his father's advice against new enterprises. It was usual to hold fast to the ancestral business and to avoid innovations. Family constitutions of rich merchants of the period often contain such phrases as: "Nothing other than the traditional business will be engaged in," "It is prohibited to change the business," "Continue without change."[25] Zeniya not only went into shipping, but he seems to have inter-

22) *NKJ*, 916-7 has a good short summary of Zeniya's career, but has Zeniya embarking on the *Hokkaidō* trade at age 17, whereas he was actually 40.

23) *Ibid.*, 916.

24) Shōfū Katei 松風嘉定, *Zeniya Gohei Shinden* 錢屋五兵衛眞傳 [A True Biography of Zeniya Gohei] (Kyoto: 1930), 43, 51. It is much less of a biography than a criticism of all previous biographies, with long quotations from correspondence and other documents, all in *sōrōbun* (which is, Shōfū admits, filled with errors and ambiguities). Honjō, in his bibliography of economic history (*Nihon Keizaishi Bunken*) says: "This work is based on contemporary documents secretly stored by Zeniya's descendants. It attempts to correct and supplement the many writings on Zeniya Gohei, and should clarify the conditions of trade of the time." (Tokyo: 1933), 163.

25) Horie Yasuzō, "The Life Structure of the Japanese People in its Historical Aspects," *KUER*, XXI, 1 (April 1951), 3.

ested himself in any project which had some promise of profits.

It was somewhat by chance that Zeniya entered the shipping business. In 1813, when he was 40, three small boats were forfeited to his pawn shop. They had belonged to a pioneer in the *Hokkaidō* (at that time called *Yezo*) trade, and, armed with information from him and probably also from the writings of Honda Toshiaki and other "Dutch scholars" who were interested in expansion northward, Zeniya himself made the dangerous trip to *Matsumae* with a cargo of rice and returned to *Miyakoshi* with edible seaweed and dried herring, on which he realized a considerable profit.[26] Gradually he expanded his business by these means, dispatching boats from *Miyakoshi* not only north to *Hokkaidō* but south to *Kyūshū*, and to the *Ōsaka* area. He established no less than 34 branch warehouses and stores in the key harbors, made contracts with the great commercial houses of *Ōsaka* and *Edo*, and arranged for reputable and successful merchants in other places to be his agents, on long term contracts.[27]

As a shipper beginning with three small boats, he became an important boat owner, eventually building some of his own boats. His fleet reached a total of 13 vessels of between 1,000 and 2,500 *koku* capacity, and some 110 of 1,000 *koku* capacity and less. Adding to this the small boats he maintained in various ports, "there is no knowing how many hundreds of boats he operated."[28] They ranged regularly as far as the *Miyake* and *Hachijō* Islands in the south and *Etorofu* in the Kuriles, and there are many stories of his boats "drifting," in happy compliance with unseasonable winds and in violation of the *bakufu* prohibitions, to Korea, China, the south sea islands, and even to America.[29] The last story has been proven to be the fabrication of one of Zeniya's captains who expanded a trading trip to Korea into a great and plausible story of adventure in America,[30] but the accepted authority on Zeniya's life concludes that his boats did "drift" as far as the

26) Shōfū, *op. cit.*, 51-2; *NKJ* 916. See Donald Keene, *The Japanese Discovery of Europe*, London: 1952) 76, which is at variance in every detail from his source, Honjō's introduction to the collection of Honda's writings, *Honda Toshiaki Shū* (Tokyo: 1935), 9.

27) Shōfū, 83-5. This type of commercial expansion was not unusual in his time, and his success was nearly paralleled by such men as Kongōya Jirobei 金剛屋次郎兵衛 of Echizen, with whom Zeniya had close connections and with whom he cooperated on many transactions. Kongōya attempted to help Zeniya when he got in trouble at the end of his life with the Kaga authorities. *Ibid.*, 84. Kongōya was a samurai turned merchant, like the first Mitsui to renounce his higher status to enter a commercial career early in the Tokugawa period. Cf. *The House of Mitsui* (Tokyo: 1937), 4.

28) *Ibid.*, 83. His building of boats over the 1,000 *koku* legal limit will be accounted for later.

29) *Ibid.*, 83, 138.

30) *Ibid.*, 138.

south sea islands.[31]

Zeniya's boats plied an illegal but profitable foreign trade on a regular basis both in the islands of the *Satsunan-shotō* south of *Kagoshima* and in the region of *Etorofu* in the Kuriles.[32] It was a secret trade, but had the tacit approval of the Maeda family.[33] It was begun in the north when one day one of Zeniya's boats encountered a very large ship off *Etorofu* and, screwing up courage, the boat operator approached it. Only after the Japanese captain went aboard and conferred with the foreign captain did he know it was a Russian trading ship. He made arrangements for regular meetings at sea for the purposes of trade, and Zeniya profited greatly from it. This was in 1825.[34]

Zeniya's precise relationship with the Maeda house must remain somewhat of a mystery, but it appears that he was considered a protected merchant only in some of his activities, such as in trading monopolies in specific types of goods within the *han*. Shōfū, his latest biographer, emphasizes several times that his greatest activity as a shipper-trader was before he came under Maeda protection, and that his boats came under official protection only when Zeniya was 67 years of age.[35] When Zeniya was 54, he began building his own boats to add to his already large fleet.[36] Ten years later, in 1837, the *Kaga* treasury was empty, and several prominent merchants, including the irrepressible Zeniya, were summoned to an audience with *han* officials, all expecting notice of forced loans. Before seating himself, Zeniya came forward and said with proper humility that he had not consulted the others, but was willing to provide 100,000 *ryō* 兩 himself if one request were granted. The officials were much surprised at such magnificent beneficence, and the presiding official inquired what the request was. The conversation went something like this:

Zeniya: "I have only a simple request, that you lend me two large ships."

Presiding official: "Oh, what a strange request! How large?"

Zeniya: "I have eight or nine ships of 1,900 *koku* capacity, but what a *chōnin* finds very difficult to obtain are ships of 2,000 *koku* and more. For this I would like to borrow your influence."

31) Shōfū, 139.

32) *NKJ*, 916; Shōfū, 83. Sources do not indicate with whom he traded in the south, but probably it was with Ryukyu-ans and perhaps Chinese.

33) Shōfū, *op. cit.*, 138.

34) *Ibid.*, 83, 90, 97.

35) *Ibid.*, 48, 51.

36) *Ibid.*, 51.

Presiding
official: "If so, how many would you build?"
Zeniya: "At first, two. Two would be quite sufficient."

Thus, he was given permission to build large ships which would nominally belong to the *daimyō* of *Kaga* but which were in fact the property of Zeniya. He built one of 2,500 *koku* capacity, at a cost of 2,000 *ryō*, in *Ōsaka*, and one of 2,000 *koku* capacity in *Miyakoshi*, marked as official ships of the *daimyō* and able to sail anywhere.[37] It is interesting to note that the *bakufu*, which controlled *Ōsaka*, did nothing to prevent the construction of a ship 2½ times the legal limit in size.

Soon after Zeniya received permission to build these large ships, all his boats were placed "at the service of, and under the protection of, the *daimyō*."[38] Zeniya's resourcefulness was apparent to the *Kaga* authorities, they treated him with care, and "to a certain extent" had Zeniya act for them,[39] but Zeniya did not take undue advantage of this protection, and the Maeda kept secret Zeniya's association with them in most things.[40]

Information is similarly scanty in regard to Zeniya's methods of organization and operation, and many questions must go unanswered, such as how he paid his ship captains and agents scattered throughout Japan. Their correspondence with Zeniya is voluminous, and extracts from it make up most of Shōfū's book, but it leaves much unsaid. It has a conspiratorial tone, and the poor *sōrōbun* in which it is written is not conducive to precision. However, some of the descriptions of the actual trading are very detailed, filled with statistics and frank enough to describe, for instance, the illegal trade with the Russians. Zeniya must have trusted his men, and the fact that he accumulated such unprecedented capital would suggest that his trust was not misplaced. In *Miyakoshi*, he carried on his usury business and directed his multifarious trading activities. He had close relations with other merchants and often shipped their goods for them, and no doubt

37) Shōfū, 49-50, 64. The conversation is from a historical novel, *Zeniya Gohei*, by Watanabe Katei 渡辺霞亭, which is generally far from accurate, but this story has been documented, according to Shōfū. The ship built in *Miyakoshi* aroused such interest that people came for miles to see it. Characteristically, Zeniya postponed launching for four months, built no less than 54 temporary tea houses for visitors in the immediate vicinity, and charged a small fee to inspect the ship. Unfortunately, it was blown up on a reef and broken in two during a typhoon in 1848. *Ibid.*, 75, 51.

38) *Ibid.*, 118.

39) *Ibid.*, 117.

40) *Ibid.* In 1728, at the age of 55, Zeniya went into nominal retirement (as his father had when Gohei was 17) and let his three sons handle the details of the business, but continued to direct activities from a small and quiet village near *Miyakoshi*. *Ibid.*, 85.

participated in the contract business of shipping tax rice, but his fleet was mainly used in his own trading operations. In his branch warehouses and stores he laid in large stocks of paper, cotton and silk goods, raw silk, wax, candles, sugar, salt, honey, rice, and innumerable other items.[41] These goods were purchased throughout Japan, but particularly in *Ōsaka* and *Chūgoku* (the southwest area of *Honshū*). In *Hokkaidō* his principle purchases were dried herring, seaweed and soybeans, and in *Kyūshū* his major purchase was lumber.[42]

Zeniya's great wealth was not attained without treading on a number of toes. There were two major merchant families in *Kaga* who were well established before him and whom he soon outstripped. However, although a "*nouveau riche*", he seems to have remained on fairly good terms with them, mainly by dealing them in on some of his schemes.[43] But his activities were bound to bring him into conflict with the established monopolists. The Maeda were conservatives in economic policy, and followed *bakufu* policy in regard to monopolies. One of the traditional *Kaga* monopolies was the candle guild (*Rōsokuza* 蠟燭座), with 29 shareholding members and headquarters in *Kanazawa.* It held a long-standing monopoly of sale (at very high prices) for *Kaga* and the two neighboring provinces of *Noto* and *Etsu.* Zeniya had a flourishing trade with *Aizu*, north of *Edo*, where candles were a major product, and in the 1820's his stocks of candles were piling up while he looked feverishly for new outlets. He decided to use his influence with the *han* authorities to break into the candle markets closest to home.[44]

Zeniya first memorialized the *han* authorities, explaining that he had a large stock of *Aizu* candles which were much superior in quality and lower in price than those of the *Kanazawa* candle guild. Therefore, he proposed to sell *Aizu* candles at a low price, bringing in new stocks with his own boats and remitting "the larger part of the profits" to the *han* as a voluntary contribution.[45] He justified it as being in the interest of the majority of the people as well as a benefit to the *han* finances, and added that at a private discussion with the members of the candle guild, he had urged them to handle his *Aizu* candles, but "on one pretext or another" they had turned a deaf ear.[46] This refusal is understandable because the guild's own product

41) Shōfū, 98.
42) *Ibid.*, 97-8. Zeniya followed a common practice of charging higher prices of samurai. *Ibid.*, 84
43) *NKJ*, 916-7.
44) Endō, *op. cit.*, 79.
45) *Ibid.*, 165.
46) *Ibid.*, 165-6.

could not possibly compete with the low-priced *Aizu* candles.[47] Zeniya then asked the authorities to constitute him as a special guild, to share the market with the existing guild, no doubt knowing that this would cause the eventual failure of the guild.[48]

Zeniya's proposal was well calculated to interest the *han* authorities who in the 1820's were having grave financial troubles. However, they decided to let the candle guild have a hearing.[49] The guild members insisted that Zeniya had made unfair and inaccurate statements due to his own greed, and they presented a spirited defense of the high price of candles in *Kaga* in terms of costs which Zeniya had omitted from his detailed memorial, pointing out the inconvenience of depending upon a distant supply, with no means to deal with emergency needs, and branding Zeniya's proposal as a paper scheme overlooking present and future difficulties.[50]

The outcome was in doubt and Zeniya expressed pessimism, but the decision finally came in his favor, not because the authorities decided it would profit the people, and not primarily because it promised more benefit to the *han* finances, but, according to Endō, simply because the pro-Zeniya party was larger among the officials due ultimately to Zeniya's greater financial power.[51] The result was, as might have been predicted, no great triumph for free trade. Zeniya soon came to monopolize the entire candle trade of the three provinces.[52]

In this conflict Zeniya earned the hatred and fear of the entrenched guilds, and he even stepped on the toe of one of his colleagues. Kubo Kihei 久保喜兵衛, another *Kaga* merchant, acted as a go-between for Zeniya, wrote the memorial for him, and contributed 500 *ryō* towards the proposed special candle guild. When the result was in their favor, he expected Zeniya to share profits with him. After a long silence, he asked Zeniya about how the business was going, and Zeniya replied that he had been silent because the business was running at a loss, and that he had only refrained from asking Kubo to contribute more capital. Kubo was suspicious and procured information from one of Zeniya's employees that the enterprise was making a fair profit. Kubo then brought the matter to litigation, whereupon Zeniya offered as evidence records which showed a steady loss. Kubo attacked the records as having been falsified, but lost the suit. Endō concludes that

47) Endō, 166.
48) *Ibid.*, 166, 169.
49) *Ibid.*, 50, 174.
50) *Ibid.*, 286-90.
51) *Ibid.*, 291. Endō believes bribes may have been used by Zeniya, distributed by go-betweens. *Ibid.*
52) *Ibid.*

the records were in fact falsified, but points out also that Kubo's figures were fixed in his own favor. Litigation of this kind added to the suspicion of Zeniya's methods and contributed to his fall.[53]

Zeniya died at the age of 80 after a few weeks in prison, presumably from old age and shock, awaiting trial on a rather strange charge, namely, that he had been responsible for the poisoning of fish which in turn poisoned some people, some of whom died. It all began when his third (and favorite) son, Yōzō, a chip off the old block, conceived a grandiose scheme of draining a large marshy lake near *Miyakoshi* to reclaim the land for agriculture. It was a difficult engineering problem, but Zeniya approved the plan and quickly gained the assent of Maeda, *Tosa no Kami*, a high official of the *han*.[54] Formal permission was gained in 1851 despite considerable opposition from the fishermen who fished on the lake. Yōzō immediately went to work, hiring coolies to dig a large drainage ditch, but had quarrels with fishermen who broke the timbers being used for the ditch as they stood on them to catch fish which, attracted by the new timbers in the water, swarmed around the ditch. Yōzō replied to this by having lime, coal and oil thrown into the water to keep the fish away. One morning the fishermen found a large number of fish lying on top of the water, and "joyous at having such a big catch", quickly gathered them up and sold them in *Miyakoshi*.[55] The unfortunate people who ate the fish became desperately ill, with vomiting and diarrhea, and some even died. The result was a great cry against Zeniya in which his enemies joined with gusto, and the *han* authorities arrested him and his three sons.[56] The incident furnished them with a good pretext to confiscate Zeniya's wealth in *Kaga*. It was an excellent haul, estimated at 365,800 *ryō* in gold and silver, numerous treasures and large stocks of goods.[57]

3. CHINA

Shipping by water has played a major role in the Chinese economy from early times, and the organization and operation of shipping and trading

53) Endō, 292-8. The summary of the incident given here is much compressed.
54) Shōfū, *op. cit.*, 171.
55) *Ibid.*, 184-6.
56) *Ibid.*, 171, 187.
57) *Ibid.*, 232-44. Shōfū is not quite satisfied with this explanation and believes the real reason for the arrest and confiscation was another offense which will probably remain a secret to history.

enterprises of native boats or "junks"[1] as described in 1943 by a Japanese authority, seem to have been much the same for centuries. The introduction of competition from railways and steamships has induced no noticeable change in organization and operation. This singular lack of progressive development necessitates more of a description than a historical treatment, and available material is largely descriptive in nature.

Junks are generally handed down from one generation to another, as long as they last, and usually continue to ply the same routes, preserving, according to Koizumi "a geographical existence." In numbers, only about 2% to 4% are found in north China, but these are mostly large coastal junks which have played a major role in connecting closed ports.[2] In the south, the coastal junks are far outnumbered by innumerable smaller boats plying the rivers, creeks, lakes, and canals.

Pure shipping enterprises, where shipping services are offered to owners of goods, are extremely rare. Owners of goods have little trust in junk captains and crews, and are suspicious of junk operators in general.[3] Most junks combine shipping and trading. They trade for local specialty goods which they sell at other markets, but are always willing to ship goods or take on passengers to supplement income. Another common activity is fishing, often combined with trading in other commodities.[4]

Of the total of junk enterprises, only about 1/10th are individual enterprises, with a single owner who has usually one small boat or sometimes two, and who acts as captain. The other 9/10ths are plural enterprises in two senses: ownership and number of boats owned.[5] The plural enterprises are owned by a number of shareholders whose names are not usually made public. They employ a man who has thorough knowledge and experience in this type of business and give him complete responsibility as captain for each flotilla of two or three boats or, when they operate singly, for each boat.[6] In the selection of these captains, family or close neighborhood

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1) Koizumi Teizō 小泉貞三, in his article, "Shina Minsen no Keiei ni Tsuite 支那民船の経営に就いて" [On the Operation of Chinese Junks], *Keizai Ronsō* 経済論叢 57, 3 (Sept. 1943), 66-92, uses the term "*minsen*", literally "people's boats", which he defines as "all types of native craft propelled by sail, oar, water buffalo or man power", and also uses the "foreign" term "junk" as a rough equivalent, which I have adopted. There is next to nothing in English on this subject, but there is a fairly extensive literature on Chinese water transportation in Japanese. Koizumi's article summarizes this literature very well.

2) *Ibid.*, 75, quoting 中村義雄、"民船貿易と民船の特質," 華北航, #12, p. 25.

3) *Ibid.*, 79

4) *Ibid.*, 80

5) *Ibid.*, 80-81

6) *Ibid.*, 81, citing 華北航業総覧, p. 267.

relationships enter wherever possible, as shareholders trust friends or members of their own families. Crews are usually recruited from home villagers, with the tie of common origin making them more amenable to control.[7]

Even the plural enterprises are comparatively small, operating generally ten or more boats of medium or large size. Their boats are usually identifiable as they are often marked with a lucky character or characters, whereas individually owned boats are usually marked with the owner's name, although in some cases the boats of a plural enterprise are marked with the name of the chief shareholder.[8]

In the case of the individual owner-captain, he has the responsibility for buying and selling, making shipping arrangements, and often for fishing as well. In north China, he does not usually carry his family with him, but has them working on a farm. One reason for this is the danger at sea, since junks in the north are mostly coastwise. In the south it is usual for the family to live aboard individually-owned boats, as they are almost all on inland waters.[9]

Distribution of profits[10] in the individual enterprise is simple, but for the plural enterprise it is on a percentage or commission basis. Profits are the remainder from total income after food costs of the crew are paid, and are distributed, for example, 70% to the owners, 30% to the crew, or perhaps 50% and 50%. Then, the owners must dispense from their share enough to cover boat maintenance and improvements. In cases where the sea lanes are dangerous and where more skill is required in operation, the crew's share tends to be greater. Food expenses are not calculated in advance but are simply paid out as needed. It is possible, when funds are used in a manner unjust to the crew, for the owners not to acknowledge the fact and make resitution. However, Koizumi says that in practice, this is unusual, since owners and crews are too closely related by ties of family, acquaintance or place of origin.

In regard to the methods of junk operation, Koizumi concludes, "It cannot be denied that the operation of junks, the organization of plural enterprises, the formation of employment relations of a family nature, the percentage system of profit distribution all have more or less of a feudalistic character and fit into an underdeveloped environment."[11]

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7) Koizumi, 82
8) *Ibid.*, 81
9) *Ibid.*
10) *Ibid.*, 82, from 華北航業総覧、民船の経営法, 253-4.
11) *Ibid.* 83.

The Japanese made an attempt at organizing junks into a modern capitalistic enterprise after the beginning of the Sino-Japanese hostilities in 1937. The Water Transportation Section of the *Huapei* 華北 (Japanese *Kahoku*) Transportation Co., Ltd., a Japanese enterprise, bought a fleet of junks and began large scale operations. However, they found it extremely difficult to control a large number of junks. On a salary basis, crews whose "hearts became empty of love for boats"[12] often deliberately sabotaged them. On one pretext or another they tried to escape work. The enterprise soon became inefficient and uneconomic. The company offered shipping services at a fixed rate from harbor to harbor, forming up small groups of junks and dispatching them together. However, particularly along the coast, schedules were extremely inaccurate due to difficulties of control and dependence upon natural sources of power, and since this resulted in loss of profits, the enterprise failed.[13]

In order to understand the organization of Chinese junk trading and shipping it is necessary to carry the study one step further and examine the junk "hong" 行. The uniquely Chinese junk "hongs" are organs of commerce or distribution. They are invariably found in towns and cities situated on the China seacoast, rivers, canals, creeks, and lakes frequented by junks. They are sometimes popularly called "*Minch'uan Wenwu*" 民船問屋 (Japanese *Minsen Toiya*), and they participate in a large number of activities, including gathering and selling stocks of local specialty products to junk operators, storing and selling such goods on commission, acting as warehousers, managing shipping, clearing goods through customs, handling liaison with officials, keeping lodging facilities, and, in one case (which will be dealt with later) making arrangements akin to marine insurance.[14]

Almost all "hongs" are plural enterprises in ownership and management. Capitalization ranges from an average of 30,000-50,000 *yüan* 元 to a maximum of 500,000 *yüan*, with from 10 to 20 or 30 employees. In Chechiang, shipping "hongs" are called "*kuo tang hang*" 過唐行. In 1927 there were 80 to 90 of them at *Chakow* and about 20 at *Hushu*, each doing $10,000 to $90,000 worth of business a year, the average being $50,000, "according to the estimate of the *kuo tang hang* guild."[16] The general impression of junk "hongs" is one of large numbers and small size.

12) Koizumi, 83.

13) *Ibid.*, citing 天野元之助、支那農業経済論, II, 584.

14) *Ibid.*, 84, 89.

15) *Ibid.*, 84, citing 天野元之助, *op. cit.*, 584.

16) Anonymous, "Means of Communication of Chekiang", *Chinese Economic Journal*, I (Jan. 1927), 123.

The prototype of the junk "hong" was called the "yahong" 牙行.[17] They were organized only with official permission, as officially-approved brokerage houses, and existed in every trading center. They served as tax collecting offices, held an absolute power of control over the local markets, and could raise market prices at the behest of the government. The present junk "hongs" generally resemble their prototypes,[18] but the question arises as to how they came into existence as organs of commerce and distribution, and why they are still necessary to the large part of junk shipping in China.

Among the innumerable operators of junks, some no doubt have had sufficient knowledge of the quality of all the various local products, methods of sale, differences in currency exchange, weights and measures, etc., and could manage their trade with skill. But this has never been an easy task. Moreover, different from steamship lines, junk operators have no offices and, without local help, would encounter much difficulty in finding goods for purchase and shipment. Also, being in transit most of the time and away from the markets, they would have no means to know market conditions and would lose through necessarily hurried buying.[19] It is natural that they entrust to the "hongs" the handling of transfers of funds, port services and customs relations, as well as the gathering of goods for purchase, and most junk operators have found it profitable to become dependent upon the "hongs".[20]

Junk operators, local merchants and the "hongs" are closely inter-related and interdependent. But the "hong", due to its central position in trade as the go-between, has virtually absolute power.[21] Rather than being merely interdependent, traders and junk operators are really subordinate to the "hong".[22]

It is common for "hongs" to combine the lodging of passengers with the warehousing of goods, as was the case with Venetian trading establishments in 12th and 13th century south European ports. The "hong" headquarters are usually square stone or brick buildings with a lower floor for goods, an upper floor for lodging, and an inner court for trading.[23] Pro-

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17) Koizumi, *op. cit.*, 85.

18) *Ibid.*

19) *Ibid.*, 86, citing 上坂酉三、北支に於ける配給機構の研究、民船の概念、興亜政治経済研究 I, 206, 244-9.

20) *Ibid.*, 85

21) *Ibid.*, 86

22) *Ibid.*

23) *Ibid.*, 87

minent among lodgers are provincial merchants who travel as junk passengers with their goods with them to sell at markets along the way. They arrange their transportation with the "hong" and often gain their confidence in time and are used by the "hong" to supervise goods in shipment belonging to them and to make purchases and transfers of funds for them.[24)]

"Hongs" serve as middlemen for shipping and passenger services, and store goods both as warehousers and wholesalers. As wholesalers, they attempt to purchase when prices are low and hold until prices are higher.[25)]

As another important function, the "hongs" act as agents for all arrangements between the junk operators and the governmental authorities. Not only do they serve as agents for the junk operators with the authorities, but they often maintain contacts with the home organizations of junk owners.[26)] As government agents, they handle, for example, reports to the government authorities (especially to the official supervising boats), the inspection of boats, collection and payment of customs duties, government fees, and all necessary liaison between operators, owners and government.[27)]

The "hong" sometimes hire out junks, as distinct from arranging shipment for parcels of goods. Anyone wishing to ship goods by hiring a junk must go through a "hong" because if he attempted to hire one himself, he would not know the complicated special circumstances, the usual routes taken, and the trustworthiness of any particular junk captain and crew.[28)] Moreover, if the shipper's goods are not sufficient to load the ship fully or are consecutively unloaded at different points, the rate would increase so much as to become prohibitive.[29)]

The question naturally arises, what steps, if any, are taken to protect shippers' goods? The "hong" usually stands in the position of middleman and guarantor for goods shipped. However, when a shipper hires a junk and an accident actually occurs, the "hong" ordinarily will not take responsibility for loss. Thus, ultimately, the owner of the goods must take what precautions he can. For this reason, the owner often puts aboard one of his own men to watch his goods.[30)] Also, in cases where the "hong" arranges shipment of goods belonging to various regular "hong" customers, the "hong" sometimes puts a trusted man aboard as supervisor for the

24) Koizumi, 90

25) *Ibid.*, 86-7. In addition, there are cases where "hongs" own and operate their own junks, but this seems rare. *Ibid.*, 84

26) *Ibid.*, 87

27) *Ibid.*

28) *Ibid.*, 88-9

29) *Ibid.*, 89

30) *Ibid.*

goods.[31]

In Chechiang, the *kuo tang hang* (already mentioned) is responsible to the owner for any shortage or damage. The junk operator is responsible in turn to the "hong". "But in actual practice, losses sustained through any unexpected accident are shared equally by the three parties."[32]

Only one case has been found in the materials presently available of something akin to marine insurance. This is in *Tsingtao*, where there existed in 1943 a system whereby the "hong" took full responsibility for all goods loaded, for a fee of 5 *yüan* per 100 *yüan* worth of goods.[33]

In internal organization, the "hong" from the first formed a kind of group with ties of place of origin and family relationships among shareholders and administrators, in a type of self-government seen throughout Chinese society.[34] Koizumi explains that between "hongs" there has been an organized type of liaison and cooperation with some points of similarity to cartels, but essentially different. He says that in some cases this cooperation has broken down and competition has become fierce, and adds that "due to the impositions of political power, the evils of smuggling are widespread."[35]

From his study Koizumi concludes that the "hong" is an obstacle to capital accumulation, and that "Junk enterprises are simply not useful for the accumulation of commercial capital."[36] The methods of junk operation are based on familial and provincial relationships, and the organization of plural enterprises are feudalistic and undeveloped. The junk enterprises themselves are caught between an undeveloped productive system in fishing and agriculture and an equally undeveloped organ of trade, the "hong", to which they are subordinated.[37]

The junk is a means of transportation, but it is used as a means of distribution which is subject to commercial capital. In this role it is useful

31) Koizumi, 84

32) Anonymous, "Means of Communication, etc.", *op. cit.*, 121-2.

33) Koizumi, *op. cit.*, 89

34) *Ibid.*, 88

35) *Ibid.* Cooperation and liaison may have been effected through guilds, at least in some cases, but Koizumi is not specific on this point. The term "guild" is used in the article, "Means of Communication of Chekiang," cited above. Further in regard to the "hongs" getting out of control, Koizumi says, "Since 1937 the problem of controlling the "hongs" has been pressing, and in north China they are being made to join regular "hong" guilds. At present [1943] the Japanese are buying many commodities, using these guilds as compradores... *Ibid.*, 88.

In regard to Koizumi's reference to cartels, he does not say how the liaison and cooperation differs from cartels.

36) *Ibid.*, 90.

37) *Ibid.*, 92

in the replenishment of commercial capital. However, due to the fact that it has not yet achieved an independent role, it does nothing to build up *shipping* capital, and its economic function is not specialized.[38]

In order to complete the general picture of Chinese shipping attempted here it will be necessary to examine the onc important Chinese effort to build up modern shipping capital, the Chinese Merchants' Steam Navigation Company 輪船招商局 (usually abbreviated to 招商局).

After 1861, when the Yangtze was opened to foreign navigation, Li Hung-chang feared it would become a foreign monopoly, and, with Jung Hung, pressed for the establishment of a Chinese steamship company, which he justified on grounds of national defense.[39] Conservative officials put up a battle, complaining of the excessive cost of steamers, but Li, in a memorial of 1872, made a spirited defense of Jung Hung's proposal for a steamship line, recommending that a government-subsidized company be formed, and his plan finally carried the day.[40]

In 1872, with the death of Tseng Kuo-fan, Li was already the foremost Chinese official. From 1870 until his death in 1901, he was Viceroy of Chihli, Grand Secretary, Imperial Commissioner for Foreign Trade, Superintendent of Northern Trade, and Generalissimo of the Military and Naval Forces in the North.[41] He was a great industrial promoter, cleverly combining personal with national interests. He became the patron of modern equipment and many technical innovations, including the Shanghai-Woosung Railway, telegraph lines, a cotton mill in Shanghai, the Military Academy in Tientsin, as well as the steamship line.[42]

Li organized the Chinese Merchants' Steamship Company in 1872, after consultation with compradores of Jardine, Matheson and Co. and others, with capitalization from "both official sources and private shareholders."[43] Accounts vary in regard to capitalization, but the most accurate source[44] states that with Imperial approval, Li borrowed 200,000 strings of *cash* from

38) Koizumi, 92.

39) Baba Shōtarō 馬場鍬太郎, *Shina Keizai Chiri Shi* (*Kōtsū Zenhen*) 支那経済地理誌 (交通全編), [A Compilation of Materials on Chinese Economic Geography (Complete Edition on Transportation)] (Tokyo: 1922), 289.

40) Arthur W. Hummel, ed., *Eminent Chinese of the Ch'ing Period* (Washington: 1943), 467.

41) H. B. Morse, *The Trade and Administration of China* (London, 3rd ed., 1921), 259; J. O. P. Bland, *Li Hung-chang* (London: 1917), 120.

42) Shih Kuo-heng, in Levy and Shih, *The Rise of the Modern Business Class* (New York: 1949), 29.

43) Baba, *op. cit.*, 289.

44) Suzuki Sōichirō 鈴木総一郎, 李孤帆著「招商局三大案」[Li Ku-fan's The Official Investigations of the Chinese Merchants' Steam Navigation Company], *Keizai Ronsō*, 54, 3 (Sept. 1940), 117-124.

the Chihli military subsistence funds and 50,000 taels from private sources.[45] According to another authority,[46] "a large part of the company's stock was owned by Li, as was the case with most of the enterprises he sponsored." This apparent conflict of fact may very well be explained by Li's biographer,[47] who points out that Li made almost no distinction between what we would call public funds and his own private treasury. Moreover, his army was so nearly a personal one that he often used subsistence funds for other purposes, forcing his soldiers to wait for their pay. This was one of the points of conflict between him and General Gordon.[48]

The company began operations with one ship, the Aden, which was the first commercial steamer under Chinese control.[49] At first the Aden was used to link closed ports. However, at this time the *Nanking* canal was cut off and great difficulty was experienced in getting tax rice to *Peking* from the south.[50] Therefore, in 1874, with the aid of official funds from *Chiangsu* and *Chechiang*, the company was reorganized on a larger scale, still on a semi-official basis. The first object of the company was to permit an independent development of shipping enterprise by means of Chinese capital, and to break into the foreign monopoly of modern means of shipping.[51] To this was now added a second object, to protect the privileges of tribute rice shipments along the coast from the Yangtze to north China,[52] and deprive the foreign powers of an important potential lever on the Chinese government.

In 1862 an American firm, Russell and Company, had formed the Shanghai Union Steam Navigation Co. 旗昌洋行, with a capitalization of one million *yüan*. They attempted a form of cooperative enterprise with American and Chinese participation which never proved to be very profitable. When, after a number of years of difficulty, it began to show a profit, capitalization was increased to 2,200,000 *yüan*, and the number of steamships increased to eighteen.[53] In 1877, the Chinese Merchants Steam Navigation Company was able to buy out the American company's Chinese enterprise, including

45) Suzuki, 117.
46) Hummel, *op. cit.*, 467
47) Bland, *op. cit.*, 120-1.
48) *Ibid.*, 224. Burgevine went over to the T'ai P'ings, according to Bland, after similar quarrels over Li's evasion of payment to his troops.
49) Baba, *op.* cit., 289.
50) *Ibid.* The reason, not given by Baba, was probably silting.
51) Suzuki, *op. cit.*, 117.
52) *Ibid.*
53) Baba, *op. cit.*, 289-90.

its Shanghai docking facilities.[54] The Chinese company increased its capitalization to 2 million taels 兩 by 1882 through recruiting capital from private Chinese sources.[55] Runs were established not only between southern and northern ports, but also to Japan, the Philippines and Singapore.[56]

Li, as Superintendent of Northern Trade, secured a monopoly of freights for tribute rice and other government supplies for the company, making it "a milch cow of extraordinary productivity and, despite wholesale peculation, [it] continued to show large profits for many years."[57] Also, using his official position, Li prevailed upon Peking to prevent the Governor of Formosa and other Chinese shipping owners from competing with his steamers in the Yangtze trade.[58]

During the hostilities with France over Annam in 1885, Li protected his ships from French seizure by selling them to Russell and Company who operated them under American flags, "with a verbal understanding that they might be repurchased after the danger of capture was over."[59] The same year he bought them back and appointed Sheng Hsüan-huai 盛宣懷 (1849-1916) to reorganize the company and to manage it.[60]

Sheng was one of the first of the major Chinese industrial managers, as distinct from industrial promoters such as Li. He was also the first official in Chinese history whose official position was not only secondary to, but actually dependent upon, his role as an industrial manager. He was born in *Chiangsu* of an official family and passed the *Chu Jen* degree, but gave up after several attempts at the *Chin Shih* degree. He joined Li Hung-chang's secretarial staff and gained a reputation first in relief work and then in supervision of railway construction under Li. He became very active in Li's industrial projects.[61]

One of the most striking facts of Sheng's enterprises was their continued increases in capitalization. Capitalization of the Chinese Merchants' Steam Navigation Company, two million taels in 1882, doubled by 1898,[62] and and doubled again by 1912 when, "thrown into the vortex of political controversy, it formed a holding company with capital holdings of eight

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54) Baba, 290.

55) Suzuki, 117. I have been unable to find the relationship between taels and *yüan* for that date.

56) Hummel, *op. cit.*, 467.

57) *Ibid.*, 468.

58) Bland, *op. cit.*, 120.

59) Hummel, *op. cit.*, 468.

60) Shih, *op. cit.*, 31; Suzuki, *op. cit.*, 120.

61) Shih, *op. cit.*, 30-1, gives this biographical information.

62) Suzuki, *op. cit.*, 117; Baba, 290.

million *yüan*, for the purpose of reorganization."[63] However, due to conflicts within the holding company, no real reorganization was achieved, although the operation had not been satisfactory from its beginning.[64] By 1927, capitalization had reached the tremendous total of over a billion taels.[65]

However, despite such an increase in capital indebtedness, there was no development of the enterprise itself. The number of ships owned and the scheduled number of runs remained almost stationary.[66] As a business enterprise it was stagnant, and every sign points to a steady drain of capital into operational expenses (including dividends, to keep up an increase in capital). In this regard, a Japanese authority writes, "The enterprises of Sheng Hsüan-huai continued to have an outward appearance of prosperity even after his death [in 1916], but due to defects in organization and administration, they were like old trees eaten out by termites, and their real condition, when finally revealed, surprised foreigners and Chinese alike."[67] Sheng must have known a day of reckoning would be inevitable, and his reputed cleverness must be given its due credit for putting off the evil day until long after his death.

The evil day finally came in 1927, when the newly powerful Kuomintang regime ordered a full investigation, in part due to mounting criticism of the company by shareholders who suspected corruption and chaotic conditions.[68] As a result of the investigation, "the direct causes of the failure of the enterprise became clear, and the company was completely reorganized and nationalized in 1932."[69]

The following year, 1933, Li Ku-fan 李孤帆, an able member of the investigating body, published a book, *Chao Shang Chu San Ta An* 招商局三大案, incorporating the official report of the investigation and including proposals for reform.[70] The publication of this book must be recognized as a remarkable example of Chinese self-criticism. Li's purpose in publishing the book was to educate and invoke public opinion to make the reform of the company

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63) Baba, 290.

64) *Ibid.*

65) Suzuki, *op. cit.*, 117.

66) *Ibid.*

67) Tachibana Kiji 橘樸, *Shina Shakai Kenkyū* 支那社会研究 [A Study of Chinese Society] (Tokyo: 8th ed., 1940), 200. Shih, *op. cit.*, 33, says, "Sheng...failed...not because of any weakness in management, but rather because his managerial role was confused with politics." This is misleading, because Sheng's managerial role was never meant by him to be a successful one for the enterprise, but only for himself, as we will see.

68) Suzuki, *op. cit.*, 118.

69) *Ibid.*

70) *Ibid.*

permanent and to improve Chinese society.[71] According to Suzuki, Li's book is a scientific, accurate statistical study which "permits for the first time a view of the inner workings of a Chinese business and its official connections, kept secret in the past."[72] Its importance in the study of modern Chinese society is well expressed in the first words of the book, "The problem of the Chinese Merchants' Steam Navigation Company is the reduced shadow of the entire problem of China."

In 1880 an attempt was made to make the company an entirely private enterprise by paying back its official capital.[73] However, when Sheng Hsüan-huai reorganized it in 1885, it took fixed form as a semi-official company with oversubscription of bureaucratic capital.[74] There is no doubt that it was difficult to increase capitalization entirely through the sale of stock to individual merchants. Sheng himself complained of this, writing that "As for rich merchants, they know how to protect themselves. They prefer to set up their own private business than to join big firms. In so doing, gaining or losing, they are responsible to themselves. On the other hand, they refuse to become shareholders in order to avoid being identified with the rich and being involved in any unexpected trouble."[75] The 1885 reorganization was carried out in accordance with regulations formulated by Sheng, in which he justifies bureaucratic capital and official supervision: "Without commercial effort, one cannot hope for profit; without official supervision, one cannot avoid corruption."[76] It is difficult to imagine that this pious statement was taken seriously, because in fact, subsidization and "official supervision" served as excellent means for Sheng to enrich himself.[77] The company was a mixture of the old type Chinese yamen and the compradore system,[78] and Tachibana characterizes this form of enterprise with overcapitalization from official sources as the "Sheng Hsüan-huai type or the Liang

71) *Suzuki*, 118-9. Li, p. 5, lists his reasons as follows:

(1) To assist the future adjustment and reform of the company, as the government had already decided to nationalize it.

(2) To make it an object lesson for the improvement of Chinese society by stimulating a correct view towards official corruption on the part of society.

(3) To make known the methodology utilized in the hope that it would be widely used in the future as a means of supervision as well as investigation.

72) *Ibid.*, 119-120. 73) Baba, *op. cit.*, 290. 74) Suzuki, *op. cit.*, 120.

75) Shih, *op. cit.*, 38 quoting *Yu-chai ts'un-kao* [Collected Drafts of Sheng Yu-chai], *chüan* 77, p. 22. In regard to official participation in business, Sheng adds, "The scholars regard commercial affairs as more difficult than government office. Consequently, all the talented, clever people choose to seek an official career... Therefore, those who enter into business neither are qualified for office or commerce nor have knowledge or money." This is the very situation which Sheng exploited to the full.

76) Suzuki, *op. cit.*, 121. 77) *Ibid.*

78) *Ibid.*, quoting Li Ku-fan, p. 1.

Shih-yi 梁士詒 type", as opposed to the type of Chang Chien 張謇, who used only private capital and strove, with real Confucian sincerity, for the success of the enterprise rather than for his own enrichment.[79]

Sheng constantly extended his political and economic power, with the steamship line as his major sphere of influence, under Li's protection. He gave important company positions to innumerable relatives and old cronies, almost transforming it into his own private property.[80]

In addition to the office in *Shanghai*, the company maintained major branch offices in *Tientsin* and *Hankow*. Li Ku-fan's investigation of these branch offices was particularly revealing, and Suzuki deals primarily with the *Hankow* branch, as representative of the company's operations. In the branch offices, there was a type of double entry system, but entirely foreign to the usual sense of the term. Two journals were kept. One was the journal for use in reporting to the main office, the other was the private journal kept secretly by the branch office head.[81] The existence of these two journals was a basic requirement of the rather strange *ch'ing fu* 請負 system, under which branch offices acted as contractors, and the branch employees were not paid by the head office.[82] One is reminded of the tax farming system in pre-British India, or, perhaps more closely, Chinese provincial officials in periods of weak central government working more for themselves than for the government in the collection of taxes, but finding it necessary to preserve an appearance of rectitude.

The most ingenious methods were used to give an aura of legality and respectability to the ill-gotten gains of the branch office heads. One was the use of differences in conversion rates. The official conversion rate of silver *cash* to silver taels from 1911 to 1921, for example, was always 0.68. However, the money exchange in Hankow during this period fluctuated from 0.3585 to 0.55. The difference in conversion on the books was 210,000 taels for the period 1911 to 1925, a sum illegally acquired by the branch office manager who could, however, argue that he had used the official conversion rate.[83]

Another source of gain was found in the payment of expenses. One of the chief expense items at *Hankow* was the purchase of coal. Coal was

79) Tachibana, *op. cit.*, 200, Liang Shih-yi was to Yüan Shih-k'ai what Sheng was to Li Hung-chang, his "*âme damnée*", as Bland puts it, in his biography of Li, p. 122.

Chang Chien condemned officials as industrial operators, saying, very accurately, that they "promoted industry in name but handicapped it in fact." Shih, *op. cit.*, 44.

80) Suzuki, *op. cit.*, 120.

81) *Ibid.*, 121. Li Ku-fan did not succeed in seizing the secret journal but found incontestable proof of its existence.

82) *Ibid.*

83) *Ibid.*, 121-2.

generally purchased from a large monopolistic company under contract.[84] In *Hankow*, only a very small additional amount was purchased from small *Hankow* dealers. However, according to the public journal, the *Hankow* delivered price was generally higher than the *Hankow* market price. In the seven years 1916-1923 it averaged 34 taels per ton higher on the books, and the total difference due to this price differential totaled 489,641 taels for this seven year period, a nice profit for the branch head.[85]

In addition to this, the amount of coal purchased as recorded in the public journal was raised about one tenth, making a difference of more than 330,000 taels for the period 1911-1926.[86] This is not all. In connection with the expenditure for coal, the expense of loading was recorded as 2½ *ch'ien* 銭, whereas in reality it was only 1 *ch'ien.* In the period 1911-1926, the total from this difference reached 56,000 taels[87] Li Ku-fan concludes that "For corruption on such a scale to be possible, there was no method other than for the *Hankow* branch head to have gained the assent of the executives of the head office."[88]

Soon after the organization of the company, a commission of 5% was offered the branch offices on freight collected above a stipulated amount. This was to stimulate business, as is the purpose of commissions. However, under the Sheng system, and until 1924, although business increased, the stipulated amount above which commissions were paid was left the same. In 1924, for *Hankow*, it was increased 50,000 taels, to a total of 425,000 taels, still well below the average amount of business. By keeping the base figure down, the branch head could count on a regular addition to his income. Total commissions for the period 1912-1925 equaled 180,000 taels.[89]

But the largest addition to the private income of the branch head was income from real property. Half the real property owned by the company was used in the operation of the business, but half was rented out. The total investment in this real property was 1,020,000 taels which, applying the usual rate of return in *Hankow*, 10%, would have brought in more than 100,000 taels a year. However, as recorded in the public journal, the income ranged from only 970 taels in 1912 to only 17,000 taels in 1924, the highest amount recorded. Using this means of estimation, the loss to the company from 1911 to 1927 was about 1,300,000 taels.[90]

The *Tientsin* and other office heads as well, used similar means to en-

84) *Ibid.*, 122. Bland, *op. cit.*, 121, points out that Li's coal mines supplied cheap coal for his shipping line.

85) Suzuki, 122.

86) *Ibid.*

87) *Ibid.*

88) Li, p. 17, quoted in *ibid.*

89) *Ibid.*, 122-3.

90) *Ibid.*, 123.

rich themselves at the expense of the business, and the total deficit for the period 1921 to 1926 was about 4,370,000 taels.[91]

Shih Tzu-ch'ing 施紫綁 was the lucky man to be appointed head of the *Hankow* office in 1893. Sheng had by this time grasped full control of the company, and Shih, who was a good friend of Sheng, emulated him by making the *Hankow* office a personal and even hereditary enterprise.[92]

A modern enterprise is one in which there are impersonal contractual obligations which are binding in fact upon the parties. Business management is responsible not only to present but also to future shareholders as owners of the business. It is their purpose to plan for its success on the basis of predictable income and expenditures, and to achieve their own economic success by means of the success of the enterprise. If these points may be used as criteria, the Chinese Merchants' Steam Navigation Company can by no means be called a modern business. It was organized not to become a success, but to make its organizers wealthy.

It remains to see how the indigenous junk enterprises have been affected by railroad and steamship competition. Amano Gennosuke, an authority in Chinese agricultural economics, points out that the railroads have felt very strongly the competition of junks on inland waterways, even for short hauls.[93] This is in large part because of extremely high railway freight rates for the standard of Chinese economics. These high rates have been due to economically irrational building, corruption in railroad management, losses in freight cars and other equipment, depradations of warlords added to poor connections, differences in gauge, bad safety, and many other causes.[94] Railway freight rates have ranged from 2 to 9 times the junk rates, and there have been many cases where, strangely enough, the junks have moved commodities with greater speed than the inefficient railroads.[95]

When comparing steamships with junks, there is a geographical factor to be considered. Baba has estimated that in 1921 there were about 27,000 Chinese miles of waterways in China accessible to steam vessels of small, medium, and large size, but, in addition, 33,600 Chinese miles of waterways accessible only to junks.[96] But junks have not retreated to their shallow creeks, rivers, canals and lakes. They have continued on the larger waterways as well. Wittfogel, commenting on the article in the *Chinese Economic Journal* on "Means of Communication of Chekiang", cited above, says, "The penetration of the steamship dealt a blow to Chinese water com-

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91) *Suzuki*, 123-4, citing 何幹之、中国社会経済結構, 108. 92) *Ibid.*, 124.

93) Koizumi, *op. cit.*, 71, citing Amano's 支那農業経済論, II, 454-5.

94) *Ibid.*, 73 95) *Ibid.*, 74

96) In *Shina Keizai Chiri Shi*, op. cit., 175. A Chinese mile is about 1⅓ English miles.

munications, particularly to sea communications, but to inland waterway communications as well. But despite this, old type shipping enterprises have persisted against machine competition, like other old ways in other fields of endeavor, and have strongly protected themselves... Even in 1927, in the province most closely associated with *Shanghai* and other half-modernized ports, the income of old type transportation enterprises far exceeded that of the modern transportation companies of the province."[97] But a Chinese authority, T'ang Hsiung-chieh 唐雄傑, goes much further, writing that "Not only were the old type junks not elbowed out, they actually strengthened their position."[98]

In the early days of the Chinese Merchants' Steam Navigation Company at least, merchants suspected it as a governmental rather than economic organization and as the possessor of arbitrary power. In 1878 a *Chiangsu* merchant refused to use the Chinese company to ship his goods, and it was revealed later that he was afraid the Chinese government would tax him irregularly, based on the value of the goods shipped on the Chinese line.[99] This merchant, and no doubt many more, preferred to use native junks or foreign steamships, but this feeling may have been overcome in time. The real reason for the extraordinary staying power of the native junks is more basic. The predominance of small scale traders and great local differences in market conditions must have combined to give the junks, despite their inefficiency and relatively high rates, the edge over steamships as organs of distribution. Small parcels of local specialty goods could be sold, with the aid of the "hongs", at those market centers where prices were highest.

The striking fact of Chinese water transportation up to recent years is the triumph of the old. What Tachibana calls the "anti-capitalism of the Chinese official class and their medieval attitude"[100] was enough to swamp the steamship company in time. Li and Sheng found in monopolistic enterprises like the steamship line, organized in the form of a European joint-stock company, a new means to an old end. The end of self-enrichment by official participation in economic enterprises seen in earlier dynasties had become almost institutionalized in practice by the nineteenth century. It was achieved by the exploitation of monopolies won by political influence or by purchase. These were traditional state monopolies like the salt monopoly or trade monopolies like that of the *Ch'ung-wen* gate of *Peking*, exploited by such experts as Ho Shen 和珅 (1750-1799),[101] and the well-known *Canton*

97) Koizumi, *op. cit.*, 70-71. Koizumi does not indicate where this comment is to be found. This is therefore my translation of the Japanese translation of Wittfogel's remarks.

98) *Ibid.*, 71, citing 交通雜誌 V, 5, 6, 7. 99) Shih, *op. cit.*, 38.

100) In his *Shina Shakai Kenkyu*, op. cit., 208.

101) Cf. Hummel, *op. cit.*, 288-290

foreign trade. The art was to stop just short of the point beyond which the traders would be driven out of business. The joint-stock company offered an even more lucrative source of wealth in the short run by adding private investment funds to the siphoning off of government funds. But there was a correspondingly stronger attitude of "*après moi, le déluge*", since managers like Sheng knew that dividends would reach a point where they could not be met, and private investors would demand an accounting.

This unfortunate experience of the steamship company, coupled with the disastrous Japanese attempt to organize a large-scale junk enterprise along modern lines, serves to vindicate, in a way, the conservatism, whether voluntary or involuntary, of the junk enterprisers who have continued to make money in the same small, inconspicuous way as their ancestors. At the same time, such unsuccessful attempts underline the almost insuperable difficulties of change to a modern capitalistic economy in China.

4. CONCLUSION : APRELIMINARY COMPARISON[1]

In Japanese "pre-modern" shipping enterprises, the following factors, not always fully developed, can be distinguished:

1) Large size enterprises, growing with the expansion of the money economy and the breaking down of feudal barriers.

2) Accumulation of commercial capital on a large scale.

3) Specialization of economic function, *e.g.*, as in the shipping business of the Higaki Kaisen.

4) The new organization of large merchant alliances for the regularization and monopolization of commerce in specific goods and services.

5) The advantage of prevalent standards in currency, weights and

1) The word "preliminary" is used advisedly. There is much work left to be done on this problem, and little exists in western languages. In addition to Wittfogel's writings in German, his article, "The Foundations and Stages of Chinese Economic History," *Zeitschrift für Sozialforschung* IV (1935), 26-60, is helpful in understanding Chinese economic history. See especially his long and suggestive note on the last page comparing the Japanese and Chinese economies. Wittfogel stresses the far greater role of public works in China, as an explanation of official control of the economy.

A general interpretative survey by an acknowledged authority can be found in John E. Orchard, "Contrasts in the Progress of Industrialization in China and Japan," *Political Science Quarterly*, March 1937, 18-50. This covers Meiji Japan and contemporary China, and is a helpful introduction, from western sources.

E. Herbert Norman, in his excellent study of Meiji Japan, *Japan's Emergence as a Modern State* (New York: 1940), footnote, pages 32–3, summerizes Kuo Mo-jo's analysis of China's failure and Japan's success at modernization, which has much interest, but is marred somewhat by Kuo's intense antipathy for the Manchu dynasty and his tendency to overstress the progressive nature of the intellectual movement which the Manchus suppressed.

measures.

6) A large degree of trust as seen in the entrusting of goods to shippers not only for shipment to distant points but even for sale at distant markets, and as seen in Zeniya's trust in his agents, not related to him by family or, in many cases, by place of origin.

7) In the course of regular business among producers, shippers and retailers, the widespread use of contracts which stimulated the desire to satisfy in order to obtain future business.

8) The absence of pirates.

The absence of other hazards left two major dangers to shippers and traders by water: natural dangers to navigation (reefs, shoals, and bad weather) and officials. But we have seen how the *bansen* system fostered skill and efficiency in navigation, and how a type of marine insurance was evolved. As for the officials, they wielded, of course, arbitrary power which often militated against capitalistic progress, but they seldom soiled their hands with filthy merchant lucre without having some moral justification for any really spectacular confiscations, and merchants simply had to be careful.

Political and military considerations built the teeming city of *Edo*, which became extremely dependent economically on the merchants. This gave them potential power of a type not seen in China, and *Edo's* position as a center of consumption contributed to the development of economic specialization, as did the continued growth of *Ōsaka* as a production and collection center. The *sankin kōtai* system brought the *daimyō* into a dependence upon the merchants similar to that of the *bakufu* in *Edo*. The feudal ruling classes, unlike the official class in China, had no tradition of close relationship with merchants entailing the understanding of trade and how to use it for their own purposes. They were lost in an unfamiliar and extremely complex money economy which they deplored as beneath them, but which they were instrumental in creating, and upon which they were increasingly dependent.

However, in our enthusiasm for the "progressive" nature of commerce in pre-modern Japan, we must not lose track of the fact that most commercial capital accumulation was made possible by connections with the feudal ruling classes which meant that the merchant class was tied fairly closely to the old order.[2] But we have shown in this study that these ties could be severed and replaced by a new and vigorous type of enterpriser like Zeniya whose own ties with the authorities were close, but not complete, and who

2) Horie Yasuzō, *Nihon Keizaishi* 日本經濟史 [An Economic History of Japan], 184. John W. Hall, in "The Tokugawa Bakufu and the Merchant Class", *Occasional Papers*, Center for Japanese Studies, University of Michigan, No. 1 (1951), 26-33, lays perhaps too much stress on the feudal bonds of the merchants.

was remarkably free to graze in many new and promising pastures either by breaking down old fences or by merely finding new unfenced and unexploited fields such as the *Hokkaidō* trade. Perhaps the most basic difference from China was that all the Chinese economic fences were built perhaps by the time of the golden days of the T'ang dynasty and jealously guarded by gentry-officials whose economic techniques were refined by centuries of experience.

Application to the Chinese economic scene of the eight points numbered above will show that none of these factors existed there, and that the uncertainties involved in any attempt to build up large capitalistic shipping or trading enterprises were truly formidable. There was no standardization of currency, weights and measures; local exchanges showed great variations;[3] piracy was notorious, and what might be called "official piracy", that of bureaucrats and warlords, made the non-official enterpriser fear not only the appearance of any large-scale commercial success but even the attainment of it. Officials like Li Hung-chang and Sheng Hsüan-huai, as we have seen, could operate on a large scale, but their "success" was not the success of their enterprises. The lack of mutual trust among Chinese merchants and shippers has been demonstrated several times, and is one reason for the small family-type enterprise so common in China. The junk enterpriser, as we have shown, was caught between a rather stable, unchanging production system and the semi-official "hong", and had little chance, in such uncertain economic conditions, to display any independence. In "pre-modern" Japan, the ruling classes in a society which despite them was undergoing profound change, had little success in either discouraging commercial capital or in utilizing it. In China, the official class had remarkable success in discouraging it by the very fact that they utilized it so well, for their own enrichment. This was not essentially changed, moreover, by the introduction of such western techniques as the steamship and the western joint-stock company On the contrary, these new techniques offered the officials merely new and interesting variations in achieving the traditional and very personal economic self-aggrandizement which, in turn, led to increased political power.

3) In Japan, there were only two controling money exchanges, *Ōsaka*, which established the silver ratios for all of Japan, and *Edo*, which set the official copper ratios, all in terms of gold which was fixed. It was a system of "parallel relations", with only minor fluctuations. Cf. Charles D. Sheldon, *Monetary Problems of Seventeenth Century Japan* (Unpublished Master's Thesis, Univ. of Calif., 1951), 33-4. See also the excellent short article by Prof. Horie in *NKJ*, 366-8, on specie relationships.

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