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„Mercantile-political Relations of Britain and China in the
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A Comparative Case Study of East India Company and
Chinese Merchant Xueyan Hu“

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Abstract

This thesis seeks to compare how political frameworks concretely and significantly influenced business development in Great Britain and China in the early modern age. It asks the question: *What is the difference between the mercantile-political relations of the East India Company and of Xueyan Hu in China?* The conclusion is that the nature of these two relations are fundamentally different: While British merchants could cooperate with politicians on the same political level with a high degree of independence and self-regulation, Chinese merchant-political relationships were hierarchical with merchants incorporated into a powerful and enclosed political system. With that conclusion the thesis illustrates the importance and necessity of institutional variables for the exploration of the big question of Great Divergence.

Ziel der vorliegenden Masterarbeit ist es, den signifikanten Einfluss politischer Rahmenbedingungen auf die wirtschaftliche Entwicklung in Großbritannien und in China zur Zeit der frühen Neuzeit zu veranschaulichen und komparativ zu vergleichen. Als Leitfrage dient hierbei: *Was ist der Unterschied zwischen den handelspolitischen Beziehungen in der Ostindien-Kompanie in Großbritannien und des Chinesischen Kaufmannes Xueyan Hu?* Die Analyse verdeutlicht, dass der Unterschied zwischen diesen beiden Beziehungen grundlegenden ist: Während es britischen Kaufleuten möglich war, mit Politikern auf der gleichen politischen Ebene unabhängig und selbstständig zu kooperieren, waren die chinesischen kaufmännischen Beziehungen durch hierarchische Strukturen und Geschlossenheit geprägt. Mit diesem Ergebnis veranschaulicht die Masterarbeit die Bedeutung und Notwendigkeit der institutionellen Variablen für die Erforschung der großen Fragestellung der Great Divergence.

Introduction

The economic growth puzzle has attracted the attention of economic historians for centuries and is nowadays still one of the most debated topics: why is wealth inappropriately distributed worldwide? What are the reasons for “sustained and substantial growth”¹ in some societies while others have failed to achieve it? Although it was undoubtedly a classical topic with enormous inputs from various scholars, schools and disciplines over long periods of time, it does not mean that little remained to be investigated. As Diamond once described, world history is like an onion and it is a “fascinating, challenging and of overwhelming importance” for us to peel back one layer after another.² This thesis is exactly going to investigate one layer of this large “onion” from a small vantage point---to explore economic performance from the perspective of mercantile-political interrelations. It has no intention and is also incapable of giving a definite answer to this large development question, but aims to make a critical evaluation of one institutional variable in the Great Divergence debate---the relationship between merchants and politicians.

This paper, broadly speaking, deals with the comparison of two different types of political institutional settings, Britain and China, and their influences on decisions and behaviours of merchants. Rather than getting immediately involved into the debate of political settings in “the West” and “the East”, it is necessary to take some time identifying what exactly “the West” is and the term of Great Divergence. The term “the West”, has a strong correlation with civilization and cultural identity. Huntington refers to civilization as the “highest cultural grouping of people and the broadest level of cultural identity people

¹ Vries “The California School and beyond: how to study the Great Divergence?” 1.

² Diamond, *Guns, germs and steel: A short story of everybody for the last 13,000 years*, 11.

have short of that which distinguishes human forms from other species”³. In accordance with this line, he divides the contemporary world into seven major civilizations, among which western identity is the only one that has been lifted “out of its historical, geographical and cultural context”⁴. From a historical perspective, Western civilization refers to European civilization, whereas in terms of contemporary world order, it represents the “Euroamerican or North Atlantic civilization”⁵. It is thus clear that “the West” is more than a geographical term.⁶ For our discussion, which relates to the economic take-off beginning in the eighteenth century in western countries, and only in western countries, Europe is our focus.

Characterized by the industrial revolution of Great Britain in the eighteenth century, the West outperformed other societies in terms of wealth and development progress.⁷ This “unique historical achievement”⁸, to quote North, lies in the success of breaking “loose from the shackles of a world bound by abject poverty and recurring famine” and realizing “a quality of life which is made possible only by relative abundance”⁹. Comparison of numbers and data can provide us a better understanding of this huge gap between the West and the rest of the world within half a millennium. At the beginning of the 1500s, Europe was a place with less than 16 per cent of the world’s population. However, by the beginning of the 20th century, almost three-fifths of all territory was controlled by western countries. Nearly 80 per cent of global economic output was achieved by the West”¹⁰. In terms of urbanization and cities, western countries also took the lead by 1900. In 1500, there were around 50,000 inhabitants in London, while Beijing, in comparison, had a population between 600,000 and

³ Huntington, *The clash of civilization and the remaking of the world order*, 43.

⁴ Ibid: 45-47.

⁵ Ibid: 47.

⁶ Ferguson, *Civilization: the West and the rest*, 15.

⁷ Vries, *Escaping Poverty: The origins of modern economic growth*, 12.

⁸ North, *The rise of the western world. A new economic history*, 1.

⁹ Ibid: 1.

¹⁰ Ferguson, *Civilization: the West and the rest*, 5.

700,000. Yet after 400 years, London became a global megalopolis with a population of 6.5 million, whereas there was only one Asian city, Tokyo, that was among the world's ten largest.¹¹ Further, the high quality of living in western countries was clearly reflected in their longer life expectancy, better diet and high incomes.¹²

Great Britain, in this paper, is chosen as one of the cases illustrating western economic development. It is without doubt the most prominent example of the achievement of substantial and long-term economic growth. Its way of getting wealthy, by becoming a mercantile and imperialistic country, provides the best sample of investigating the political framework for economic growth. However, it would be dangerous to describe the British economy as European mode of economic growth as a whole. Instead of being homogenous, each western country has its own production mode, growth pattern and logic of handling politics and economy, which lead to intense competition and progress.

China, on the other side of the comparison, provides another perspective of how an economy achieves growth. Once the world's largest economy with far more advanced technologies, China failed to keep its advantages. It is true that China possesses rich natural resources, favorable locations, high-skilled work forces and highly-developed production tools. However, China did not succeed in achieving a modern economic take-off. As Goldstone once writes, history does not follow a linear pattern of development --- "bursts of progress are followed by reversals or long periods of stagnation".¹³ The case Britain and China are in this paper exactly the illustrations of it.

Chapter 1. The Great Divergence debate

¹¹ Chandler, *cited by* Ferguson, *Civilization: the West and the rest*, 5.

¹² Ferguson, *Civilization: the West and the rest*, 5.

¹³ Goldstone, *Why Europe? : The rise of the West in world history, 1500 – 1850*, 16.

In this chapter, approaches and explanations investigating the “rise of the west” will be summarized. While Eurocentric approach focused on the uniqueness of western society in explaining the great divergence, explanations from globalization perspective emphasize on the connection and relation of the west with other continents. Natural resources, culture, technology and production mode all contribute in various ways to the better performance of western economies. Based on the previous researches, the importance of political influence from the perspective of mercantile-political relationship will be introduced.

1.1 The development of the debate

Research into the “rise of the West” mainly focuses on the uniqueness of western societies----be it in natural resources, energy use, mode of production, cultural and religion as well as political settings. To name just a few cases, Max Weber perceives western society and culture as fundamentally different from other societies because of its unique rationalization and the spirit of capitalism which arises from it.¹⁴ William H. McNeill attributes the “European miracle” to the “formidable combination of European warlikeness, naval technique, and comparatively high levels of resistance to disease”¹⁵. Eric Jones argues for European uniqueness in almost every aspect, “Fruitful political variety, capital accumulation, and trade all seem partly explicable as adjustments to Europe’s particular site and endowment”¹⁶. And Jared Diamond, who looks specifically into geographical resources, comes to the similar conclusion that “Europe’s geographic balkanization resulted in dozens or hundreds of independent, competing statelets and centers of innovation”¹⁷. Despite their different perspectives, research approaches and explanations, they all share one major

¹⁴ See Weber 1864-1920, *The Protestant ethic and the spirit of capitalism*.

¹⁵ McNeill, *The rise of the West. A history of the human community*, 574.

¹⁶ Jones, *The European Miracle: Environments, Economies and Geopolitics in the History of Europe and Asia*, 226.

¹⁷ Diamond, *Guns, germs and steel: A short story of everybody for the last 13,000 years*, 416.

commonality, of which scholars often regard as Eurocentric approach---- notion that European civilization “has had some unique historical advantage, some special quality of race or culture or environment or mind or spirit, which gives this human community a permanent superiority over all other communities, at all times in history and down to the present”.¹⁸

At the beginning of the 21st century, Pomeranz, a U.S. historian, greatly changed the debate with his book *The Great Divergence: China, Europe and the Making of the Modern World Economy*. The book presents an array of explicit comparisons between Europe and China with vast volumes of data and statistics. The comparisons include aspects not only concerning hard facts of, for instance, birth rate, life expectancy, agriculture and capital accumulations, but also markets, labor systems or land use.¹⁹ He argues that Western Europe was, neither in demographic-material system nor productivity and economic efficiency, superior to other parts of the world.²⁰ The very reason of the industrial revolution taking place in the West was due to the location of resources underground and overseas, precisely speaking, the favorable coal in the first case and the discovery of the New World in the second.

The significant contribution of Pomeranz and his colleagues of the California schools to the debate lies first and foremost in its changed perspective that brings global insight into the world history comparison.²¹ Pomeranz and the Californian school, which is a group of scholars who are based at Universities in California, have huge impact on the debate

¹⁸ Blaut, *The colonizer's model of the world. Geographic diffusionism and Eurocentric history*, 1.

¹⁹ See Pomeranz, *The Great Divergence: China, Europe and the Making of the Modern World Economy*.

²⁰ See Pomeranz, *The Great Divergence: China, Europe and the Making of the Modern World Economy. Chapter 1 and 2*.

²¹ Californian school representatives see Vries 2010, “The California School and beyond: how to study the Great Divergence?”, *History Compass*, 8, p. 3.

concerning “the rise of the West”.²² They reconstruct the position of the rise of the West in the investigation of global history by refusing to put Europe in a privileged situation because of its high dependence on the rest of the world.²³ Following this line of thinking, a number of scholars tried to explain the great diverging puzzle in the greater context of global connectedness, among which the prominent ones are André Gunder Frank with his suggestion to *reorient* and J. M. Blaut with his claim “there was no 'European Miracle’”²⁴. Take André Gunder Frank as an example. He goes so far as to claim that the European outperformance lies in “its exceptionally marginal, far-off peninsular position on the map and its correspondingly minor role in the world economy”²⁵. Europe builds fortunately on the achievements that other societies had already recorded. To use his words, “...Europe used its American money to muscle in on and benefit from Asian production, markets and trade---in a word, to profit from the predominant position of Asia in the world economy. Europe climbed up on the back of Asia, then stood on Asian shoulders--temporarily”²⁶.

In the next few paragraphs, I will first analyze some main and popular variables in explaining why the West stands out. Without denying their contribution and importance to the whole debate, I will then emphasize the significance of institutional settings, to be specific, the political influence as one of the vital elements that cannot be ignored while talking about economic development.

1.2 Evaluation of different explaining approaches to explain the Great Divergence

1.2.1 Natural Endowments

²² Vries, ‘The California School and beyond: how to study the Great Divergence?’, 3.

²³ Goldstone, *Why Europe? : The rise of the West in world history, 1500 – 1850*, VIII.

²⁴ Blaut, *The debate on colonialism, Eurocentrism, and History*, 53.

²⁵ Frank, *Reorient: global economy in the Asian age*, 324.

²⁶ Ibid: 4-5.

Let me first of all start with the geography and natural endowment theme. Pomeranz, after rejecting various arguments about the differences in Europe's fundamental social structures compared with other societies, attributes the success of escaping Malthusian situation in Europe to the advantages of having coal and the acquisition of the New World. To quote:

“It is clear that given Europe's nineteenth-century switch to available and abundant fossil fuels, European advantages in finding ways to use heat had a greater revolutionary potential than China's edge in capturing heat efficiently—but only in retrospect, and only with the advantage of favorably located coal. Had fuel shortages slowed Europe's industrial growth and a breakthrough occurred elsewhere first, the wastefulness of European hearths might not appear as a minor ‘exception’ to a story of growing technical superiority but as a prime example of technological weakness that had held this area back. Or had the New World not provided enormous amounts of textile fibers, European precocity in mechanizing spinning and weaving might seem more like interesting curiosities than the centerpiece of a great transformation...”²⁷.

Pomeranz was actually not alone in advocating the natural endowment argument. Among his companions, Jared Diamond describes the relationship between geography and the European development as follows: “Europe has a highly indented coastline, with five large peninsulas that approach islands in their isolation, and all of which evolved independent languages, ethnic groups, and governments (...) Europe has two islands (Britain and Ireland) sufficiently big to assert their political independence and to maintain their own languages and ethnicities.”²⁸ He then compares it with the situation in China and points out the reason of the Great Divergence—China's weakly separated cores has given it the privilege of having unified culture and wiring, but at the same time, also exerts the disadvantage of lacking competitions and innovations which are common to see in Europe.²⁹

²⁷ Pomeranz, *The Great Divergence: China, Europe and the Making of the Modern World Economy*, 46.

²⁸ Diamond, *Guns, germs and steel: A Short Story of Everybody for the last 13,000 years*, 414.

²⁹ Ibid: 414-416.

What is helpful in explaining the diverging economic performance in terms of geography or any natural-resource-oriented argumentation of a similar kind is the focus on background and surroundings of historical incidences. Geographical perspective described the conditions in which an economy emerges and develops. What is problematic, however, is that natural determinism fails to provide a convincing answer in explaining the changes of economic ups and downs. The logic behind it is obvious: if geographic conditions explain all the reasons behind diverging economic performance, then their performances should have been determined from the very beginning by their natural circumstances. Hence, the later emergence of the “rise of the West” would not have occurred. What is more, although geographical factors might, ultimately and permanently, determine the economic trajectory, what might be lacking is understanding the motives and incentives behind, for instance, how the individual makes daily economic decisions, how families conduct agricultural productions and how states regulate national economic activities.

1.2.2 Culture explanation

In addition to natural and geographical differentiations, scholars attempt to explore the economic performance in terms of cultural factors. Max Weber explores the deep roots of capitalism and believes in the unique spirit of capitalism which can only be observed in Western society. The idea of “rational labor in a calling” constitutes the core of the rise of capitalism, justifies and rationalizes the profit-making business activities and thus its holders.³⁰ Following Weber’s steps, David Landes highlights the Western cultural and spirit contributing to the “rise of the West”, its method of precise calculation and measurement, “routinization of discovery, invention of invention”, as well as fierce competition and

³⁰ Weber, *The protestant ethic and the spirit of capitalism*, 84-85.

pressure in innovation, all that serves as the pillar of Western uniqueness.³¹ The uniqueness of Western culture is also reflected in the fierce political competition and dynamics, the ‘masculine’ philosophical thinking emphasizing on certainty rather than the ‘feminine’ way of thinking of the East specializing in flexibility, the attitude towards science is more concentrated on theory instead of practical use, the instability and eagerness for exploring as well as controlling.³² In terms of establishing different political settings and providing incentives for economic growth, culture does play an important role. However, one cannot talk about culture without referring to other terms such as region or politics, which makes the explanation too far away from the actual economic problems explanations and too vague for the actual concrete solutions.

1.2.3 Mode of Production

Mark Elvin, instead, implies that the stagnation of the Chinese economy results from its supply and demand equilibrium pattern----there is no significant stimulus of invention of any kind in economics, to which he refers as “the high-level equilibrium trap”.³³ Specifically speaking, the huge size of the Chinese economy with its high productive economic outputs meets the population’s demand, leading to a high-level equilibrium for which no incentive exists for revolutionary changes in terms of technology, administration, politics and organization.³⁴ Similarly, two Chinese scholars Chengming Wu and Dixin Xu also argue that the nature of the Chinese production pattern is the one of the main reasons why the Chinese economy stagnated.

³¹ Landes, *The Wealth and Poverty of Nations. Why some are so rich and some so poor*, 202-205.

³² See Vries, *Escaping Poverty: The origins of modern economic growth*, 382-386.

³³ See Elvin, Mark. *Another History. Essays on China from a European perspective*.

³⁴ Elvin, *Another History. Essays on China from a European perspective*, 56-58.

“The lord system of European economies characterizes in large-scale operation by the collective labor of serfs on the lord land. (...) Here the manor is a whole combination of agriculture and handicrafts, which took place not entirely within the serf family. Our [Chinese] economy is a different landlord system. (...) The land is sublet to households, forming the basic production units, known as small-scale agriculture. Thus, the combination of agriculture and handicraft industry was also completed within family unit”.³⁵

This kind of enclosed household mode of production makes it extremely difficult to extract a single type of work, mostly handicraft, from the whole household and then develop or expand it into large scales that could be called “industry”. It always happens the other way around--- handicraft work relates closely with the basic agriculture production and is always perceived as side work, for which women and children within families have the responsibility. While in Britain, claims Braudel, industrial enterprise successfully achieved total independence, representing a new age and decisive historical point of labor division of industry and other types of business.³⁶

1.2.4 Technology and innovation

Among various lines of explanation, the most popular one would be the debate regarding innovation and technology. From the perspective of technological development, Schumpeter explains that the reasons western economies stand out depend on their “creative destruction” lying at the very heart of capitalism.³⁷ Schumpeter argues that the fundamental characteristic of capitalism by its nature is an evolutionary and non-stationary progress. He rejects the unchanging accumulation process, the “quasi-automatic increase in population and capital”, as the prime motor of capitalist growth.³⁸ Instead, innovation and creativity, for

³⁵ <http://economy.guoxue.com/?p=5716>, August 29, 2014.

³⁶ Braudel, *Civilization and capitalism 15th-18th century. Volume III The perspective of the world*, 598.

³⁷ Detailed description of the term “creative destruction” see Joseph Alois, Schumpeter. *Capitalism, Socialism and Democracy*, 81-86.

³⁸ Schumpeter, *Capitalism, Socialism and Democracy*, 82.

which he pinpoints “new consumer’s goods, the new methods of production or transportation, the new forms of industrial organization that capitalist enterprise creates”, as constituting the essential part of capitalism. As for the question of what is the breaker of the old system, Schumpeter further gives the answer of technology, which can destroy the “equilibrium state previously existing”³⁹. The economic growth driven from technological progress can, according to Joel Mokyr, bring the so-called “free lunch” to the society, where economic output is not necessarily in accordance with or equivalent to the input of cost, energy and effort.⁴⁰ The Schumpeterian mode of economic progress is vital for industrialization. Unlike in a Smithian type of economy, where economic progress depended on commercial expansion, overseas trade or capital accumulation, innovative technology can achieve substantial and revolutionary growth that traditional economic mode is unable to do.⁴¹ Hence, the heart of the great division between western European and the rest of the world comes from the technological innovation which is common to see in Europe.⁴²

Despite the great importance of technological progress in producing substantial output with high quality, the argumentation is to some extent biased. It has to be remembered that technology alone does not guarantee a Schumpeterian type of economy. The Chinese Self-strengthening movement in the 19th century provides the best example. During this movement, the ruling elites of the court believed that learning and using western technologies were the best ways to strengthen the nation and create wealth. The goal had

³⁹ Gaffard, *Schumpeterian Perspectives on Innovation, Competition and Growth*. 99.

⁴⁰ Mokyr, *The lever of Riches*, 3.

⁴¹ Ibid: 218.

⁴² Vries, ‘*Governing Growth: A Comparative Analysis of the Role of the State in the Rise of the West*’, 126.

been approached by introducing, adopting and innovating western technologies.⁴³ An array of modernization measures were implemented from building military and industrious machines, factories and arsenals, training professionals and personnel to establishing modern colleges and translating foreign technical documents.⁴⁴ One of the most outstanding outcomes of this movement was the fact that Chinese naval forces reached the highest level internationally, both in their scale and techniques.⁴⁵ Further, the Hanyang steel factory, founded in 1891, had strong influence in global markets with customers from Japan and America.⁴⁶ However, the whole movement didn't succeed in the end. Its failure lies in the political power, social and management system, which were still followed the conservative Confucian idea and not inconsistent with the adopted western technologies⁴⁷ The progress is thus short-fated, since a favorable environment for long-term development of technology and innovation is lacking.

The above-mentioned explanations, in varying ways, reveal the underlying factors of different economic performance. This paper has the aim to further enrich the whole approaches to providing an explanation by turning towards the political settings and framework under which different economies emerge. Why is this approach necessary? What kind of lessons can we learn from the exploration of economic performance in term of political settings? What has been achieved in this field and what kind of new perspectives is

⁴³ Wang, 'Yangwupai Keji Yinjin Yanjiu 洋务派科技引进研究' [Analysis of technology introduction during Self-strengthening movement], 6.

⁴⁴ Ibid: 9.

⁴⁵ Ibid: 28.

⁴⁶ Ibid: 29.

⁴⁷ Gao, 'Lun Yangwupai de Kejiguan dui zhongguo jindai keji fazhan de yingxiang 论洋务派科技观对中国近代科技发展的影响' [The influence of westernization group's views on science and technology of china's modern science and technology', 39-45.

this paper going to present? The following chapter will try to shed some light on those questions by taking a close look at the interactions between political powers and merchants.

1.3 Why political institution matters

Institutions, according to North, are formal and informal constraints and devices that shape human interactions. They include formal rules or laws and informal “codes of behavior” like social traditions.⁴⁸ While the former refers to rules devised by human beings, the latter emphasizes human conventions and behaviors.⁴⁹ They played a fundamental determinant role in economic performance in the long run. In this sense there are good and bad institutions. Poor economic performances again according to North, such as what is happening in Third World countries, result from the institutions failing to encourage active productivity or the incentives for productivity.⁵⁰

Daron Acemoglu and James Robinson stand on the same side of North by arguing for the incentives that political institutions provide for economic performance. In their book *Why nations fail*, they repeatedly emphasize the significance of political settings in creating and providing economic incentives for individuals, businesses and societies. They argue that political institutions determine the economic incentives, regulate the whole process, guarantee stability and finally decide the prosperity of nations.⁵¹ For the question of what is the right institution for economic growth, they refer to the advantages of inclusive institutions over exclusive ones in providing a sustained development based on technology.⁵²

⁴⁸ North, *Institutions, Institutional change and economic performance*, 4.

⁴⁹ Ibid: 4.

⁵⁰ Ibid: 110.

⁵¹ Acemoglu and Robinson, *Why Nations Fail--The origins of power, prosperity and poverty*, 43-44.

⁵² Ibid: 154.

Besides the contribution of political institutions in terms of economic incentives, their significance is also reflected in the function of ensuring the continuity and smoothness of interrelations between different economic sectors. Economic growth is not only about incentives to realize development and progress, it also about harmony and interrelation, which as Braudel points out, a pattern of growth involving “a whole series of inter-related advances” that take place in “production and productivity, in agriculture, industry and commerce”.⁵³ It requires each sector not to hinder others in their development.⁵⁴ In such process, political institutions have the role of facilitating the market with resources flow and production.

Last but not least, the necessity of searching for economic answers in the field of political institutions in history becomes urgent considering the current approach to research dominated by neoclassical economics. The neoclassical approach gained its popularity through its notion of so-called “good governance” in terms of institution---privatization of the national economy, promotion of free trade, liberalization and reorientation towards market-driven economic growth. Several reasons have contributed to the increasing unpopularity of the influence of the state politics: The successful image of the prosperity and wealth of industrial Britain by laissez-faire policies plus the influential economists’ work regarding the benefits of free and open international trade by, for example, David Ricardo. Additionally, the economic crisis by the end of the 20th century proved to be a failure of mode of economic growth governed by the state. However, it is necessary to have a second thoughts before we embrace such fantastic words as freedom, democracy and openness. Chang is right to point out that, the narrow focus on theoretical propositions and the

⁵³ See Braudel, *Civilization and capitalism 15th-18th Century. Volume III The perspective of the world*, 546.

⁵⁴ Braudel, *Civilization and capitalism 15th-18th Century. Volume III The perspective of the world*, 540.

absence of analysis relating to historical experience within the neoclassical framework is unfortunately misleading for economic development. According to his analysis on the historical path of countries that succeeded in catching up, they all share the common feature of what the father of infant industry protection, Friedrich List, once emphasized: By “correctly appreciating the existing interests and the individual circumstances of nations”, the protection system enables countries to develop to the equally well developed level, then making free trade possible and useful.⁵⁵ Taking this perspective as starting point a much closer investigation of history of how and to what extent specific kinds of political institution influences economic performance, other than blindly chasing after the neo-classical approach, is urgently needed.

Chapter 2. What is new about focusing on the mercantile-political relations?

The chapter starts with some approaches explaining how political settings influence economic decisions. Based on the results, the methods in this paper of evaluating different political influences on merchants’ decisions will be introduced ---its specialties, advantages and its practical application on two concrete cases in the following chapter.

2.1 How to explain political institutions?

How to make a constructive and critical evaluation of political institutions’ influence over economic performance is another challenge. It is not always clear how to measure, value, assess and interpret political arrangements as an economic variable, notwithstanding the popular reference to institutions nowadays when talking about the economy. It is also far from clear how to effectively examine the connections between economic performance of

⁵⁵ List, *The national system of political economy*, 103.

different levels and various political settings behind them. Currently economic history research is developing with a strong orientation towards “economic and statistical modelling applied to the past, utilizing explicit hypotheses, mathematical modelling, counterfactual arguments and statistical testing”⁵⁶. By using “abstract representation” that “serve[s] to represent in a simplified way some aspect of economic behavior”⁵⁷, neo-institutional economics are above all concerned with “work organization, job motivation, management behavior, incentive systems, information flows”⁵⁸. For example, we can see Ronald Corse’s explanation of government’s contribution to the market transaction cost.⁵⁹ The advances of such approaches are admittedly great: governments are not perceived as a direct determinant for economic development or a participant in economic activities, but rather as a tool of modification and regulation for the market. The advantages of such an approach lies in the importance of specifying the role of government in the market, which is to clarify the property rights, and thus reduce the transaction cost according to Corse.⁶⁰ It also has the indication that the role of government is not confined to intervention and the focus should rather be put on the market efficiency as a whole.⁶¹

In addition to that approach, Ha-Joon Chang goes back to history for explanations. He illustrates the significance of the State for economic take-up in the modern period by giving a detailed description of policies and regulations implemented by western countries. In his book *Kicking away the ladder* he specifies the different kinds of government strategies ranging from government promoting projects to tariff protection so that a comparative advantage

⁵⁶ Gustafsson (ed.), *Power and Economic Institutions: Reinterpretations in Economic History*, 26.

⁵⁷ Fogel, *The Frontiers of the new institutional economics*, 21.

⁵⁸ Gustafsson (ed.), *Power and Economic Institutions: Reinterpretations in Economic History*, 18.

⁵⁹ Ibid: 19.

⁶⁰ Peng and Song, ‘On Significance of Transaction Costs Theory’, 15.

⁶¹ Yuan and Guo, ‘Kesi Dingli de Sanzhong Biaoshu he Zhengming 科斯定理的三种表述和证明’ [Three kinds of description and prove to the Corse Theorem], 54.

for the nation's own products could be created and developed. For instance, he listed a series of British policies and strategies in protecting domestic industries before and during the Industrial Revolution. To be precise, he analyzed the measures taken by Henry VII to strengthen Britain's wool production capabilities in 1489, which included: finding the most favorable location for wool manufacturing, introducing skilled workers from abroad and preventing exports of raw wool.⁶² He also takes a look at how those policies changed the economic landscape worldwide. For instance, the Wool Act implemented in 1699 easily hit Irish wool manufacturing. One year later, imports of Indian cotton products was prohibited and around two hundred years later, Britain exported almost half of its cotton products to India.⁶³ The implication of Chang's approach of vital importance: it not only invites history into the exploration approach and rejects generalization of one specific development strategy, such as the notion of "free trade benefits all", but also provides a series of context-specific government decisions during different historical times.

2.2 What is new about studying the mercantile-political relations?

Based on the preceding approaches to research, this paper attempts to explore the influence of political institutions on the economy from a new perspective---Mercantile-political relations. It aims to construct explicit functioning patterns between business and politics. Explaining economy from the perspective of mercantile-political relationship is an innovative approach, whose advantages are reflected in the following aspects:

Firstly, the Mercantile-political relation is non-static process, compared with the traditional policy analysis approach. Instead of examining the one-directorial influence of

⁶² Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, 20.

⁶³ Ibid: 22.

policies on economic performance, the mercantile-political relation is a process involving negotiation, cooperation and interest struggles as well as conflicts between merchants and politicians under particular and contradictory circumstances. Hence, it is not hard to understand that this approach is more helpful in exploring political intensions and attitudes towards merchants and vice versa, the merchants' reaction to political decisions behind each policy. It is also a better reflection on the culture of nations than the approach focusing on specific national policies, since the mercantile-political pattern extracts the nature and essence from various political regulations.

Further, for the comparative studies of the East and West, the mercantile-political relation provides a comprehensive understanding of reality, because considerable support and pressuring from the politicians on merchants are not carried out in the form of official legal and political regulations. Bribery, for instance, is the most common way of getting political support for merchants, both in China and in Great Britain. Monopoly granting in the early stages of the East India Company, which will be illustrated later in this paper in details, is more of a personal choice of the Queen, rather than a collective legal decision. It also complicates perceptions of the business landscape in China. It has been widely accepted that China cares less about business, trade and merchants. However, if one observes the relationship between merchants and the emperor, doubts might be cast on that claim. As the case will show later on, the Chinese emperor provides large amounts of supports for the merchant, Xueyan Hu. From this perspective, it is much more insightful to explore in depth the concrete differences, for example, of using bribery as methods for developing and maintaining close relations. Therefore, the relations between politicians and merchants serve as a valuable starting point for further investigation of this question.

Last but not least, from the perspective of cultural aspects in perceiving the economy, mercantile-political relation can make a great contribution by connecting culture and the economy. Culture and political institutions are closely interrelated factors. We cannot talk about one without referring to the other. They are strongly intertwined and can hardly be disentangled.⁶⁴ Temin is correct in pointing out that culture is about “distinctive attitudes and actions that differentiate groups of people”. It also has to be remembered that cultural and religion factors, while used in explaining economic performance, are considered to be too far away in understanding how we got to the current economic status.⁶⁵ In other words, they are inadequate in providing a direct and concrete explanation for economic problems. In this sense, the form of mercantile-political relations, as a reflection of the cultural code in the society, make progress in provide a more constructive explanation. All in all, incorporating the perspective of mercantile-political relations into the research of political institutions is a great help by widening our views on the role of the state, specifying argumentations instead of generalization, and transforming abstract values, culture and philosophies into variables that can be observed and investigated.

Now one may wonder what kinds of mercantile-political relationships are found in Britain and China. How differently do the merchants in Great Britain correlate with government compared with the Chinese ones? The following paragraphs will answer those questions one by one.

2.3 Clarification of comparative case studies

⁶⁴ Vries, *The role of culture and institutions in economic history: can economics be of any help?*, 29.

⁶⁵ Acemoglu and Robinson, *Why Nations Fail---The origins of power, prosperity and poverty*, 59.

The paper will compare two different types of mercantile-political relations: The relationship between the English East India Company (EIC) and British political powers and between the Chinese merchant Xueyan Hu in the 19th century and Chinese imperial powers. The reasons of choosing these two cases are as follows: First of all, both share a sequence of similarities. They have created enormous wealth in history and thus become economically vital for their nations. The EIC possessed a standing army of around 200,000 people, exceeding most of the European States and “none of today’s state-owned companies has yet gone this far”.⁶⁶ Hu started his business career in Qianzhuang, China’s earliest form of banking system. He then expanded his business covering a wide scope of fields including salt and tea industries, pawnshop, real estate, Chinese herbs, and military arms by the end of 19th century, to name just a few.⁶⁷ What is more, Hu’s tremendous economic profits, scales and benefits were achieved through developing a close relationship with political powers. Both started their business relying heavily on the political privileges, be it in the form of grants or direct financial support. Last but not least, merchants in both countries saw it as a necessity always to maintain a close relationship with politics and thus implement various but similar strategies.

However, despite so many similarities, the result in the end has been two completely different outcomes. While the EIC transformed from a business company into an agency responsible for wide range affairs in India, Xueyan Hu’s business was eventually destroyed by the emperor’s powers on which he relied to start and expand his career. Although both business disappeared with the time, they were not of the same nature. The former came to a conclusion as a transformation due to expansion of colonies, while by contrast the latter was

⁶⁶ <http://www.economist.com/node/21541753>, August 29, 2014.

⁶⁷ Cao and Hu, ‘Dui Hu Xueyan Bailuo de shenshi 对胡雪岩商业败落的重新审视’ [Evaluation of Hu Xueyan’s decline], 144.

absolutely a victim of political struggles, which was sudden, quick and radical. From this comparison, it could be concluded that for EIC, its relationship with political powers was a cooperative form of two separate groupings of people; while in Xueyan Hu's case, the functioning pattern was a hierarchical cooperation within one enclosed entity. The former is a type of relationship comprised mainly of negotiations on mutual benefits, struggles and compromises. The cooperative activities are conducted within the framework of respecting the independence of the participants involved. In comparison, in a hierarchical cooperative system the merchants have little room for free and independent economic decisions. It thus leads to higher vulnerability of merchants to political decisions as well as fluctuations that can completely destroy a large business overnight.

It might often be argued that in history Britain is absolutely a mercantilist country, whereas China is an agriculture society in which merchants are always despised, suppressed and in marginal social status. This paper, however, by refusing to generalize the situation of both countries has the aim of taking a close look at what exactly the differences are in the relations between politics and merchants. A simple re-examination into history can tell us that Chinese merchants are not always in a lower and unimportant position in Chinese economy. Already under the Song Dynasty (950-1279) Chinese merchants and politicians had developed quite a complicated cooperative net of credit, trade and handicraft between merchants and politicians.⁶⁸ Chinese merchants in its late 19th century had significantly improved their social status due to the western influence and self-strengthening movement, when numbers of politicians devoted themselves into business.⁶⁹ Secondly, China was not

⁶⁸ See Jiang, *Entrepreneur Theories abandoned by the society* and Sjoberg, *The Preindustrial city: Past and Present*, 136, 183-187. Cited by Chan, *Merchants, Mandarins, and modern enterprise in late Ch'ing China*, Translated by Jian Zhang and Di Wang, 4.

⁶⁹ Ibid: 44.

the only society which held merchants in low regard. Josef Jiang has done a series of researches into New England in 17th century, England in 18th century and France in the 19th century and found out that all of the above-mentioned societies had restrictions on merchants' legal and political rights.⁷⁰ Therefore, it is not only important but necessary to re-examine political power behind the economy in different periods.

Can the case of a personal career or family business actually be comparable with a national company? The answer is yes, it but depends on the perspectives. Although the Chinese case concerns the business of one person, it was never a household type of business along the lines the traditional Chinese merchant pattern. His business expanded to such an extent that it can be described as “empire”---- raising capital, doing military business, lending money and acquiring bonds to expand business fields as well as gaining a good reputation in society---all similar and comparable to the East India Company. His private company Fukang Bank has numbers of filial scattered in China for example in Jingcheng, Ningbo, Fuzhou, Hunan and Hebei.⁷¹ The Qianzhuang provided complicated finance services. Apart from deposit and loan business, the bank also issued bills that can be exchanged with money.⁷² The paper will cautiously choose those elements that have enlightening implications for the comparative approach, instead of becoming a chronological description of histories of two business companies.

The time-frame will stretch throughout the whole period of the both cases from their establishments to their ends. Considering the non-static interrelation of businessmen and

⁷⁰ Ibid: 19.

⁷¹ Kong, 'Jinrong Weiji Zhong de Piaohao yu Qianzhuang 金融危机中的票号与钱庄' [On the exchange bank and private bank in Financial crisis in 1883], 60.

⁷² Kang, 'Jiangzhe Qianzhuang de Kuaiji Zuzhi yu Zhuangbu Shezhi 江浙钱庄的会计组织与账簿设置' [The Organization of accounting ledger in Jiangzhe Qianzhuang], 73.

politicians, it would be insightful to observe the whole processes. Despite the fact that the mercantile-political relationship does not always look the same because of different historical and political circumstances, it possesses some general features and follows a certain kind of logic which accounts for today's research on mercantile-political relationship.

In the third part, the mercantile-political relationship in both countries will be analyzed explicitly. The focuses of this comparative approach are the nature, features, functioning patterns and outcomes of the two different types of relationship. It will be followed by an analytical process relating institution, culture and economic performances in the fourth part.

Chapter 3. Mercantile-political relations of the English East India Company 1600-1800

The establishment, development and transformation of EIC would not happen without the close relation of political supporters. Although the mercantile-political relations are not same during the time, it remains to be a kind of relationship featuring in cooperative, equal and negotiable. This kind of characters will be illustrated and analyzed explicitly in three different periods of the development of EIC.

3.1 Background

Before EIC had been grounded, the explorers from Spain and Portugal and later the Dutch had already discovered and explored the New World with remarkable success. Early in the 15th century the Portuguese had already reached the Indian coast and at the beginning of 16th century the Spanish had successfully crossed the Pacific and established their settlements in the Central America.⁷³ When the East India Company attempted to get a foothold in the Indian Ocean in the first few years after establishment of the company, the

⁷³ Foster, 'England's Quest of Eastern Trade', 3.

market was for a long time subject to a Portuguese monopoly and later increasingly; under the effective control of the Dutch.⁷⁴ Nevertheless, the EIC withstood the intense competition of European countries and developed in the next two centuries into a company with such enormous economic and political influence that rarely did anyone in the business field refuse to associate their own names with this company.⁷⁵ One cannot deny that the birth and the successful development of this profit-driven business company, goes hand in hand with politics, be it in the form of monarchical grants at the beginning or the complete takeover of Indian governmental in affairs in the later phase.

Specifically, three phases of mercantile-political relations of the East India Company will be analyzed in accordance with its development: the mercantile relationship at the beginning of the company's activities with main features being the crown granting monopolistic rights in doing overseas business, the unsettled relationship until 18th century characterized by the emerging power of parliament and in the end, the political purposes eventually overshadowing economic pursuits in India. In spite of the different cooperative forms and conditions of British business and politics, no one would deny the importance of political power in building the business empire. More importantly, the unique cooperative framework of merchants and politicians, on one hand, gave merchants enough freedom to make commercial decisions on their own and on the other, provided them with necessary political support. Business activities and decision-making processes were negotiated and discussed within this framework.

⁷⁴ Ibid: 183.

⁷⁵ Roy, *The East India Company: The world's Most Powerful Corporation*, 1-2.

3.2 1st period mercantile-political relations in establishing a company

Actually there was nothing new in English merchants receiving privileges from the crown in history. Early in the 13th and 14th centuries it became evident that the English monarch needed the revenue from the export tax on the wool trade. The association formed by the merchants, which was later known as “the Fellowship of the Staple”, “were able to take advantage of the royal necessity to barter loans in exchange for monopoly-rights in the valuable export trade in wool”⁷⁶. In the middle of the 16th century, the Russian company was formed and two years later obtained its special right to trade “across Russia with Persia through Kazan and Astrakhan”⁷⁷. Later on, the Eastland Company gained its charter to trade exclusively in Norway, Sweden, Prussia and so forth. Similarly, the Spanish company was entitled to monopolize the trade with Spain and Portugal in “wine, oil and fruit”. At the end of the 16th century, four businessmen received the privileges of trading with Turkey, and formed the Levant Company under which Queen Elizabeth was one of the shareholders.⁷⁸ All the examples illustrate the very traditional and stable features of English the mercantile-political relationship in the early ages, which can be concluded as the permanent search for political grants and striving for monopolies. That the East India Company did not escape from this tradition is not hard to understand.

During the 16th century, Queen Elizabeth had passionately provided enormous political and diplomatic support necessary to carry out overseas explorations and to build trade connections. She provided the recommendation letter to the Russian emperor for Jenkinson who sailed to Russia searching for an alternative route to India.⁷⁹ She later dispatched

⁷⁶ Mukherjee, *The Rise and fall of the East India Company*, 9.

⁷⁷ Ibid: 10.

⁷⁸ Ibid: 11.

⁷⁹ Foster, ‘England’s Quest of Eastern Trade’, 23.

another person named Thomas Randolph to support the negotiation with Russia.⁸⁰ Moreover, Queen Elizabeth invested money in the early expeditions. After the successful attempt of the Russia Company, which proved the possibilities of reaching Asia, new expeditions were prepared to further explore the route that had already been opened. The Queen contributed £ 1,000 to the new voyages and £ 300 to Locke, who was going to be the governor. Not only the Queen herself, but a group of noblemen had also appeared on the list, who were attracted by the rumors as well as the dream of precious metal in the remote places.⁸¹

The support from the Queen was not confined to raising funds for the company, she also encouraged pioneering people, like Captain Drake, who took the lead in expanding the scale of trade. In 1580, Francis Drake completed his global circumnavigation reaching the Moluccas and returning by way of the Cape of Good Hope.⁸² He opened up a new era in English marine exploration with his several raids on Spanish fleets. From then on, raids became a “principle feature of the expeditions”⁸³. This kind of practice was supported by the Queen. She had not only allowed Drake to do so, but also gave him some of her funds.⁸⁴ He was also sponsored by numbers of ‘equal companions and friendly gentlemen’.⁸⁵ Besides valuable metals, the raids by Drake yielded several maps that helped his voyages to a large extent.⁸⁶ However, although Drake made such a significant progress in his marine career, stagnation and setbacks often shadowed the exploration activities. Several years before the establishment of the East India Company, attempts to reach China by way of the coasts of

⁸⁰ Ibid: 38.

⁸¹ Ibid: 53-54.

⁸² Ibid: 57.

⁸³ Ibid: 58-59.

⁸⁴ Ibid: 59.

⁸⁵ Roy, *The East India Company: The world's Most Powerful Corporation*, 9.

⁸⁶ Ibid: 10.

Russia had met with failure. Diplomatic relationships with Spain were not optimal at all and the Cape voyage was full of danger. The Portuguese had firm control over the Indian Ocean and the doubt regarding the ability of English merchant to manage “the stormy sea that washed the Cape”⁸⁷ was obvious.

English merchant people felt more and more pressure from their neighboring countries and were eager to establish their own company. Under the leadership of Willem Barentszoon, Dutch merchants had made “a series of determined efforts...during 1594-96”⁸⁸. In 1599, the success of the Dutch ships which returned to Holland from the East with rich products further stimulated the English merchants to seize and secure their interests in the Far East.⁸⁹ Hence, English merchants submitted a petition to the Queen for the establishment a new company. Despite the disagreement from the Parliament for fear of becoming involved in severe conflicts with Spain, the newly established company, again, obtained the royal charter on the very last day of 1600. The official name of the company was *The Company of the Merchants of London Trading to the East Indies*⁹⁰ and the first voyage was on its way to the destination immediately after the inauguration.⁹¹

Besides the royal support in funding monopoly rights, and satisfying merchants’ needs, political power was also actively involved in managing disputes. Compared with its Dutch competitor, the performance of EIC can only be interpreted as “disappointingly slow”⁹². The Dutch maritime power developed so strongly that it posed a threat to the Portuguese monopoly.⁹³ They pursued a clear plan with determined effort: to establish and maintain

⁸⁷ Foster, ‘England’s Quest of Eastern Trade’, 110-111.

⁸⁸ Ibid: 142.

⁸⁹ Ibid: 144.

⁹⁰ Roy, *The East India Company: The world’s Most Powerful Corporation*, 40.

⁹¹ Foster, ‘England’s Quest of Eastern Trade’, 155.

⁹² Ibid: 183.

⁹³ Ibid: 183.

their monopoly of the most profitable overseas business, excluding Spain and Portugal by violence and the English by diplomacy.⁹⁴ Hence, the threat of the Dutch monopoly of the spice trade to a large extent triggered the ambition of the London merchants in reaching India.⁹⁵ English vessels endeavored to find places for landing apparently annoyed the Dutch, who demanded the English depart immediately.⁹⁶ With the course of time conflicts of such a kind had become more and more often and not surprisingly, the English merchants turned to the Lord Treasurer Salisbury for help so that the merchant right of “freedom of trade” could be secured.⁹⁷ Accordingly, the English ambassador at The Hague began to investigate the case. The solution suggested by the ambassador provided little practical value. He came to the conclusion that joint trade would be possible for both sides.⁹⁸ However, both sides would not make concessions, with the Dutch insisting on the grants that had been given to them and the English claiming the “natural right to free and unrestricted” trade⁹⁹. At this time point, the mercantile-political relationship started to change direction, since King James was concerned to have a good relationship with the Spanish monarch¹⁰⁰ and reduced the benefits for the East India Company. With those changes, the first period of English mercantile-political relationship came to an end.

The first period of mercantile-political relationship has the following features: First of all, it significantly took the form of a royal charter. The charter’s importance, according to Tirthankar Roy, lies in its self-determination---- “it created a corporate body legally entitled to own property in its name anywhere in the authorized areas of operation, and entitled to

⁹⁴ Ibid: 198.

⁹⁵ Chaudhuri, *The English East India Company: The study of an early joint-stock company 1600-1640*, 11.

⁹⁶ Foster, ‘England’s Quest of Eastern Trade’, 202-203.

⁹⁷ Ibid: 205.

⁹⁸ Ibid: 206.

⁹⁹ Ibid: 206.

¹⁰⁰ Ibid: 207.

frame its own organizational rules”¹⁰¹. In other words, the company enjoyed the exclusive right of deciding the company’s operational activities.¹⁰² For example, the EIC possessed the right to “purchase land, to sue and be sued, and to have a common seal”¹⁰³. The government did not stay at this stage of protection. In order to let English marine power stand out from the fierce competition from its neighboring countries, the charter from Queen Elizabeth also granted the company the exclusive right to trade with countries “beyond the Cape of Good Hope and the Strait of Magellan for fifteen years”¹⁰⁴, which was one of the core and indispensable characteristics of the company. It gave the company a high degree of independence and exclusiveness. Apart from economic functions, the company also enjoyed political and military rights in the business field, so that its advantageous position would not be challenged by competitors.¹⁰⁵

The reasons why the Crown so significantly promoted the EIC are not hard to understand. First of all, it is undoubtedly within the public interest to support the company since the oriental commodities for the King’s subjects would no longer have to be bought from other countries.¹⁰⁶ Furthermore, the economic benefits also included the considerable revenue from customs duties and last but not least, a source of royal loans.¹⁰⁷ It is also clear that the privileges were the result of the pressure from businessmen, since some of them possessed power and finance so that they could influence overseas business considerably.¹⁰⁸ James I, for example, had once said to the ambassador of the State General that “his subjects would not give him any rest until he granted them letters of marque for reprisal against the

¹⁰¹ Roy, *The East India Company: The world’s Most Powerful Corporation*, 40.

¹⁰² Ibid: 40.

¹⁰³ Chaudhuri, *The English East India Company: The study of an early joint-stock company 1600-1640*, 28.

¹⁰⁴ Ibid: 28.

¹⁰⁵ Mukherjee, *The Rise and fall of the East India Company*, 12.

¹⁰⁶ Ibid: 29.

¹⁰⁷ Ibid: 30.

¹⁰⁸ Chaudhuri, *The English East India Company: The study of an early joint-stock company 1600-1640*, 30.

Dutch shipping as an answer to Dutch exactions against the English in the East Indies”¹⁰⁹. No matter whether it is the pressure from powerful merchants or the interests from the Crown, the undisputed fact is that politics and business were interdependent in East India Company because of the mutual beneficial interests for both sides.

3.3 2nd period of relations: Political turmoil and new company

From the end of 17th century to the beginning of the 18th century, the mercantile-political relationship experienced several ups and downs and eventually transformed from a merchant-royal relationship into a merchant-parliamentary one. In the middle of the 17th century the company was faced with severe political instability from the power struggle between the King and Parliament. The political turmoil, nevertheless, did not destroy the company but changed the forms of the company’s political support. The instable years of Civil War and Glorious Revolution had weakened the influence and power of the Crown, which brought two changes to the company: It firstly benefited those private traders who suffered from the monopoly of the East India Company before and at the same time, empowered the regional offices or the branches,¹¹⁰ which had set the precondition for the complete political takeover in India in the third period.

The exclusive right of the East India Company to do overseas trade had brought benefits and troubles at the same time. The trouble came from a group of prominent merchants who were dissatisfied with the monopolistic position of the company and accused it of the misappropriation of assets that could have been of benefit for the entire society.¹¹¹ The critics specifically pointed to the substantial difference between the profits from Indian trade and the interest rate. The protest from the “little fishes” against the monopolistic enterprise

¹⁰⁹ Calendar of State Papers East Indies 1617-1621, 434, *Cited by* Chaudhuri 1965: 30.

¹¹⁰ Roy, *The East India Company: The world's Most Powerful Corporation*, 96-97.

¹¹¹ Ibid: 102.

did not gain much success at the beginning, as the Crown strongly favoured the “great whales”¹¹². In responding to the dissatisfaction from the *have-not* merchant-manufacturers, so defined by Mukherjee,¹¹³ a merchant named Child had issued a pamphlet clarifying a series of good outcomes of monopoly: benefiting State revenues which in return, had made even more advanced ships possible. The overall improvement of the State had actually been reflected in the cheaper foreign commodities.¹¹⁴

Child’s explanations did not prevent the crisis of the company and the *have-not* merchants began to turn to Parliament. After the Glorious Revolution 1688, the company “had to battle a lobby of interlopers in the House of Commons.”¹¹⁵ A few structural changes for the company were supported, such as “reissuing of stocks, limiting individual holding, even suggested the dissolution of the Company”¹¹⁶. By taking the form of Parliamentary protest, nationwide opposition against all the royal monopolies was conducted.¹¹⁷ Since the London merchants virtually took control of the monopoly of the foreign trade, complaints from their provincial counterparts were extremely loud. Merchants from Newcastle and Bristol, for example, achieved success in the battle by providing evidence of prior grant rights for their own guilds as early as in the Middle Ages.¹¹⁸ It was not only merchants; the conflicts of interest also involved weavers who were effected heavily by foreign textiles. The conflicts between weavers and the company reached a high point when the attempt to prohibit the trade failed.¹¹⁹ In the meantime, the spread of news regarding the corrupt behaviour of the

¹¹² Mukherjee, *The Rise and fall of the East India Company*, 33.

¹¹³ Ibid: 31.

¹¹⁴ Roy, *The East India Company: The world’s Most Powerful Corporation*, 103.

¹¹⁵ Ibid: 104.

¹¹⁶ Ibid: 104.

¹¹⁷ Mukherjee, *The Rise and fall of the East India Company*, 34.

¹¹⁸ Ibid: 34.

¹¹⁹ Roy, *The East India Company: The world’s Most Powerful Corporation*, 105.

Company had further undermined its stability.¹²⁰ Eventually in 1689, under enormous pressure from both industrial capitalists and the powerful lobbying from interlopers in the Parliament, a new East India Company was established.¹²¹ The new company enabled more merchants to share the monopolistic right of doing trade in the East, represented a new group of people with economic interest and gained the political support from the parliament, instead of the royal family.

Conflicts did not come to an end until a new company was created. While the old company possessed a solid base with “forts, warehouses, ships, garrisons, vast capital, (...) thousands of artisans and merchants whom it did business with”¹²², the new company was a fresh one which basically needed everything from scratch. The co-existence of both companies hardly seemed to be a long---term solution and the new company also realized it. The new company sent clerks to India (where the old company was already well established), to build relationships with local people but they only succeeded in making themselves ridiculous. Nevertheless, in the long run, the struggle did no good to the merchant bourgeoisie as a whole.¹²³ Hence, a merger proved to be the only feasible solution. In the beginning of the 18th century, after almost half century of political turbulence, the two companies combined as “the United Company of Merchants Trading in the East Indies” and since then, became the “holder of monopoly trading rights in the East”¹²⁴ as well as the representative of the “British Merchant Capital” in a broader sense¹²⁵.

¹²⁰ Ibid: 105.

¹²¹ Ibid: 106.

¹²² Ibid: 107.

¹²³ Mukherjee, *The Rise and fall of the East India Company*, 47.

¹²⁴ Roy, *The East India Company: The world's Most Powerful Corporation*, 107.

¹²⁵ Mukherjee, *The Rise and fall of the East India Company*, 47.

The power struggle between the King and the Parliament had directly resulted in the transformation of the company. It had changed the type of its political backing from Royal Grants in the time of Elizabeth to the Parliament. The company survived the political turbulence due to the strong national interests to compete over other European countries in the Far East, but the company was affected and eventually transformed into a modern joint-stock business in the post-crown era after a period of internal political turbulence. From those experiences, it is apparent that the company did not always enjoy the privilege, but was also confronted with political suppression when the King decided not to offend the Spanish Crown. That the company did not completely vanish from history can be attributed to two important facts: One is that politically independent groups of merchants formed the business power and they were strong enough to negotiate and cope with the “political ceilings”. Secondly, political entities and merchants were separate power and each enjoyed the right of self-determination on an equal level. This type of relationship enabled the merchants to cooperate with political power easily since both were interdependent in interests, and at the same time, without sacrificing themselves serving the political entities as a sub-ordinate part affiliated with the huge bureaucracy. Overall, the hierarchical identification among British merchants is vague.

When the East India Company entered into its third and also the last phase of business operation, its nature had completely altered. Its functions, roles and responsibilities had been widened and diversified enormously. The consequence for the mercantile-political relationship was the decision-making procedure, which took the form of cooperative negotiation before but now was gradually incorporated into one single entity.

3.4 3rd period of mercantile-political relations: Transforming into Empire

The new united company had brought the commercial and political struggle to a complete end. During this period, the expansion and sophistication of the functions within the EIC resulted in the dramatic increase of business interrelations with government. The company was no longer considered to be a mere commercial activity, it had, as the political economist Malachy Postlethwayt put it, ‘commenced a kind of military company instead of a trading one.’¹²⁶ It had transformed from “a predominately commercial into a territorial power”¹²⁷. Under this circumstances, the mercantile-political relationship was closer than ever before. They were highly interdependent, interpenetrating and mutual-benefiting. To describe the closeness of the East India Company and the government, nothing better could be done but to quote what Bowen said: “...the Company and its overseas possessions were increasingly incorporated into the financial and strategic calculations of ministers and politicians....at the same time, it is acknowledged that the Company itself could not function without active assistance from the City of London and successive governments...”¹²⁸

The Company, first and foremost, served as “one of the main financial props of the regime”¹²⁹. The substantial amount of money provided by the Company was necessary for the State which was confronted with warfare with other European countries. Early in the 17th century, the government of William III had made it an obligation for the Company to make a loan for up to £2 million because of the financial pressure of the Nine Years War.¹³⁰ A decade later, the United Company had to provide around £4 million in order to have the commercial privilege renewed.¹³¹ The powerful engine driving British financial development

¹²⁶ Malachy Postlethwayt, *The universal dictionary of trade and commerce, translated from the French of the celebrated Monsieur Savary...with large additions and improvements...* 2 vols. (1751), vol. II, p. xxi. Cited by Bowen 2006: 9.

¹²⁷ Philips, ‘The East India Company 1784-1834’, 23.

¹²⁸ Bowen, *The Business of Empire: The East India Company and Imperial Britain, 1756-1833*, 29.

¹²⁹ Ibid: 31.

¹³⁰ Ibid: 30.

¹³¹ Ibid: 30.

had made the State into what historians named as the “fiscal-military state”¹³². The Company had also become an important contributor of the economic well-being for the centre, as Thomas Mortimer had described in 1772, that ‘our commerce to the East Indies, on its present footing, is one of the chief sources of the power and commercial prosperity of Great Britain’¹³³.

From the perspective of the Company’s financial sources, there was also an important transformation towards heavier dependence on government. In the early stages of development, issuing bonds and interest-bearing loans belonged to the main ways of raising capital. While the former proved to be popular way of raising money in the short term but “subject to statutory restriction”¹³⁴, the latter depended heavily upon the Bank of England, its “overdraft facilities and borrowing on a semi-regular basis”¹³⁵. The methods were feasible only in the circumstances of small-scale financial arrangements. Challenges became evident when the business scale expanded with the increasing payment risk and running into more severe financial emergency. During 1767-1772 the Company faced an urgent need to borrow a substantial sum of money to pay back the stockholders, and the Bank of England was unfortunately not in the position – nor was it willing - to meet the Company’s requirements.¹³⁶ At this time, the government rescue in 1773 was of vital importance in terms of the dislocation of the Company’s finance during the Empire building process. It marked an era of ultimate dependency of the Company on the State for funds support.¹³⁷

¹³² Ibid: 30.

¹³³ Thomas Mortimer, *The elements of commerce, politics and finance in three treaties on those important subjects* (1780, reprinted from the 1772 edition), 130. Cited by Bowen, *The Business of Empire: The East India Company and Imperial Britain, 1756-1833*, 37.

¹³⁴ Bowen, *The Business of Empire: The East India Company and Imperial Britain, 1756-1833*, 33.

¹³⁵ Ibid: 34.

¹³⁶ Ibid: 35-36.

¹³⁷ Ibid: 36.

It was not without disagreement that increasing political connections and obligations became the main activity of the Company. The merchants wanted, as an independent entity, to pursue economic interests and to draw a clear line between a Trade Company and the institution of an empire builder. It had actually little interest and incentives in taking political control in India.¹³⁸ The willingness to keep distance from politics was expressed at various occasions and in various forms. In the House of Commons in 1767 it was said that ‘we don’t want conquest and power; it is commercial interest only we look for’¹³⁹. Two years later, a pamphleteer expressed the view that ‘I know nothing we want but a maritime trade; this was the original plan we acted on...it is trade not sovereignty that it is our interest to pursue’¹⁴⁰.

However, when taking a look at the internal political settings within the Company as well as its military outreaches, hardly anyone would deny the transformation in nature of the Company. Gradual ministerial interventions into the Company’s financial and commercial activities were established from the mid-1760s.¹⁴¹ The directors of Company needed to provide Parliament and the Treasury detailed information regularly and their performance was “increasingly scrutinized by ministers and Parliament”¹⁴². From 1770s the Company passed “half-yearly financial statements” to the Treasury and from the 1780s an annual ‘East India’ budget was submitted to the House of Commons.¹⁴³ Ministers had kept an eye on the security of the Far East region since the Seven Years War to prevent the French from recovering their positions in Bengal and were swift in reaction to any possible danger.¹⁴⁴

¹³⁸ Tuck, *The East India Company 1600-1858*, 3.

¹³⁹ Quoted in Marshall, *Problems of empire*, 17.

¹⁴⁰ Anon., A letter to a late popular director relative to India affairs and the present contests (1769), 9-10. *Cited by* Bowen 2006: 8.

¹⁴¹ Bowen, *The Business of Empire: The East India Company and Imperial Britain, 1756-1833*, 71.

¹⁴² *Ibid*: 72.

¹⁴³ *Ibid*: 72.

¹⁴⁴ *Ibid*: 68.

During this time, it would be much more proper to define the EIC as an organization or an agency, instead of a corporation. Although the Company developed and maintained an intimate relationship with political powers from the first day of its establishment, the functions had become widened and sophisticated to such an excessive extent in the third period that almost all governmental functions were included within the Company's activities. Grant after grant, the Company performed the duties "what early modern government did: erect and administer law; collect taxes; provide protection; inflict punishment; perform stateliness; regulate economic, religious, and civic life; conduct diplomacy and wage war..."¹⁴⁵. However, it should be remembered that the whole transformation of a profit-driven corporate into a political community is motivated by the vast needs and necessity to manage Indian affairs which were accumulating along with the time. Therefore, it differed from the Chinese case of Hu Xuyan in a fundamental way, which was destroyed by an unstable relationship with political powers.

To close this part, the closeness of the mercantile-politic relationship of the Company in the late stage reached its highest level. The business affairs had been almost, if not totally, taken into the government calculation. The presence of government power in the domestic affairs of the Company significantly expanded. The strengthened military forces and outreaches had turned the Company from a trading enterprise into an imperial agency and institution. Although the EIC with its original profit-driven characteristics faded away and eventually vanished from public view, it was a result of functional transformation in accordance with needs of East India affairs, not a result of political suppression.

3.5 Summary: Separate, cooperative and negotiable relations

¹⁴⁵ Stern, *The Company-State: Corporate Sovereignty and the Early Modern Foundations of the British Empire in India*, 3-4.

It is clear that the EIC had experienced different forms and types of interrelation with the politics. But the features of the British political-mercantile relationship remained essentially constant. The case of the EIC revealed some long-lasting characteristics of the British mercantile-political relationship, which can be described as separate, cooperative and negotiable. The merchants and political powers are, first and foremost, separate entities. It is of paramount importance since it set the precondition for the merchants of possessing independent right and freedom to decide the domestic affairs of the Company by themselves. They did not serve as subordinate part of the political entities and thus had the same political status while negotiating. Although the Company constantly fawned upon and bribed the political entities for monopolistic privileges, it never lost its power as independent group of merchants.

Secondly, merchants and politics are highly interdependent and mutually-benefiting. The State depended heavily upon the Company for national well-being and financial support for a series of military operations and in return, the Company lived on the grants and privileges “in upholding its national monopoly”¹⁴⁶ from the Government. This kind of cooperative relationship enabled the Company to sustain its development and expansion in the long run, as long as the mutual-interests existed. On the other hand, the government provided protection and privileges since the financial income from the Company constituted a significant part of national revenues. The importance of the Company was such that its business was placed on top of the list of government responsibilities.

Finally, the whole procedure maintaining the mercantile-political relationship was conducted through negotiation. Even during the political turmoil when the Company was faced with setbacks in getting royal support as well as power transitions, room existed for

¹⁴⁶ Chaudhuri, *The English East India Company: The study of an early joint-stock company 1600-1640*, 85.

debates and negotiations for merchants. The political settings such as Parliament and the groups of lobbying with different interests had protected the Company from higher risks of “violent ups and downs, or the extremes of great success and utter failure”¹⁴⁷. Hence, it is obvious that compromises and transformation were commonplace in solving instances where there were conflicts of interest, either during the establishment of New Company or in the negotiation of building the United Company.

On the other side of Eurasia, Chinese merchant Xueyan Hu was also attempting to develop and maintain a close relationship with the emperor for monopolistic rights for his business. When the EIC had been dissolved by the end of 1870s, Hu’s business was by contrast at its peak. However, his success did not last long. Within only a few decades, he not only lost all his fortune, but also died in misery and despair. What is surprising is that there is ample evidence that the Chinese mercantile-political relations share numerous similarities with the British one, which makes Hu’s failure even more valuable for closer consideration and evaluation. What lies behind Hu’s fluctuating career? Is it an individual case or related to the whole political system? And what is the relation with the Great Divergence?

Chapter 4. The sudden success and failure of Xueyan Hu

Chinese mercantile-political relationship in Qing dynasty is well reflected in the case of Xueyan Hu. The hierarchical form of cooperation between merchant and politicians resulted in the sudden success and downfall of merchant’s business. Unlike the case of EIC, Hu takes higher risks and is much more vulnerable to political instability while expanding his commerce empire.

¹⁴⁷ Arasaratnam, ‘Trade and Political domination in South India, 1750-1790: Changing British-Indian Relations’, 19.

4.1 who is Xueyan Hu and what did he achieve?

Chinese merchant Xueyan Hu (also known as Guangyong Hu) was born in 1823 in Jixi, Anhui province. Because of the poverty of his family, he was sent to a private bank in Hangzhou working as apprentice when he was young.¹⁴⁸ Although Hu received little education, he was very good at earning trust and providing reliable service by his diligence, smartness and competence. His strong ability of developing good relationships with people from bureaucracies at all levels became the key in starting his own business.¹⁴⁹ He sponsored Youling Wang, who was a local salt magnate and later became the governor of Zhejiang, and in this way found a political supporter for the start-up of his business. Relying on Wang's political influence, Hu started a private bank, Fukang Bank. In the meantime, Hu continued to enlarge his political networks among government, guilds and compradors by bribery or private alliances. He made a great contribution to the food transportation for Wang during the Taiping rebellion in 1860. However, Hangzhou was eventually occupied by the Taiping army and Wang committed suicide.¹⁵⁰

After losing his political supporters, the urgent task in front of Hu was to find new ones and this time, it was Tso Tsung-t'ang, the famous General Tso, who played a critical role in the suppression of the Taiping rebellion. Hu won Tso's trust by providing considerable help in raising and transporting food to the army.¹⁵¹ Further, he also assisted Tso with establishing Foochow Arsenal, recruiting technicians and purchasing machines from foreign countries. During Tso's suppression of the Xinjiang Muslim's rebellions in 1870s, Hu again played an

¹⁴⁸ Cao and Hu, 'Dui Hu Xueyan Bailuo de shenshi 对胡雪岩商业败落的重新审视' [Evaluation of Hu Xueyan's decline], 144.

¹⁴⁹ Zhao, *Zhuming Huishang Huxueyan de 'guanshang jiede' 著名徽商胡雪岩的 '官商结合' 之道* [The mercantile-politic cooperation of famous Huizhou merchant Hu Xueyan], 125.

¹⁵⁰ Ibid: 125-126.

¹⁵¹ Ibid: 126.

indispensable role in providing logistical support and raising military materials worth up to 26 million taels of silver.¹⁵² Because of his extraordinary contribution, he was highly commended by Tso and eventually awarded the second-grade political rank---the red-topped hat in the Qing court. Aid by political privileges, Hu's business reached his highest level in 1870s. He monopolized the financial market, the tea and silk export markets as well as the pharmaceutical business, Hu Qing Yu Tang. This pharmaceutical company had gained a reputation even overseas through influential impact on the development of Chinese medicine.¹⁵³

Nevertheless, the prosperity of Hu's business did not even last ten years. Being too close to Tso, he was inevitably involved in a political struggle between Hongzhang Li and Tso. After losing his political support from Tso, his silk business was hit heavily by foreign merchants, which led the severe financial crisis of his banks.¹⁵⁴ Despite the huge size and large scales of his business, Hu failed to prevent it from declining at an incredible speed. The sudden rise and fall of Hu's business provides the perfect example of how mercantile-political relationships affect the fate of Chinese businessmen. In this chapter, the reason of Hu's success and failure from the perspective of mercantile-relationship will be explained explicitly, followed by the explanation of the potentials and limits of different political frameworks for economic performance.

4.2 All the way up to the top

From an apprentice in an unknown private bank to the only merchant to be awarded red-topped hat by Qing court, Hu's success in business could not have been achieved

¹⁵² Ibid: 126.

¹⁵³ Ibid: 126.

¹⁵⁴ Yang, 'Lun Jindai Zhongguo Zaoqi de Guanshang Guanxi --- yi Huxueyan quanzhuan wei toudidian 论近代中国早期的官商关系---以《胡雪岩全传》为透视点' [The Chinese mercantile-politic relationship in early modern history --- from the case of Hu Xueyan], 94.

without political support. From Hu's great effort in constantly searching for political supporters, either during the establishment of his private company or when the business was at its peak, it is not hard to tell the significant role of politics in doing business. Unlike the British mercantile-political relationship, the Chinese one is strongly characterized by its hierarchical orders. The political institutions, which in the case of China, meant the emperor or a limited number of politicians, ultimately made economic decisions. The hierarchical feature is well reflected in the fact that merchants needed to find political allies to support their business and to provide them with economic benefits in return. In Hu's case, Youling Wang and Tsung-t'ang Tso proved to be the central persons in providing political assistance.

In the very beginning, Wang actually depended on Hu's financial support to enter politics. Because he lacked money, Wang, the young, ambitious and talented person, was unable to realize his dream of becoming a politician. It was Hu's help of 500 taels of silver that played a decisive role in Wang's political career. It was said that Hu secretly embezzled the money from the bank he was working for. Compared with a monthly expense of 10 taels of silver for a household consisting of seven people at that time, the amount of money that Hu provided to Wang was considerable.¹⁵⁵ But this large amount of money proved to be worthwhile for supporting this political candidate. After Wang succeeded in becoming alternate magistrate and later Governor of Zhejiang province, he provided a series of privileges for Hu's business. Hu opened his private bank---Fu Kang Qian Zhuang. Hu also began his involvement in the silk business while Wang was prefect of Huzhou, since this place was famous for its silk production. It was also in this period that Hu hit foreign merchants heavily and made the profit of 180,000 taels of silver by raising silk prices

¹⁵⁵ Ibid: 94.

together with another significant producer.¹⁵⁶ It would be wrong to think that it was not a difficult task to gain political support for Chinese merchants. The fact is, that the merchants not only had to consider developing close relationships with politicians; the question of who should and could be counted on was equally crucial in terms of the stability of political support.

Wang was unfortunately unable to provide long-term support for Hu. During the Taiping Rebellions, Huangzhou was taken over by Taiping troops. Being the governor of Zhejiang, Wang committed suicide. But Hu was lucky enough to gain the trust of the new governor, Tsung-t'ang Tso. In order to maintain the trust and closeness of Tso, Hu devoted himself to various businesses that concerned Tso most. It was clear to Hu that unlike Wang, Tso was not fond of wealth and luxuries. What Tso wanted to achieve was fame and reputation. Hu changed his strategies and invested his fund in raising foodstuff for Tso's troops against Taiping. Besides gathering food, Hu purchased military weapons, established factories and took charge of "Shanghai Transportation and Procurement Bureau". With all his efforts in arranging financial affairs for General Tso, Hu succeeded in establishing a solid and stable relation with the new political ally.

Despite the substantial financial contribution to the success of Taiping War, it was the victory against Muslim rebels in North-west China later on that drove Hu's business to its peak. Northwest China was the place where various ethnic groups lived. Since the beginning of Qing dynasty in 1630s, the ethnic conflicts and contradictions there had dramatically increased. Since General Tso was appointed to be the Viceroy of Shaan-Gan, he was successful in maintaining peace in the disputed regions by both suppressing Muslim

¹⁵⁶ Ibid: 94.

rebellions and driving away Yaqub Beg invasion troops.¹⁵⁷ In both large military operations, Hu again played an indispensable role: Fu Kang Qian Zhuang was available for Tso's military expenditure. Hu Qing Yu Tang, the medical company opened by Hu which later became one of the most prominent pharmaceutical company provided the necessary medical supplies and support for Tso's army. He even became involved in arranging loans from foreign banks to financially aid Tso's career.¹⁵⁸ All of his effort was not in vain. In return, Hu's own business expanded rapidly with political aid. His private bank opened branches north of the Yangtze River. With up to 29 pawnshops, his personal asset reached twenty million taels of silver.¹⁵⁹ Hu became famous not only due to his fortunes that hardly any other merchant could compare with, he was also successful in terms of the privileged political position he enjoyed. Thanks to his great contribution to the emperor, he was entitled to wear an imperial yellow jacket, since yellow is the color of royal family. He was further awarded the red-topped hat, another symbol for high-ranking political positions.¹⁶⁰

Hu is well known for his personality and characteristics----smart in business, good at developing and maintaining relations with politicians and always willing to help others.¹⁶¹ People tend to attribute his success to his strong communications skills and talented entrepreneurial abilities. However, before he could put all his excellent skills and business ideas into practice, he needed first of all to seek out for himself a political platform and backup, in order to start-up and guarantee the political favour of his business in the long

¹⁵⁷ Ibid: 94.

¹⁵⁸ Ibid: 94.

¹⁵⁹ Ibid: 94-95.

¹⁶⁰ Zhao, Zhuming *Huishang Huxueyan de 'guanshang jiche' zhidao*. 著名徽商胡雪岩的‘官商结合’之道 [The mercantile-politic cooperation of famous Huizhou merchant Hu Xueyan], 126.

¹⁶¹ Yang, 'Lun Jindai Zhongguo Zaoqi de Guanshang Guanxi --- Yi Huxueyan Quanzhuan wei Toushidian 论近代中国早期的官商关系---以《胡雪岩全传》为透视点' [The Chinese mercantile-politic relationship in early modern history --- from the case of Hu Xueyan], 95.

term. Hence, it is not hard to understand the fact that crises always happened when his political back-up was no longer available or had to be replaced by a new one. It also happened in the case of Hu's business.

4.3 A sudden collapse

The bankruptcy of Hu's company came fast and suddenly. The flourishing business showed no sign of declining, but the danger of Hu's business being involved in political struggles increased as his relationship with Tso became increasingly close. In this chapter the reason why Hu failed to manage his business over the longer term will be explained in detail. Some of the reasons refer to his personality and way of managing business, while some are more concerned with the wider political and social circumstances in the late Qing dynasty. Among them, the type of inter-relationship between the businessman Hu and politics played the decisive role. It is argued that the hierarchical political framework, which decides the potential and limits of economic activities in the core, does not allow Hu to have full control of his business in terms of making independent decisions and taking actions. Just as his success being achieved through gaining a politician's confidence, his failure was caused by being too close with politics.

4.3.1 Difficulties of finance

Let me start with the direct reason. In 1882, Hu purchased all the Shanghai silk for 20 million taels of silver and forced foreign traders to buy it at higher prices. They negotiated with Hu over price and were willing to offer 10 million taels of silver profit. However, they did not make the deal since there was still a two million tael gap compared with Hu's expectations. The next year, Hu planned to use the same strategy but unfortunately, foreign merchants, especially French traders, decreased the amount of silk exported dramatically. Partly due to a boycott and partly due to an economic crisis in Europe and America, the

French decreased the volume of silk exported by 35% and the Americans by 46%.¹⁶² Having made huge profits by speculating with foreign countries for more than twenty years, Hu faced the biggest crisis ever in his life. In the end, he was forced to sell the silk so cheaply that he made a loss of eight million taels of silver.¹⁶³

Later he was faced with a severe financial crisis. The failure of his silk business resulted in the loss of trust and panic in the market. Branches of Fu Kang Qian Zhuang nationwide went bankrupt one after another because of the run on the bank. Finally, one of the biggest private banks in Chinese history, Fu Kang Qian Zhuang, closed due to the serious cash flow problem. What was even worse for Hu, was the fact that since large numbers of politicians in the court had deposits in Hu's bank, the government decided to make an inventory of his personal property and confiscated it in order to avoid further losses on their part. Shortly afterwards, with the death of Hu one of the most spectacular business empires in China ranging from pharmacy, military, pawnshop to financial banks finally vanished.¹⁶⁴

4.3.2 Improper business management

From the perspective of business strategies, Hu made another error by failing to introduce and implement a modern way of management. Hu continued with the traditional way of managing his gigantic business empire, which was to transfer the right of running branches to managers. The managers only needed to meet Hu once a year for reporting accounts and making new plans. This kind of management had a fatal shortcoming: there was no third independent supervisor to keep a close eye on every item of spending and income. What happened in reality was the constant abuse of money from Qiangzhuang for

¹⁶² Cao and Hu, 'Dui Hu Xueyan Bailuo de shenshi 对胡雪岩商业败落的重新审视' [Evaluation of Hu Xueyan's decline], 145.

¹⁶³ Ibid: 145.

¹⁶⁴ Ibid: 145.

private use of the managers. Without any regulator or a third party over them, it all depended on the managers' self-discipline to run the business. For the benefit of the company, this kind of management proved to be a disaster, since cash easily flowed away for private purposes. At the annual meeting with Hu, managers could easily gain the trust with clean bills full of fake numbers and items.¹⁶⁵

Unfortunately Hu failed to realize this and did not fix the problem. Instead of dedicating himself to take his business to the next level, he chose to lead a luxurious life, which is why he was accused by some scholars to being primarily responsible himself for his failure in his later years.¹⁶⁶ He purchased large pieces of land, but never transformed them into a kind of investment for his business. He received the rent, refused to take an innovative approach to operate his companies and spent large sums of money in buying luxuries. What was missing all the time in his career was an effort to explore creative and modern ways for the operation and management of his business. With the increasing popularity of the self-strengthening movement in the late Qing dynasty, an array of modern reforms in companies and industries took place. Hu, however, lagged behind in terms of his strategies, ideas and concepts.

4.3.3 The 1883 financial crisis

Scholars such as Liqian Cao and Guangli Hu associated the failure of Hu's business with the turbulent economic instability in 1883. According to their arguments, the 1883 economic crisis was caused by the insufficient cash-flow on the market as well as the hoarding of products. One of the consequences was the widespread closure of banks; for instance, in Shanghai only ten out of 78 banks were still in business, the rest were either closed down or

¹⁶⁵ Ibid: 146.

¹⁶⁶ See Cao and Hu, 'Dui Hu Xueyan Bailuo de shenshi 对胡雪岩商业败落的重新审视' [Evaluation of Hu Xueyan's decline] and Jiang, *Guanshang Guanxi: Zhongguo shangye fazhi de qianzhi huati*. 官商关系: 中国商业法制的前置话题 [Relationship of government to merchants].

went bankrupt. Hence, Hu was only one of the victims in that economic deterioration, and individual power and effort could not save the whole economic situation.¹⁶⁷ Two reasons have made the year 1883 a critical transitional period: One is the export of Chinese tea and silk reached their peak in this year, followed by continuous decrease in the years afterwards. It then became impossible for Chinese silk and tea merchants to make a profit. The other was due to the emerging modern Chinese joint-stock companies. The popularity of stock issues attracted cash from the market for investment, resulting in the slowdown of commodity flows. Both changes exerted significant influence on Hu's business and therefore, his failure was not only the result of his decisions or personality, it also relates to the historical circumstance at that time..

4.3.4 Victim of political conflicts

The above-mentioned explanations are widely accepted and recognized in academia. However, when we change the perspective and examine Hu's case from his interaction with political society and taking account of the wider historical background as a whole, it becomes clear that the nature of the political framework at that time in China decided the fate of Hu's business in a fundamental way. Peng Jiang was absolutely right in pointing out that Hu's failure was in first place a political issue; commercial aspects only came afterwards.¹⁶⁸ The sudden fluctuations of his business career, both in the ups and downs, depended on and were affected by political institutions. In the case of Hu, he was in such a close relationship with General Tso that he automatically became the enemy of Li Hung Chang, another general and diplomat of the Qing dynasty, since he was in the group that were politically on

¹⁶⁷ Cao and Hu, 'Dui Hu Xueyan Bailuo de shenshi 对胡雪岩商业败落的重新审视' [Evaluation of Hu Xueyan's decline], 145.

¹⁶⁸ Ibid: 145.

the opposite side to General Tso. Therefore, it is highly likely that Hu in the end became the victim of a political struggle.

During the Taiping rebellion, regional forces emerged and strengthened and gradually replaced the central political power. Being the commander of the Huai Army and later the governor of Jiangsu, Li had political disputes with General Tso over a long time. The central court wanted to contain the spreading political influence of Li by supporting General Tso, which resulted in the escalation of conflicts between the two governors. It is, therefore, not hard to understand that Hu was one of the key people that Li wanted to get rid of. That is why the failure of Hu was essentially not a business but a political one.

When we delve further into the political aspect of this business case, the next questions would be: what kind of political institution and framework is it? Why is it responsible for the sudden rise and fall of this businessman? In the case of the EIC, commerce went hand in hand with politics just like in China, so why did they have different outcomes? In order to answer those questions, it is necessary first of all to figure out what kind of mercantile-political relationship existed in the Chinese case.

4.4 The special characteristics of Chinese mercantile-political relationships

From Hu's case, the features of Chinese mercantile-political relationships are not difficult to identify. They can be summarized as being highly hierarchical in an enclosed system, merchants being sub-ordinated to the political power as well as subject to sudden and radical changes of business performance. In the rest of this chapter a systematic analysis from these three perspectives will be described. The aim is to construct the comparison between British and Chinese mercantile-political relationships: in which aspects do the two countries share similarities? To what extent do they diverge? What could be the reasons for this?

To start with, both countries share similarities of mercantile-political relationships in many ways. Although this point has been mentioned in the previous chapters, it is necessary to take a close look at them in detail: merchants and politicians in both countries were closely interdependent, their interests were always intertwined and this intimacy between business and politics is a long-term relationship. In the case of the EIC and Hu, merchants gained large amount of support from government in order to achieve business success, be it in the form of direct finance investment, political privileges or military protection against foreign competitors. The two countries were similar also in terms of the way merchants sought, developed and maintained the relations with government. Monetary bribery was the most common method for merchants to win the favour of politicians. By offering large sums of money, merchants in both countries strove to exclude other national and international competitors and monopolize more than one industry. These kinds of feature have been observed by several scholars such as Ha-Joon Chang who reveals the real economic history dominated by monopoly, injustice and bribery, extraordinarily far away from the values we advocate nowadays for our society--- freedom, democracy and fairness, to take just a few examples.¹⁶⁹

Despite so many identical features in both countries, it would be a great error to come to the conclusion that Chinese mercantile-political relationships had no specialties. In fact, Chinese mercantile-political relationships were more complicated than British ones in many ways. First of all, the Chinese mercantile-political relationships in Qing dynasty were strongly characterized by their hierarchical order. Unlike the British model where one saw the two separate entities negotiating and cooperating on the same level, Chinese merchants were

¹⁶⁹ Chang, Ha-Joon, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, 1-3 and 71-76.

politically included in a large enclosed empire system, in which it was almost impossible to have individual freedom and rights to negotiate and talk on the same level as the politicians.

From the case of Hu, there is ample evidence showing that Hu needed to find constant political backup for his business and it became much more obvious during the political transitional period, when he cautiously had to seek a new political group which was interested in his business and was able to provide help. The relationship between Hu and his two political supporters was based on personal intimacy and therefore, had no spirit of contractual relief. Jiang is right while he summarizes the difference between western and Chinese mercantile-political relationships in these legal terms: The case of Hu tells us that in modern China, there was no clear line distinguishing between public and personal rights. Hence, public rights represented by government showed a lack of respect for personal rights, could easily invade personal spheres and misuse their political power.¹⁷⁰ For example, during the financial crisis in 1883, the politician stakeholders were inclined to protect their own economic interest, making themselves a higher priority than other stakeholders to secure repayment. In the worst case, politician stakeholders took over all the money from other stakeholders to ensure the full repayment of their share.¹⁷¹ From this perspective, the hierarchical order has to a large extent hindered the mobility, potential and possibility of the merchants making business decisions and taking actions.

Apart from being hierarchical, the Chinese mercantile-political relationships were special because of in their sudden and radical changes for merchants. This feature has its root also in the inequality of merchants and politicians during cooperation and negotiation. Once merchants found the right political backup and provided the requisite goods services to the

¹⁷⁰ Jiang, *Guanshang Guanxi: Zhongguo shangye fazhi de qianzhi huati* 官商关系：中国商业法制的前置话题. [Relationship of government to merchants], 156.

¹⁷¹ Ibid: 156.

politicians' satisfaction, merchants would be in a favourable position of gaining a strong push for their business. However, when merchants were unfortunately enough to find themselves in the wrong position where their interests conflicted with the politicians' it was highly likely that the politicians would get rid of them in a very short period of time, for which Hu's case has again provided the best example.

The critical question here is then, how to identify the "right" political person. There is no "right person" in an absolute sense. The one can be right probably because he is temporarily the vital person in the court or the one assisting the emperor with governance, but there is no guarantee that he will always be the "right person" to be pleased. What happens very often in reality is a sudden and turbulent political coup. That is why Hu's business was so short-lived because he was involved in the political struggle where the "right person" to be relied upon was defeated by people with different political interests.

In this sense, it is not hard to understand merchants' complex feelings and relationships towards political power. On one hand, they were clear that their business needed political supporters. On the other, they were reluctant to go too close to political power for fear that one day; they could be involved in a fierce power struggle. This kind of contradictory feeling towards politics resulted in the merchants explicitly studying the politicians and their career potential in the court, developing close relationships only with those who were regarded highly by the emperor and being highly flexible and slick so that no politicians would be offended and thus they avoided unnecessary confrontation with others.

The last important feature, which actually comes from the second one, is the fact that Chinese merchants desperately sought political titles themselves. In order to avoid being the victim of other politicians, merchants themselves tried every means to gain political decision-making powers for themselves. They either asked their offspring to enter the political arena

or purchase a political position with large sums of money. According to Wellington K. Chan's study, in the Song Dynasty (960-1279) internal diversification of occupational choices could be observed in many merchants' families. Arrangements would be made including financial support for those who possessed strong academic abilities to participate in the imperial examination and then to enter state bureaucracy, whereas those with excellent entrepreneurial talents and skills would be encouraged to continue with the family business.¹⁷² Instead of choosing hard-working study to excel in the national exams, large numbers of merchants chose a short-cut: Buying a position. Early in the Han Dynasty (B.C. 202- 220), the emperor introduced the policy of "political title purchasing" to ease financial strains. During the Taiping war, purchasing a series of political honorary titles was allowed to supplement army pay.¹⁷³ However, it should be pointed out that the political status of merchants seems to have improved by the possession of titles; it was never a deal of equals. Because merchants had to invest a large proportion of their profits which they could have use for the enlargement of their business in buying and maintaining their political titles.

To close this part, in sharp contrast with the British one, the Chinese merchants-political relationships is of fundamental difference. This part rejects the often-heard and oversimplified argumentation that politicians in China did not have strong interest in commerce development. The decisive point of analysis should not take as a starting point societies favouring agriculture or commerce, but rather more specific government behaviours and most importantly, the incentives and reasons why government acts in a certain way. The politicians were in the end profit-driven, which meant that merchants for them were vital people to support and cooperate with. On the top of the hierarchical

¹⁷² Chan, *Merchants, Mandarins, and modern enterprise in late Ch'ing China*, Translated by Jian Zhang and Di Wang, 23.

¹⁷³ Ibid: 168.

political system, they could easily cross the boundary between personal and public rights and prioritize their own interests above all. In the case of merchants, they received different sorts of political privileges from politicians and sometimes, could even have a very successful political career themselves. However, within the hierarchical bureaucratic framework, they were heavily and essentially dependent on the political decisions from above or on the whole political environment.

Chapter 5. How different mercantile-political relations come into existence?

Before we get directly involved in the question of how different mercantile-political relationships come into existence, it is necessary to shed some light on the general function and role of the state in society and in economic life, in particular. Despite the long list of the state tasks in various areas in one society, I will only focus on those that are eternal and essential to economic behaviours and performances. First of all, the state creates authority, monopolizes political power and secures obedience. To various degrees, states create and maintain in societies a certain order to ensure the security of the absolute possession of power, and to prevent potential threats and challenges. Further, states play a decisive role in managing, controlling and regulating economic life. Again to varying degrees, they arrange the circulation of capital and goods and, most importantly, take a “sizeable share of national income for [their] own expenditure, luxury, ‘administration’ or wars.”¹⁷⁴ Here Reinert describes formulates the functions as follows: “getting the nation into ‘the right businesses’ and creating a comparative advantage in ‘the right businesses.’”¹⁷⁵ The State, in the first place, explore and identify what kind of policies and strategies can drive the country along the track of so-called development and then, strives to create comparative advantage in those specific

¹⁷⁴ Braudel. *Civilization and capitalism 15th-18th Century. Volume II The wheels of commerce*, 515.

¹⁷⁵ Reinert, ‘The role of the state in economic growth’, 281.

economic fields.¹⁷⁶ Last but not least, states participate in religious activities or spiritual life. They also keep a close eye on cultural and social revolutions, which could be a challenge to their rule.¹⁷⁷

Despite of the common roles of states in different societies, we cannot avoid the question of how different mercantile relations take place. Answers to this question are never clear. Explanations and interpretations are diverse and controversial. Nevertheless, one point is certain: the origins of diverging commercial and political relationship are closely associated with culture, and the political framework and settings in the countries concerned. The formation and development of those unique political institutions follow their own principles, cultural codes and logic. Hence, the description and analysis of their historical paths, which will be comparatively illustrated in the following parts, trying to avoid the question of “why China was not another Western Europe?”¹⁷⁸ ---to use Western Europe as a gauge measurement for China.¹⁷⁹ In this sense, I agree with R Bin Wong’s idea that answering the question of why China failed to develop along the same lines as the European model does little to help understand the true nature of Chinese economic changes and transformations.¹⁸⁰

It is true that certain visible yardsticks are needed to improve our understanding of the economic or military status of different countries and a list of orders and benchmarks to measure superiority.¹⁸¹ However, it is hard, if not impossible, to find a standard and universal system of measurement for political and institutional settings. They are societal constructs

¹⁷⁶ Ibid: 281.

¹⁷⁷ Braudel. *Civilization and capitalism 15th-18th Century. Volume II The wheels of commerce*, 516.

¹⁷⁸ Wong, *China transformed*, P. 1. *Cited by* Deng 2000: 9.

¹⁷⁹ Deng, ‘*A critical survey of recent research in Chinese economic history*’, 9.

¹⁸⁰ Wong, ‘The political economy of agrarian empire and its modern legacy’, 253

¹⁸¹ Deng, ‘*A critical survey of recent research in Chinese economic history*’, 9-10.

which are embedded in and create a certain economic, historical and cultural environment. From this perspective, it is insightful and constructive to look at the European and Chinese mode under specific historical circumstances. Therefore, the illustration following rejects taking western institutions as “reference” Instead, it tries to explore the reasons as well as background of different political settings and their far-reaching influences.

5.1 State system versus empire

I will start the series of comparative analyses with different state systems. The underlying political systems, mechanism and institutions are interpreted as the root for different types of mercantile-political relations. Chinese and European society have completely different economic and political structures, which can be reflected in the process of state formation. The European state system was established and formed during the constant wars and struggles of many small states. Further, as Michael Mann writes, in Western Europe “none of the sources of social power (political, ideological, economic and military) was ever again monopolized by a state that was not in some way ‘institutionally’ checked during the Middle Ages and the early modern period.”¹⁸² One of the results is that constant bargaining between rulers and their subjects is common to see.¹⁸³ Hence, the competitions among and within states are the motor and sources for European development and dynamism.¹⁸⁴ China was in sharp contrast established and maintained as a large agrarian empire, in which the control over the population and land was the greatest concern for the rulers.¹⁸⁵

As we have seen in the case of the EIC before, under the tough competition among European states, mercantilism is a natural choice for states. European states heavily rely on

¹⁸² Mann, *Sources of power*, I and II. Cited by Vries, *Escaping poverty*, 380.

¹⁸³ Vries, *Escaping poverty*, 380.

¹⁸⁴ Vries ‘Governing Growth: A Comparative Analysis of the Role of the State in the Rise of the West’, 68-69.

¹⁸⁵ Wong, *The political economy of agrarian empire and its modern legacy*, 257.

incomes from merchants and trade and outperforming the international competition from other nations. The Chinese state, in comparison, did not have to depend on merchants either for income or political support.¹⁸⁶ One of the consequences was that two societies developed their policy priorities and thus fundamentally decided the potential and limits for their economic performance. For China, economic policies and devices were meant to guarantee political stability and to ensure their subjects' security. Although merchants constituted one part of the national economy, they never gained political ascendancy. As for European merchants, they were the essential forces enabling the states to become wealthy and powerful. Over years of military preparations and conflicts, European states absorbed tremendous amounts of money from merchants and trade, whereas the Chinese government only taxed merchants a small amount in the period between the 14th and 18th century.¹⁸⁷ Therefore, we observe two fundamentally different roles of government in dealing with national economies: In Western Europe governments took a large share of merchants' profits but they were willing to provide any kind of support in return.¹⁸⁸ Agriculture did not seem to be very attractive for governments. They helped, supported even created all kinds of monopolistic businesses to generate income.¹⁸⁹ The Chinese counterpart was more concerned about the economics of agricultural food supply---its market prices, demand and circulation. The government would intervene and prevent rice monopolies and hoarding for huge profits.¹⁹⁰

Not everyone is convinced by the mercantilist policies for the economic profits of Europe. For instances, Peer Vries pointed out that the benefit from mercantilism is not all of

¹⁸⁶ Ibid: 266.

¹⁸⁷ Ibid: 266.

¹⁸⁸ Ibid: 276.

¹⁸⁹ Vries, '*Governing Growth: A Comparative Analysis of the Role of the State in the Rise of the West*', 71.

¹⁹⁰ Wong, 'The political economy of agrarian empire and its modern legacy', 269.

the story. He made the critical observation by revealing the huge costs for maintaining such expensive policies. From the perspective of consuming and purchasing, British people, for instances, had to pay enormously high prices for articles compared in other countries. Here are some examples: over the period of 1819 to 1829, tea on the British market was nearly twice as expensive as in America. The EIC monopoly of the tea trade resulted in up to 2.6 million pounds sterling extra costs, which had to be met by the public.¹⁹¹ It is thus questionable to see to what extent such unfair and manipulated business environment and markets were conducive to economic progress, since products could be more expensive and labour costs could be much higher.

Despite disagreements over the extent to which mercantilism contributed to the success of Europe, one thing that is certain: In China such preconditions and relationships were lacking. In Chinese agricultural society, bureaucracy tended more to monitoring and managing, instead of interacting with the participants. Under such political settings, the term of property is essentially different from property in western society. Because personal property of those at the bottom of the social ladder, no matter how much they possess, is a sort of economic, not political property.¹⁹² That is the reason why in China, where private land ownership and landlord systems dated back to Han dynasty and developed to a very high and sophisticated level, the land owners failed to form a strong and independent power since “the government retained in theory the ownership of all land” .¹⁹³ Here I can do no better than to quote what Braudel writes about the Chinese “close-knit bureaucracy”:

¹⁹¹ Vries, *Escaping Poverty: The origins of modern economic growth*, 365.

¹⁹² See Jiang, *Guanshang Guanxi: Zhongguo shangye fazhi de qianzhi buati* 官商关系：中国商业法制的前置话题 [Relationship of government to merchants], 137-161.

¹⁹³ Braudel, *Civilization and capitalism 15th-18th Century. Volume II The wheels of commerce*, 587. Wittfogel, *Oriental Despotism: A Comparative Study of Total Power*, 10-11.

“[...] highly centralized, highly moral, maintaining the strict traditional of Confucian morality, frequently revised but in general faithful to its guiding principles, which committed culture, ideology and religion to its own services; and which committed the state, that is the mandarins of every degree, to the service of the common good. Public works, irrigation, roads, canals, the security and administration of the towns, frontier protection against foreign threats----all this was handled by the state. So too measures against famine, which meant that the state had to protect and ensure agricultural production, the cornerstone of the entire economy; if necessary, advance payment had to be made to the peasants, skill-producers and entrepreneurs; the public granaries had to be filled as emergency stores [...] If the emperor should forsake the path of morality, then heaven would abandon him and the sovereign would lose his authority. But normally this authority was total and unchanged and theoretically possessed universal rights.”¹⁹⁴

In a hierarchical system such as China's, social status and class are divided according to the relationship between people and the State apparatus, instead of property relations.¹⁹⁵ Merchants, to use Braudel's words again “lived in fear of being pounced on for contributions at the least outward sign of wealth or of being denounced by a rival who wished to turn the egalitarian wrath of the state upon them.”¹⁹⁶ Under such a political roof, actions and behaviours of the ruler are unpredictable. Since rulers seldom expressed their real feelings and thoughts, people surrounding them lived in constant uncertainty, which led to the extreme isolation, loneliness and distrust among people in society.¹⁹⁷ Emperors had to make sure that any individual who was growing “abnormally rich” should be eliminated, considering their threats for the existing power domain.¹⁹⁸

Although we should always be cautious not to extract too much from a single case, the observations and implications in general are not incorrect. The general picture in Europe was the fact that the society was much more diverse in terms of political power, consisting

¹⁹⁴ Braudel. *Civilization and capitalism 15th-18th Century. Volume II The wheels of commerce*, 587.

¹⁹⁵ Wittfogel, *Oriental Despotism: A Comparative Study of Total Power*, 11.

¹⁹⁶ Braudel. *Civilization and capitalism 15th-18th Century. Volume II The wheels of commerce*, 588.

¹⁹⁷ Ibid: 154-155.

¹⁹⁸ Braudel. *Civilization and capitalism 15th-18th Century. Volume II The wheels of commerce*, 589.

of multiple social classes and regardless of the fluctuations of history was able to develop with various forces, either in the aspects of capital accumulation or in technology and knowledge creation.¹⁹⁹ China was a huge enclosed society with highly centralized power and a clear hierarchical social order. The basic political structure and state apparatus were linear and simple. Here I am not ignoring the complicated bureaucratic settings, organizations, roles and functions in China, neither the brisk Chinese business, trade, crowded streets, shops nor swarming populations.²⁰⁰ What I am trying to indicate is the large sets of bureaucracies serving a limited number of state rulers, a linear system of coordination and communication as well as absolute obedience.

5.2 Does culture matter?

The advantages and disadvantages of culture explanation in Great Divergence debate have been discussed in the first chapter. Here I will start this part with some comments with regard to the two concrete cases.

Does culture matter for the different types of mercantile-political relationships in both countries? The answer is absolutely yes, especially when it comes to commercial culture. Culture does make difference in terms of its influence on institutions. Although Acemoglu and Robinson do not take culture as serious factor for different economic performance, what they say regarding the relation between culture and institution is helpful: As the key determinant of values, social or individual codes, beliefs and preferences, culture encourages,

¹⁹⁹ For the description of Europe society see Braudel, *Civilization and capitalism 15th-18th Century. Volume II The wheels of commerce*, 599.

²⁰⁰ I refer to Braudel's description of Chinese local market. See Braudel, *Civilization and capitalism 15th-18th Century. Volume II The wheels of commerce*, 588.

generates and alters sets of instructions affecting institutions' decisions and behaviours.²⁰¹ It is also because that institutions do not exist in a vacuum. The establishment, change and development of political institutions are closely linked, embedded in and connected with culture, since culture is not only about behaviours, do's or don'ts, it all relates to a system of value recognitions, consciousness or a whole structure of beliefs.²⁰² When getting down to the specific kind of commercial relations with politics, culture clearly has its role.

We have already explained that in China the State was more concerned with agricultural production and circulation, while in Western Europe trade and commerce were the core of the economy. There is ample evidence showing that the Chinese State was not interested in commerce or trade and was even hostile towards it. The first serious debate about merchants was recorded during the period of 475 B.C.-221 B.C. The mainstream attitude towards merchants was negative---merchants should be despised for the reason that they were not productive but parasitic. Despite the recognition by Mencius and Xunzi of the convenience of the exchange goods brought about by the merchants, they warn of the danger of merchants of being too greedy and thus exceeding the role they should perform.²⁰³ During the Han dynasty, we can see from official documents that merchants were extremely restricted by laws: they were not allowed to wear silk clothes, derived from the right having land, they were burdened with heavy taxes and their offspring could not work in the bureaucracy. They were always labelled with the words such as selfish, profit-driven and greedy in literature. In the *book of Han*, Ban Gu thinks merchants might be responsible for

²⁰¹ About culture and its relationship with institutions see D. Acemoglu et al., *Handbook of Economic Growth, Volume 1A*, 400-401.

²⁰² For explanations of culture in wide sense see North, *Understanding the process of economic change chapter 3 and 4. Cited by Vries, Escaping poverty*, 141-142.

²⁰³ Chan, *Merchants, Mandarins, and modern enterprise in late Ch'ing China*, Translated by Jian Zhang and Di Wang, 18.

the downfall of the Zhou dynasty. He even illustrates how business and commerce escalate political and social depravation. It is true that under the Ming and Qing dynasties the circumstances and attitudes towards merchants improved and moderated tremendously: After the implementation of the Single Whip law in Ming, taxes for merchants had dramatically decreased. Politicians doing business also became a common phenomenon in Qing. Nevertheless, we can still see the cautiousness and hesitation of those politicians, since they were more likely to do business by using another name.²⁰⁴

The reason why merchants in China faced such a harsh environment lies in the nature of this occupation. Generally speaking, in an agriculture culture, merchants are considered as great threats for the stability of society, because they are highly mobile and flexible, almost impossible to confine to one place, they are constant moving, meeting various people even from abroad and they always come up with new ideas. Those are the exactly characters that the rulers want to get rid of.²⁰⁵ Merchants' behaviour is also contradictory with the nature of the Confucian thoughts, the fundamental beliefs and principles in Chinese life which emphasize obedience and sincerity. From the perspective of governors, occupations serve in the first place as tools for the huge state apparatus---their functions and roles for the nation as a whole, instead of the importance for the wealth and prosperity of individuals or families. In this sense, merchants by their nature are big threats and challenges for the existing authorities as well as the philosophical beliefs and values that support the whole political system.²⁰⁶ For the concrete example in this paper, there are some additional facts that contribute to the failure of Hu's business. The political supports that Hu relied on, no matter

²⁰⁴ See Chan, *Merchants, Mandarins, and modern enterprise in late Ch'ing China*, Translated by Jian Zhang and Di Wang, 20-38.

²⁰⁵ Chan, *Merchants, Mandarins, and modern enterprise in late Ch'ing China*, Translated by Jian Zhang and Di Wang, 20.

²⁰⁶ Ibid: 20.

how powerful they are, come from feudal regime that were highly dependent on imperial countries and were too weak to develop consistent policies to strengthen national industry on their own.²⁰⁷

It is time to turn to look at the situation in Western Europe. When we talk about the uniqueness of western culture, it is impossible to avoid Max Weber. His idea about the spirit of capitalism and modernization---the rationalization and formalization of the economy, which has been explained in the text above, remains influential even nowadays.²⁰⁸ It has been cited, interpreted and criticized by so many people in different ages that his idea seems to be no longer interesting any more. But here I can do no better than emphasize his contribution again, because from my point of view, the idea of rationalization is paramount when talking about cultural differences between Western Europe and China. The significance of economic rationalization lies in the fact that it is a wide recognition of rationally pursuing profit, an acceptance of materialistic gain for personal benefits and thus an encouragement of business investment and expansion, and this kind of spiritual and economic emancipation is absolutely absent in China. Because there was no wide acceptance and general recognition of individual making profits, a number of elite and talented people decided not to go into business because of its low social status. They instead devoted themselves to taking the national bureaucratic examinations, even though the chances of securing even a lower position was extremely small, if not impossible, since that was the mainstream activity and rational choice; rich merchants were eager develop close relationships with high-ranking politicians in order to improve their social status and to some extent achieve a balance

²⁰⁷ Sun, 'Lun Mingqing Shiqi Guanshang Yitihua de Zuoyong he Yingxiang 论明清时期官商一体化的作用和影响' [The role and influence of mercantile-political cooperation in Ming and Qing dynasty], 13.

²⁰⁸ I refer to the interpretation of Vries about Max weber. Vries, *Escaping Poverty*, 128.

between wealth and good reputation; politicians too were willing to keep close with merchants since it was a simple means to acquire money in a short time without violating the nobility and dignity of a state officer by doing business themselves.

However, Pomeranz questions how much certain commercial culture can explain the divergence between West and East by taking the example of north Indian merchants. He disagrees with Bayly's observation that "the majority of north Indian merchants were disinclined to imitate the great portfolio capitalists". He points out that cautious merchants were also common "even in a hotbed of early capitalist gambling like Amsterdam." He further cited the argument put forward by Schama that investing in the stock exchange was widely considered inappropriate speculation.²⁰⁹ It is also true that China was not the only country where merchants had low social status, as we can see from the cases discriminating against merchants in other civilizations as well. But I do think, the culture of accepting, rationalizing and recognizing individuals pursuing materialistic profits in a proper manner is lacking in China. Pursuing personal wealth seldom gained official and general respect and consideration, which leads to a weak protection of personal property, a blurred line between public and private property rights and insufficient prevention of the misuse of money. In other words, a mechanism is lacking to deal with the widely prevalent profit-driven phenomenon, either in terms of encouraging it for the betterment of the individual or the state, or in terms of regulating it from expanding too much that could threaten the rights of others.

5.3 Particularities of the age

²⁰⁹ Pomeranz, *The Great Divergence: China, Europe and the Making of the Modern World Economy*, 176-177.

After examining the complexity of the social, political and cultural framework of two places as a whole, it should be remembered that there are some specialties in history—specific phenomenon and features that only affected and featured in a certain period of time—also play an eminent role in different outcomes of mercantile-political relationships. To be precise, when it comes to the Qing dynasty in China, we do see some special elements featured the mercantile-political relations at that particular period of time, for instance the influence of policies and principles from the Qing imperial court, the threats and invasion by European nations, the hope from the central state of strengthening industry and commerce but at the same time being afraid of merchants acquiring too much power. Similarly, after the Glorious Revolution together with the increasing expansion of the overseas territories of Great Britain, the EIC also transformed and developed its ties with the political powers accordingly.

In the Chinese case, the dramatic situation of foreign invasions as well as a series of lost battles forced the Qing imperial court urgently to encourage commercial and industrial development. Early in the 1860s and 1870s, the self-strengthening movement was not associated with the notion of becoming wealthy. State reformers such as Yuan Wei and Zexu Lin still held to the conservative idea that agriculture was the core and root of the economy. It is until 1880s when China again lost a war with France that the idea of adopting western-style commercial practices and industries and reforming economic structure gained actual popularity.²¹⁰ The encouragement of the central government in developing business was reflected in lifting legal restrictions. With the loosening of legal regulations, the government hoped to attract more political officials to make public investment, instead of hiding or

²¹⁰ Chan, *Merchants, Mandarins, and modern enterprise in late Ch'ing China*, Translated by Jian Zhang and Di Wang, 30.

changing their names while engaging in business.²¹¹ Although the effort from government did not dramatically change the whole situation, it shows at least that the government tried to improve the relationship with merchants under harsh and tumultuous international circumstances.

On one side, we observe that the State is in its urgency to save the country by giving business impulse and encouraging industrial development. On the other side, it is also clear that the central court was very cautious and skeptical if merchants were getting too wealthy in this way. This paradoxical attitude of the government was not only reflected in Hu's case, but also in several large commercial factories and manufacturers, such as Tai Sang spinners established by Qian Zhang and Kaiping colliery by Li Hung Chang.²¹² Like Hu's business, heavy intervention and involvement from the government fundamentally changed the management and operation of the manufacturers: despite having the form of a joint-stock company, the government enjoyed an inappropriate share of the rights and privileges in Tai Sang spinners.²¹³ The situation in Kaiping colliery is similar: according to the records, in 1901, there were more than 600 bureaucrats, although there was really only enough work for 60. There were up to 6,000 bureaucrats on the payroll who were actually never there.²¹⁴

²¹¹ Ibid: 36-37.

²¹² See Zhengyu Yao, 'Qingmo Qiye Guanshang Guanxi Shili Kaozheng ji Qishi 清末企业官商关系实例考证及启示' [Examples and Inspirations of mercantile-politic relationship in late Qing Dynasty]. Yunqin Feng and Jianzhong Fan, 'Wanqing Guanshang Guanxi Toushi---Yi Li Hungchang, Tang Tingshu yu Kaiping Meikuang Weili 晚清官商关系透视—以李鸿章、唐廷枢与开平煤矿为例' [The Relationship between officers and businessmen in the Late Qing Dynasty—An example of Li Hong Zhang and Tang Tingshuand Taiping Coal Mine].

²¹³ Zhengyu Yao, 'Qingmo Qiye Guanshang Guanxi Shili Kaozheng ji Qishi 清末企业官商关系实例考证及启示' [Examples and Inspirations of mercantile-politic relationship in late Qing Dynasty], 25-26.

²¹⁴ Yunqin Feng and Jianzhong Fan, 'Wanqing Guanshang Guanxi Toushi---Yi Li Hungchang, Tang Tingshu yu Kaiping Meikuang Weili 晚清官商关系透视—以李鸿章、唐廷枢与开平煤矿为例' [The Relationship between officers and businessmen in the Late Qing Dynasty—An example of Li Hong Zhang and Tang Tingshuand Taiping Coal Mine], 104-105.

It is clear that politicians needed professional businessmen to run large factories, develop strategies and strengthen Chinese industrial as well as military power. However, they were also equally concerned about their own economic benefits, their political influences and political power struggles with their business partners. That is also why in late the Qing dynasty, politicians increasingly showed interest in commerce and business, and so became involved in large numbers of industrial and manufacturing developments and actively and closely associated with merchants. They were also alert when groups of merchants emerged with their increasing wealth and political influence. Merchants under such circumstances had to take much more risk, since they were more likely to get assistance from politicians but also more vulnerable to the ebbs and flows of political fortunes, as their sudden success could to a large extent offend the existing beneficiaries of political power.

British mercantile-political relationships also have their specific historical features, because the interactive and cooperative form of merchants and politicians can only be observed during that time when mercantilism was the main economic principle in Great Britain. Colonies could only trade with the mother country. Free trade with any other counties was impossible.²¹⁵ With this line of development, the EIC enjoyed constant privileges from the Royal Family and parliament and later even transformed into an agency with full freedom of action over almost all the issues in India. However, later on the industrial revolution changed all the policies. Mercantilism was outdated and was gradually replaced by the Adam Smith model with its free market economies. Under such a premise, a liberal and free economy benefits both the colonies and the mother country and thus any

²¹⁵ Qian and Xu, *Yingguo Tongshi* 英国通史 [History of England], 292.

protections and privileges should be removed for a well-functioning market.²¹⁶ Hence, no mercantile-political relationship as such can no longer be found in British history other than during the early modern age.

To conclude this section, although it is impossible to give a definite answer to the question of why two societies have different types of mercantile-political relationships, some clues do shed some light: the path of state and empire formation, different economic priorities and emphasis, diverging attitudes towards capital and profits, cultural and societal codes and perceptions regarding making money and investment, historical specialties and conditions during that time. All the elements do in varying degree affect the historical trajectories and the way it looks like from the present perspective. The different types of mercantile-political relationship in both countries are not a sudden or spontaneous phenomenon. The essence and nature of these two types of relationship has their origins way back in previous history. That is why looking back in the history of how the state formed in both countries is without doubt necessary. As Tosh once put it: “The...essential ingredient of the historian’s perspective is to explain the process of development and change which led from the different world of ‘then’ to the familiar world of ‘now’.”²¹⁷ Equally important is also the fact that the two types of relationships are not static, but a long-lasting process involving interest struggles, conflicts and negotiations among different groups of people and generations. It does not constitute a narrative of unidirectional progress, as Bloch once put it: “(...) with the molding of each new mind, there is a backward step, joining the

²¹⁶ Ibid: 292.

²¹⁷ Tosh, *Why History Matters?*, 9.

most malleable to the most inflexible mentality, while skipping that generation which is the sponsor of change.”²¹⁸

Chapter 6. Conclusion

This paper presents the link between economic performance and political powers through a comparative approach in Great Britain and China. It reveals the practical political influence on economic development by comparing mercantile-political relationships of the EIC and Xueyan Hu. By illustrating two different types and forms of cooperative relationship between merchants and politicians in both countries, the paper aims to shed some light on the possible influences of institutional frameworks on the development of trade and business. Although political institutions are absolutely not a new element when it comes to economic differences, research nowadays fails to provide a satisfactory answer to the question of how concretely political decisions affect, for example, a certain economic activity, the market, the capital flows and most importantly, the behaviours and decisions of the participants in the economy. Taking this as a departure point, I chose a small vantage point to explore this abstract and broad issue, which is to look at the interactions and cooperation between politicians and merchants through certain typical cases.

The results of the comparison reveal some implications that are insightful for analyzing political frameworks of economic performance. First of all, despite many features in common in Great Britain and China regarding the interactions between politicians and merchants, there are some fundamental differences that shape and determine the fate of the two cases. In the case of the EIC, merchants and politicians focused on the success of trade and business incomes, thus politicians provide help for professional merchants in the EIC as

²¹⁸ Bloch, *The historian's craft*, 40.

the high-profit trade determined to a large extent national incomes. Under such a political framework, the relations between EIC merchants and British politicians were flexible and easy to negotiate. Since merchants and politicians shared the same interests, the EIC could enjoy the absolute monopoly granted by the Royal Family from the time it started trading. Due to the national interest of competing with other European nations, the EIC survived internal political turbulence and transformed into a modern joint-stock company.

In the case of Xueyan Hu, we can observe that unlike the EIC, political gain was the main concern in business matters. The way merchants and politicians cooperated in China during late the Qing dynasty was hierarchical and dominated by the politicians. On the top of the ladder, government had the final word on economic activities. Merchants needed to seek and establish close relationships with politicians for the development of their own business. Therefore, businessmen were highly dependent on political decisions from above, which in return, made them vulnerable to political changes. Like Xueyan Hu, businessmen could develop and expand their operations significantly as long as their political partners wanted to provide help of any kind. But their business could be easily destroyed overnight once they lost the political support. Hence, the downfall of Hu's business empire is sudden, quick and radical. It has also been observed that economic decisions from the state were in the end political decisions, which aimed to protect the existing interests and power. To put it frankly, Hu as a merchant served as a tool for politicians to realize their ambitions and in the end became a victim of a political struggle.

After examining the contribution of the main elements that are responsible for economic performances, the paper explores the advantages and unique contributions of the role of State and the direct link between political institutions and economies. Geography does play

an important role in explaining the background, environment and conditions in which economic activities take place, but it fails to provide a constructive explanation of the rise of the West. Technology is vital since Britain was the first country that entered the industrial revolution. However, technology alone is not paramount. If conditions are not favourable for development of technology, if there is no general acceptance of technology research on various issues, no support for the appliance of technology in practice in commercial or even non-commercial uses, no guarantee for the possibly fail experiments, techniques will not become a powerful motive for economic growth. In this sense, a system or framework created by people is the essential element that guides and determines the way natural resources are exploited and technological innovation promoted.

The comparison also reveals some facts that deserve examining a second time. It questions the general argumentation that the Chinese central government did not make enough effort to encourage business development. The paper presents the complex and mixed attitude of the State towards merchants. On one hand, merchants posed the greatest threat to social stability and thus were disliked by the governing class. On the other hand, politicians had reply on merchants for personal wealth and under such circumstances, they would provide political help for their merchant partners as much as they could. However, doing business in China is fundamentally a political issue with a clear hierarchical order and power distribution. Within this framework, the power of merchants could never reach the level that meant that they were strong enough to compete with politicians.

It would probably require another article to explain the reasons why different political landscapes were formed in both countries. In this paper, I want especially to emphasize two points: one is the differences of governance between an enclosed large empire and a group

of States. The other is the general acceptance of wealth in society. While the governance of empire focuses on controlling, regulating and stabilizing, the development of a group of states depends on intense competition. Therefore, in China merchants were always in the position of being regulated and managed in society, but in Europe, merchants were the main force driving international trade competition. Another important aspect refers to cultural background. In Europe, pursuing profits in a proper manner was generally accepted and promoted in society---the spirit of rationalization, to use Weber's words. However, in China pursuing wealth was always considered as immoral, contradicting the core values of Confucian thinking.

While these comparisons cannot provide a complete answer to the whole puzzle. I do see considerable potentials in going back to history for insights into today's economic problems. What kind of role does government play nowadays in global economy development? What kind of political reforms could be possible and helpful? To what extent do inter-governmental organizations influence the global economy? Are Chinese merchants still experiencing the same circumstances as hundreds of years ago? The clues to all those questions can be found back in history---that is also the main intention of this paper. We can never give an absolutely clear answer to the question of why some countries are rich and some are poor; the debate has existed for a long time and will last in the future. But the efforts of peeling back one layer after another of the "historical onion" is absolutely worth doing, since it gives us valuable instructions of how the world comes into its form of today and also in future.

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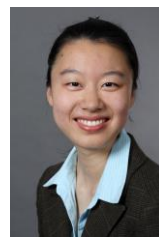
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Education

10/2013- 09/2014 **Erasmus Mundus Global Studies M.A. Vienna University**

Main courses: Development Economics, Theories and Methods of Global Studies, Scientific Communication, Research Seminar Insular Studies.

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Main courses: International Studies, Global History, Cultures of Capitalism in a Transatlantic and Global Context, Political Economy of European Integration

09/2007-06/2011 **German Studies Bachelor, Communication University of China, Beijing**

Main courses: German Linguistic, German Political System and culture, Journalism and Mass Media (2009-2010 Studying at the Ruhr University in Bochum as exchange student).

Work Experience

05/2014 – 08/2014 **Intern, Public Information, Convention of Migratory Species/UNEP Bonn**

- Supporting the maintenance of CMS social media channels, development of draft content for use on the website and news articles.
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05/2011- 08/2012 **Office Clerk, Press and Information Section, German Embassy China, Beijing**

- Maintaining the Homepage and microblogs on the Sohu and Sina internet platform of the German Embassy in China.
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Computer Skills

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