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Friend or Foe?
Business Groups during China's Transition

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Business groups in Asia have come under fire recently for contributing to the region's recent financial crisis. The Japanese *keiretsu* and Korean *chaebol*, in particular, have been credited with protecting firms from competition and facilitating the banking practices that have plagued these countries. Yet Chinese reformers are actively promoting the development of nearly identical conglomerates among their own formerly state-owned enterprises. Here I would like to discuss where these groups came from, why Chinese reformers have continued to build conglomerates, and the role they might play in China.

A central part of China's industrial reform has been an effort to transform formerly state-owned enterprises into global players by creating giant conglomerates known as business groups (*qiye jituan*). Starting in the mid-1980s, Chinese reformers began to allow and even encourage mergers and acquisitions. One of the most central, but least studied, components of this effort was the formation of business groups. These coalitions of firms are bound together by varying degrees of legal and social connection. The group members generally conduct business in more than one market under the control of a dominant, or core, firm or family. Starting in the mid-1980s, reformers actively began to study the post-World War II formation of Japan's *keiretsu* and Korea's *chaebol* as models for their own conglomerates. The reformers also traveled to their Asian neighbors to study business groups and to learn how to recreate these groups in China. Their intention was to foster economies of scale and to create structures that would ease firms through transition. Many of the groups were organized around prior administrative bureaus and most were in manufacturing, though some reorganization and diversification began to occur immediately. Firms were free to leave one group and join another, although this was rare. Unlike the *chaebol*, the Chinese groups were not formed around families; broadly speaking, they therefore bore greater resemblance to the *keiretsu* than the *chaebol*. By the early 1990s, there were more than 7,000 known Chinese business groups. The groups have been allowed to fail as time has passed, but the number of groups still exceeds 5,000.

Unfortunately, the Chinese government could not have picked a worse time for their new conglomerates to enter the scene. The very groups after which China's new giants are being modeled (the *keiretsu* and *chaebol*) are increasingly under fire not only for being a failed experiment but also for contributing to their country's recent economic woes.

IN THIS ISSUE

The *Wall Street Journal* recently picked up on the similarities between the Chinese conglomerates and their Japanese and Korean counterparts and quipped: "forget that other countries have failed in their efforts to build giant conglomerates. China is determined to keep trying."[1] Yet researchers are only beginning to understand how such networks of firms affect the behavior of their members, and there is increasing evidence that firms that join forces in the early stages of development benefit in the long run.

Business groups facilitate economic development in a variety of ways. The groups may substitute for a developed financial market and allow firms to obtain capital that otherwise would not be available. To the extent that business groups improve the market power of firms, they also increase the firms' returns to capital. The groups can enlarge the pool from which human resources are recruited and allow firms to hire labor where labor markets do not function effectively. Trust-based relations within business groups encourage the formation of larger top management teams than would otherwise develop; this facilitates communication and delegation of authority, allowing firms to overcome efficiency and size constraints. Moreover, business groups may facilitate development by increasing the occurrence and success of entrepreneurship. Relatively high risks associated with entrepreneurship in a developing or transitional economy discourage nascent entrepreneurs' efforts and make failure almost probable in many cases. Potential entrepreneurs who have the backing of a business group are more likely to risk starting a firm, and those who either begin within a business group or who become affiliated with a business group are more likely to succeed. Finally, there is evidence that the strong linkages that often develop between business groups and the state can benefit both members of the groups and development more generally by giving the state a degree of leverage over the economy and providing protection to the firms.

In the early stages of transition, Chinese firms faced many of the problems that business groups have been shown to alleviate. Equity markets were rudimentary. State funds were limited, and social and political factors were often more important than firm performance or other determinants of creditworthiness in borrowing. Private and foreign banks were only permitted to operate under highly constrained conditions, and while Chinese stock markets had begun to develop, stock trading was limited and provided little capital to firms. Because product markets were in the initial stages of development, firm access to both inputs and markets for finished goods was also limited, and infrastructure constraints and a scarcity of reliable firms specializing in transportation often precluded the national distribution of products. Finally, labor markets began to develop early in China's economic transition, but national labor markets did not exist even in the late 1990s and local markets were seldom reliable sources of personnel.

Researchers have begun to document that membership in a *keiretsu* or *chaebol* did, indeed, have certain advantages for firms in the early stages of development. There is also mounting evidence that membership in a business group provides certain advantages to *Chinese* firms. For example, there is evidence that the presence and predominance of interlocking directorates and finance companies in business groups improves the financial performance and productivity of the groups' member firms. Many of the business groups, almost immediately after their formation, established finance companies, specialized firms that collected and redistributed funds within the group and also obtained funds through state banks on behalf of member firms. As such, the finance companies engaged in a type of "insider lending" that economic historians argue has aided firms in overcoming the challenges associated with poorly-developed formal financial markets in other developing economies. Research on the finance companies indicates that the presence and predominance of insider lending arrangements in the business groups positively affect the financial performance and productivity of firms and that this relationship is particularly noteworthy where markets have been slow to develop. Firms in groups that are relatively cohesive also perform relatively well financially. Moreover, the groups help reduce uncertainty by facilitating the development of ongoing resource exchange relations between firms, and they also appear to have a positive impact on the returns firms receive for entering new markets.

Given these benefits, then, why did business groups in Japan and Korea play a part in creating financial crisis in recent times? How was this possible if the groups were beneficial in an earlier period? What does this suggest for the role of business groups in China? The difference between the impact of the groups early in development and in later development appears to lie with the state. Continued state support of the groups after the economy has developed and when the groups become little more than an organized (and usually legal) form of collusion appears to be at the heart of the difference. A look at the history of the U.S. illustrates perhaps a more healthy progression from business groups during development to independent firms post-development. In the U. S. in the early nineteenth century, insider lending arrangements developed in place of a formal financial market.[2] In these arrangements, bank directors loaned funds almost exclusively to themselves and their friends. It just so happens that the bank directors and their friends were more often than not entrepreneurs, and these informal lending arrangements came to resemble the business groups we see throughout Asia and Latin America (most of which also

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The Modern Chinese Economy from the Perspective of Shipping Archives in the United Kingdom

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Upon graduating from the Department of Sociology at National Taiwan University in 1996, I chose to study economic history in the United Kingdom due to this country's particular historical experiences. After completing my Master's thesis on the mobilization of Anglo-Japanese finance during the First World War, I began research into the British and Japanese shipping rivalry in the early twentieth century, especially in the Far East. This is a neglected topic, in my view, as this is a period when British shipping faced a strong challenge from Japan in East Asia. Since the spring of 2000, I have engaged in the reading of archives in the various libraries in the United Kingdom and have realized that the archives of shipping companies contain more information than I had expected.

In the pre-modern era, especially in the early Ming dynasty, China was very strong in overseas shipping and Chinese activities expanded into Southeast Asia. However, during the nineteenth century, the shippers from the West were very influential in export and coastal transportation. However, in some sense, the China Merchants Steam Navigation Company, which was established in 1872, competed with foreign shipping successfully.[1] But since acquiring inland navigation rights in 1898, foreign shipping companies, including Japanese shippers, benefitted from expanded business in domestic water transportation.

There is a variety of books available on pre-1900 British shipping in East Asia. The "Liverpool School" produced several excellent academic works. Shelia Marriner and Francis E. Hyde's research on the foundation of Taikoo—*The Senior John Samuel Swire, 1825-98: Management in Far Eastern Shipping Trades* (Liverpool University Press, 1967)—is an important case study. Professor Hyde's earlier work on Alfred Holt & Company—*Blue Funnel: A History of Alfred Holt and Company of Liverpool from 1865 to 1914* (with the assistance of J. R. Harris, Liverpool University Press, 1956)—is also a pioneer study. More recently, Malcolm Falkus has produced a comprehensive work, *The Blue Funnel Legend: A History of the Ocean Steam Ship Company, 1865-1973* (Macmillan, 1990). Only a few books have dealt with business competition. One is Kwang-Ching Liu's book, *Anglo-American Steamship Rivalry in China, 1862-1874* (Harvard University Press, 1962). All the books outlined above use primary source material extensively and well. However, I think more research should be done on the post-1900 period.

To date, I have consulted the archives of Jardine, Matheson & Co., Butterfield & Swire Ltd., and Ocean Steam Ship Co. (Alfred Holt & Co.). These archives represent the main UK collections on British shipping in China.

Jardine, Matheson & Co. was a distinguished trading company in China and operated a shipping business as well. The Indo-China Steam Navigation Company was a British public company under Jardine, Matheson & Co.'s control. This company's record is deposited with that of Jardine, Matheson & Co. in the Cambridge University Library. There is a constant stream of researchers coming to use the Jardine, Matheson & Co. archives, but few come to use the shipping records. The archives of the Indo-China Steam Navigation Company include the minutes of directors' meetings as well as records of negotiations with other firms, correspondence from local branches, and reports of local managers. In the large post-1900 archives of Jardine, Matheson & Co., there is information not only about their shipping management, but also about their entire business operation. Also, from their records, we can observe the impact of the changing situation in China on contemporary businessmen's views of China. For example, reports regarding the events of May 30, 1925 are invaluable for tracing the development of this political movement from the local British perspective.

A request to use both the archives of Jardine, Matheson & Co. and Indo-China Steam Navigation Company needs to be made before going to Cambridge. The details for such an application are available on the website of Cambridge University Library at http://www.lib.cam.ac.uk/Handbook/applicationJM.html. It is very unfortunate that the post-1900 archives of Jardine, Matheson & Co. and the whole Indo-China Steam Navigation Company have not been fully catalogued. Therefore, it will probably be difficult to choose suitable material while the complete list is not available.

Like Jardine, Matheson & Co., John Swire & Sons Ltd. is a trading firm in China and they founded the China Navigation Company to operate the shipping service. The pre-1900 material is used extensively and discussed in Marriner and

Hyde's book. Material from the post-1900 period, which is more voluminous and more detailed, includes information on the decision-making of the head office, research reports from the local managers on technical problems, and business analyses. Just as in the case of Jardine, Matheson & Co., the archives of John Swire & Sons Ltd. reveal their uncertainty about the changing situation in China. Of particular interest are the detailed discussions on John Swire & Sons Ltd.'s role in the development of Hong Kong in this collection. The company has frequently provided funding for the development of Hong Kong, including sums for education scholarships, dock building, and port facilities.

The archives of John Swire & Sons Ltd. are deposited in the University of London, School of Oriental and African Studies (SOAS). The complete list of sources is available in the *Guide to the Papers of John Swire and Sons Ltd*, edited by Elizabeth Hook (London: University of London, School of Oriental and African Studies, 1977). In addition to this book, there are a few lists available in the archives reading room of the SOAS Library. To use the archive, it is advisable to make advance contact with Ms. Charlotte Bleasdale, who oversees the archive for Swires from Australia. Ms. Bleasdale may be reached at *clab@austarnet.com.au*. To enter the SOAS Library, it is necessary to apply for a reader's ticket. For details, see http://www.soas.ac.uk/Archives/home.html.

The Ocean Steam Ship Company is another distinguished British shipping company. After the 1860s, like many other British merchants, Alfred Holt launched his enterprise in China's waters under the name of Alfred Holt & Co., and great success followed. Alfred Holt & Co. did not establish a direct branch in China. Their agencies were operated by John Swire & Sons Ltd. Regarding their activities in China, in addition to the papers in SOAS, as mentioned above, the main archives of the Ocean Steam Ship Company are deposited in the National Merseyside Maritime Museum in Liverpool. Here also are kept the archives of the China Mutual Steam Navigation Company, Glen Line, Shire Line and the Straits Steamship Company, who were all engaged in trade to China. This archive also contains the partial records of the Far Eastern Freight Conference (the minutes of the directors' meeting of the Straits, China, and Japan Conference).

In the archives in Liverpool, most materials concern Southeast Asia, and few are directly related to the situation in China. However, there are a few materials regarding Chinese passengers, Chinese crews, and Chinese emigrants that would be helpful in a survey of Chinese emigration. Also, the reports of managers and the minutes of the Conference could reflect the changing world in East Asia and reveal businessmen's responses. In general, the archives in the Merseyside Maritime Museum can be freely used without any special permission. The fee for entry to the archive reading room is fifty pence. The details can be obtained from the curator of archives of the museum. The address is Merseyside Maritime Museum, Albert Dock, Liverpool L3 4AQ. Also, the complete list of sources is available in the *Guide to the Records of Merseyside Maritime Museum*, compiled by Gordon Read and Michael Stammers (International Maritime Economic History Association, 1995-1999, two volumes).

Scottish merchants played a very important role in British business in the Far East. For example, the founders of Jardine, Matheson & Co. were Scottish. However, it now seems that few materials are left in Scotland. In the University Archives and Business Records Centre, University of Glasgow, one set of archives is helpful to our understanding of British "technology exports" to Japan and the British role in the early Japanese overseas expansion. A. R. Brown, McFarlane & Co., Ltd was founded in 1889 and was made responsible for placing the contracts for most of Japan's warships and all the merchant ships that were built in the United Kingdom for many years to come. Some material in that set relates to Japanese shipping mobilization for the Formosan Expedition of 1874. In the Centre, there are other large shipping archives, including those of the Anchor Line, etc., but the connection with China is quite slight. The address of the Centre is: Glasgow University Archives and Business Records Centre, 13 Thurso Street, Glasgow G11 6PE. Their homepage is http://www.archives.gla.ac.uk/arcbrc/default.html.

The shipping archives outlined above can help researchers understand the contemporary Chinese situation, including economics, politics, and foreign relations. In particular, I hope this paper will be helpful to future researchers who are interested in Chinese maritime history.

Endnotes

1. Lai Chi-kong, *China's First Modern Corporation and the State: Officials, Merchants and Resource Allocation in the China Merchants' Steam Navigation Company, 1872-1902*, unpublished Ph.D. thesis, University of California, Davis, 1992.

Comments from Ms. Charlotte Bleasdale for an earlier version of this paper are appreciated. I am also obliged to Mr. Patrick Mok of the University of Hong Kong for sharing his knowledge about the economic history of Hong Kong.

Business Groups during China's Transition

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emerged during economic development). In the U.S., insider lending arrangements gradually gave way to independent firms, and eventually such arrangements were outlawed. In the early stages of development, the state is often involved in the formation of the groups and/or their development. What may be problematic is a state that does not discourage collusion after the economy is developed. This implies that while business groups may be detrimental to the developed economies of Japan and Korea, it does not follow that the same organizational form will be detrimental in China. In fact, the evidence suggests that business groups may be exactly what China needs right now.

Endnotes

1. Chang, Leslie, "Big Is Beautiful," *Wall Street Journal* April 30, 1998.

2. Lamoreaux, Naomi, *Insider Lending: Banks, Personal Connections, and Economic Development in Industrial New England*, New York: Cambridge University Press, 1994.

Editor's note:

Professor Keister's essay is based on her research, the results of which have been published in several sources: *Chinese Business Groups: The Structure and Impact of Interfirm Relations During Economic Development*, New York: Oxford University Press, 2000; "Chinese Business Groups: The Role of Conglomerates in the Remaking of China's Economy," *Journal of Business in Developing Nations*, 1999; "Engineering Growth: Business Group Structure and Firm Performance in China's Transition Economy," *American Journal of Sociology* 104,1998, pp. 404-440; "Exchange Structures in Transition: Longitudinal Analysis of Lending and Trade Relations in Chinese Business Groups" is forthcoming in the *American Sociological Review.*

In addition to Professor Keister's work, readers may wish to consult Mark Granovetter, "Coase Revisited: Business Groups in the Modern Economy," *Industrial and Corporate Change* 4,1995, pp. 93-130; James R. Lincoln, Michael. L. Gerlach, and Peggy Takahashi, "*Keiretsu* Networks in the Japanese Economy: Dyad Analysis of Intercorporate Ties," *American Sociological Review* 57, 1992, pp. 561-585; J.R. Lincoln, Michael L. Gerlach, and Christina A. Ahmadjian, "Keiretsu Networks and Corporate Performance in Japan," *American Sociological Review* 61, 1996, pp. 67-88; M.L.Gerlach, *Alliance Capitalism: The Social Organization of Japanese Business*, Berkeley: University of California Press, 1992.

Coming in the Fall 2001 Issue

Gregory Lewis on Ji Chaoding's Odyssey from Columbia University to the People's Bank

Catherine Schenk on Finance and International Business in China, 1930-1950

Book Reviews and Research Reports from Shanghai

Managing Labor, Managing Change: The Study of Shop-Floor Institutions in Chinese Factories Before and After 1949

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The study of labor management, in Chinese businesses or elsewhere, is a relatively new area of inquiry that straddles the boundaries of labor history and business history. Students of the former have traditionally explored questions of class formation, identity, mobilization, and political participation, but less often have they asked questions about the different sorts of institutions that mediate relations between employers and workers. Business historians have certainly addressed personnel and labor management questions in their focus on "strategy and structure" or on relations with the state, but firm-level analyses of labor management institutions remain rare.[1] Who gets hired, what they get paid, what work they do, how they get promoted; these and related issues are hotly debated everywhere. Labor management institutions represent attempted resolutions to this ongoing debate, yet scholarly treatment of such institutions pales in comparison to their discussion in the professional journals. Accounting for when and why seniority wages emerge in a particular context, for example, and who fights to maintain them, leads to important questions involving institutional formation and reproduction, cultural understanding of institutions, state power and social forces, and other theoretical questions.

Labor management institutions in Chinese industry, today and in the past, are closely intertwined with the history of the *danwei* (work unit). As several scholars of Chinese industry and commerce have shown, among them Wen-Hsin Yeh and Morris Linan Bian, many firms exhibited characteristics of what would become the socialist work unit well before the advent of state socialism in the 1950s.[2] The most obvious among these was the provision of housing, meals, medical services, and other benefits that enterprise managers offered employees as a result of the wartime emergencies in the late 1930s and 1940s. Hyperinflation that continued after the war and reached epic proportions in the late 1940s caused this practice to be replicated in many enterprises in coastal cities of China after 1945. The CCP inherited a firmly embedded set of norms and practices relating to enterprise welfare provision. Not surprisingly, programs such as pensions and health insurance that the Communist regime introduced in the 1950s were administered through the enterprise rather than through functional social welfare agencies.

In my forthcoming book (*The Making of the Chinese Industrial Workplace: State, Revolution, and Labor Management*, Cambridge University Press), I traced the formation of this and other institutions in two sectors of two cities in China: namely the textile and shipbuilding sectors of Guangzhou and Shanghai. The book analyzes the formation of enterprise-based welfare in addition to several other institutions that would make up the Communist-era work unit: the personalistic authority of shop floor supervisors, the seniority wage system with its relatively narrow differentials in pay, and the role of the enterprise party committee in the factory. It will come as little surprise to readers of this publication that certain labor management institutions that would inform the socialist era *danwei* emerged prior to 1949. The crises of the 1930s and 1940s evoked institutional responses within firms and from the state. These institutions would persist, with some modification, into the 1950s under vastly different economic arrangements.

One such institution was wages: Chinese enterprises by the late 1950s (both older state enterprises and newly-nationalized enterprises) exhibited the familiar pattern of seniority-based pay with narrow differentials between the highest and lowest paid workers. Pay based on production, usually by surpassing a given production quota, had been discarded during the Great Leap Forward, not to be revived wholesale until the 1980s. On the surface, this wage regime reflects the ideological preferences of Maoism, emphasizing egalitarian distribution of pay and an aversion toward individual material incentives. This wage regime was indeed a rejection of the Soviet wage policies so readily adopted during the early 1950s, but it also reflected a return to past practices before 1949 when wage differentials were also "compressed" and piece rates roundly rejected within firms.

My research shows that the CCP actually inherited a wage situation in which hyperinflation had radically compressed, and in some cases "inverted" the differences between the skilled and unskilled workers. Within the same textile mill, a mechanic might receive far less than a semi-skilled mill operative. Across industries, a shipyard engineer might be paid the same if not less than a piece-rate worker in a weaving mill. Several years ago, Christopher Howe showed this to have been the result of Nationalist wage policy that in turn arose from efforts to cope with the hyperinflation crisis.[3] In effect, a wage policy that indexed wages to the surging price level, combined with caps on the highest wage earners, brought about this unusual situation. The CCP's wage reform in the 1950s attempted to widen these differentials by imposing skill-based standards that would presumably return wage differentials to their more natural pre-war conditions. Industrial ministries set skill standards and linked them to particular rungs on the nationwide eight-grade wage ladder. By 1956, every production worker had a numerical rating that reflected skill and presumably pay. Yet by imposing the skill-based criteria on a highly differentiated industrial sector, confusion and at times chaos ensued as workers and managers fought over which jobs and workers should be assigned to which pay rates. One commercial enterprise, a department store in Shanghai, was held up for criticism when it was learned that managers had assigned wage levels to clerks based on the "skill" of smoking and identifying various brands of cigarettes in a blind taste-test: an obviously unpopular policy with the store's non-smoking employees.

Within the industrial sector, it turned out that many enterprise managers simply lumped the vast majority of workers into the middle ranges of the wage scale, creating in effect the same narrow wage differentials that existed before wage reform. Over time, the real beneficiaries of this wage regime proved to be "older workers" (*lao gongren*): a category defined not by age as much as the criterion of whether an employee had experienced pre-1949 employment and the presumed exploitation at the hands of Nationalists, imperialists, capitalists, etc. As new workers entered the ranks of employment, enterprise managers simply assigned them to the lowest rungs of the wage ladder regardless of their actual skills. By the late 1950s, factories in China had a de facto seniority wage system.

Old workers also used their political status to become the prime beneficiaries of the enterprise-based pattern of welfare provision: programs such as retirement pensions and health insurance (known as "labor insurance" *laobao* in Chinese) obviously had greater appeal among senior workers than among newer workers. Evidence from the enterprises I studied also suggests that older workers were generally first in line when it came to the distribution of new housing and other non-wage benefits that state factories could distribute to employees. During the severe recession that followed the Great Leap Forward, when enterprise budgets were tightly constrained and work force morale plummeted, the CCP directed enterprise party committees to organize political meetings that featured these older workers engaging in "recollections and contrasts" (*huiyi duibi*). During such meetings they would recount to the newer cohort of workers just how much they had suffered in the pre-liberation days, and how much better things were now. However, with edema and other maladies related to food shortages and overwork reported widely among Shanghai and Guangzhou workers, it is unlikely that such personal narratives served to inspire the post-1949 cohort of workers.

The wage regime and other characteristics of the work unit formed in this endogenous fashion over several decades before and after 1949. The formation and persistence of certain institutions reflects questions that Douglass North and others have raised about institutional durability during periods of crisis and revolution.[4]

Research Note

Many older state enterprises in China have their own in-house historians whose task it is to administer the firm's records and files and, inter alia, to maintain the Communist Party's version of pre-1949 labor movement history. With perseverance, it is possible for foreign researchers to gain access to certain holdings, as I managed to in the case of the Jiangnan Shipyard and the Shanghai No. 31 Cotton Mill in 1995. At that time both firms were engaged in sizable projects to publish their histories in the form of gazetteers or books, and the individuals involved were more or less willing to exchange their thoughts on the enterprise and its labor relations history. The Jiangnan Shipyard had an extensive written record of "old workers" recounting their personal experiences of work, and much of this material had been taken down during the "recollections and contrasts" of the early 1960s. In general, however, most state enterprise officials were quite reluctant to have foreign researchers exploring their historical records. It was one thing to talk about the past, and quite another to examine documents from the past. The opening of state enterprises to competitive market forces in the 1990s has yet to bring much opening in terms of the valuable enterprise archives housed within many of the oldest SOEs.

Endnotes

1. Andrew Gordon's earlier work on the Japanese employment system is a notable exception (*The Evolution of Labor Relations in Japan: Heavy Industry, 1853-1955*, Cambridge: Harvard University Press, 1985).

2. Wen-hsin Yeh, "Republican Origins of the *Danwei*: The case of Shanghai's Bank of China," in Xiaobo L and

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Report of the Third International Conference on Chinese Business History: Chinese Merchants, Chambers of Commerce, and Business Networks

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The Third International Conference on Chinese Business History, "Chinese Merchants, Chambers of Commerce, and Business Networks," was held at The Chinese University of Hong Kong, July 6-8, 2000. Co-sponsored by the Centre of Asian Studies, University of Hong Kong, and by the Department of History, Chinese University of Hong Kong, the conference gathered some 30 scholars from China, Taiwan, Hong Kong, Japan, the United States, and Australia. The papers presented included a number of case studies on merchants' activities and organizations from the Ming Dynasty to the present in China and Hong Kong, as well as in overseas Chinese communities. Out of a wide range of subjects discussed at the conference, this essay highlights several important themes.

The first theme was the business network. Since, broadly defined, a network is a set of relationships within a specific population, the issue centers on what makes Chinese business networks unique. To address this question, we need to look at cultural aspects of business/economic history, as Wenhsin Yeh (University of California, Berkeley) pointed out in her paper presentation, "Business, Vocations, and the Shanghai Merchant Circle." The paper by Hong Liu (National University of Singapore), "Beyond Business: The Cultural Poetics and Social Politics of Sino-Southeast Asian Transnational Networks," dealt most directly with the methodological problem of studying Chinese business networks. Liu contended that the concept of social capital (that is, resources such as trust, mutual forbearance, or reputation, which ensure a durable network) is a useful analytical tool for the study of Chinese business. In contrast to *guanxi*, which is narrowly specific to Chinese studies, social capital is part of a general social science analytical framework and thus provides a comparative tool for analyzing Chinese businesses. At the same time, as Liu points out, while *guanxi* is often seen as a personal network, social capital incorporates both institutionalized social networks and informal personal ties.

Several papers examined the contents and forms of Chinese business networks. For example, the paper by Fu Xiaocai (Zhejiang University), "Xiangqin, lirun, yu wangluo: Ningpo shangren yu tamen de tongxiang zuzhi, 1911-1949" (Native ties, profits, and networks: Ningpo merchants and their native place associations), argued that although Ningpo merchants esteemed native place ties, their business performance was not so strongly influenced by such relations; Ningpo merchants never sacrificed profits for native place ties. Lin Yuru (Academia Sinica), analyzing investments in farmland by merchants in Zhuqian, Taiwan, during the Qing period, argued that merchants took advantage of control over the tenants on their properties to secure export commodities, which in turn led to the further expansion of their businesses.

Another research issue relates to how trust based upon personal networks supplemented and/or replaced formal markets and legal institutions. Two papers, both focusing on Shanghai's financial market in the early 20th century, pointed out that networks and institutions coexisted. The paper by Ma Changlin (Shanghai Municipal Archives), "Minguo shiqi Shanghai yinhangjie de fengxian yishi" (The sense of risk within the Shanghai financial world in the Republican period), explained how banks investigated creditors' trustworthiness, while Tomoko Shiroyama (Hokkaido University), in "The Limit of Credit: The Crisis of Shanghai Business Community during the World Depression," stated that property mortgage, as well as personal reputation, were important for businessmen to secure bank credit.

The second major theme of the conference dealt with merchants' relationships with political authorities. The case studies included in the papers demonstrated that a strategy for coping with authorities was crucial for merchants. Merchants' vulnerability was illuminated by Alfred Lin (University of Hong Kong) in "Warlord and Merchants: Guangdong Sugar Industry and Sugar Merchants under Chen Jitang's 'Three-Year Administrative Plan', 1933-35," which provided a careful analysis of the government monopoly of the sugar industry. He Peiran (Chinese University of Hong Kong) attributed the sudden demise of the Shatian Chamber of Commerce in the 1970s to the confiscation of the central market place forced by the Hong Kong government. Merchants' ability to negotiate with political authorities depended on economic as well as political circumstances; Huang Ting (Swatow University) showed that, weakened by the financial crisis in 1933-1934, the Swatow Chamber of Commerce lost its independence from the Guangdong government.

For overseas Chinese entrepreneurs, the relationship with non-Chinese political power is even more complicated. Hong Liu demonstrated advantages and risks involved in the relationship with indigenous authorities in his analysis of a Chinese transnational entrepreneur, Tong Djoe. Tong's cultivation of relationships with high-ranking officials in Indonesia beginning during the Indonesian Revolution (1945-49) contributed significantly to his business success. The relationships, however, were risky in nature because they did not have an institutional foundation within the Indonesian political hierarchy. Tong's business was damaged by the fall of his patron in 1976. Similarly, delineating the relationship between the Federation of Filipino-Chinese Chambers of Commerce and Industry and Filipino leaders from the 1950s to the present, Theresa C. Carino (Amity Foundation, Hong Kong) argued that given their status as an ethnic minority, the Chinese in the Philippines benefited from the close association between Federation leaders and Filipino presidents as, for example, when they were granted citizenship in 1975. Later, these close ties became a burden rather than an asset when the administration was criticized for cronyism as the 1997 financial crisis deepened.

Focusing on the political and institutional transition from late Qing to the Republic, several papers touched on the third theme: the merchants' role in local societies and national politics. The paper by Xu Dingxin (Shanghai Academy of Social Science), "Jindai Shanghai shanghui de duoyuan wangluo jiegou yu gongneng dingwei" (The multiple networks of the Shanghai General Chamber of Commerce and its role), drew attention to the contribution of the Shanghai General Chamber of Commerce in promoting commercial laws and in enlightening merchants about fair competition and corporate regulations. In the case of Guangdong, the paper by Qiu Jie (Zhongshan University) entitled "Minchu Guangdong de shangren tuanti yu shehui dongluan; yi Yuesheng weili" (Social turmoil and the merchants' militia in the early Republican period: Guangdong as a case) focused on the militia set up by merchants to fight against prevailing bandits in the 1910s and 1920s.

It was also emphasized that merchants were motivated to commit to politics out of their own interests and calculations. Analyzing the aphorism "*Zai Shang Yan Shang*" ("Merchants should talk about business"), Zhu Ying (Huazhong Normal University) noted that this saying was originally used as an excuse for merchants not to commit to politics, but that by the middle of 1910s, merchants claimed their right to participate in economic administration based upon the idea of "*Zai Shang Yan Shang*." The paper by Chen Zongping (McGill University), "The Chamber of Commerce and the 1911 Revolution in the Lower Yangtze Region: A Reinterpretation," illuminated how the local merchant elite chose their political position during the revolution in order to maintain their control over local societies. Chen's conclusion, which questioned whether "public sphere" or "civil society" could be applied to late Qing-Early Republic society, echoed the study by Ho-Ming Yip (Chinese University of Hong Kong) on the role of the chambers of commerce and local elites in Wei County, Shangdong during the Republican period. According to Yip, although the Wei County chambers of commerce played important roles in the local assembly, policing, and social welfare, "public sphere" failed to develop into "civil society." Yip reasoned that merchants' relationships with political authorities were key. In Wei County, the government used the chambers of commerce to exploit the county's economic resources while, at the same time, the merchant elite manipulated their relationship with the county authorities to increase their political power and profits.

These were only a few of the issues discussed at the conference. Others included merchant networks and commodity marketing, merchants and the urban economy, and corporations operated by merchants. The conference gave participants an opportunity to place their case studies in comparative perspective and to think about such major issues as models of Chinese business networks and state-business relations.

Managing Labor, Managing Change

(Continued from page 7)

Elizabeth Perry, eds., *Danwei: The Changing Chinese Workplace in Historical and Comparative Perspective*, Armonk, NY: M.E. Sharpe, 1997; Morris Linan Bian, "Development of Institutions of Social Service and Industrial Welfare in State Enterprises in China, 1937-1945," paper presented at the annual meeting of the Association for Asian Studies, 1998.

3. Christopher Howe, *Wage Patterns and Wage Policy in Modern China, 1919-1972*, New York: Cambridge University Press, 1973, pp. 22-27.

4. Douglass C. North, *Institutions, Institutional Change and Economic Performance*, New York: Cambridge University Press, 1990, pp. 89-91; Alexis de Tocqueville, *The Old Regime and the French Revolution*, Stuart Gilbert, trans., Garden City, NY: Doubleday Anchor Books, 1955.

CBH News

The Chinese Business History Research Group held a meeting at the Association of Asian Studies in Chicago, March 24, 2001. We discussed using the Chinese Business History web site to expand and enhance information related to our common interests. See our write-up on the web site for the results!

Call for Papers - Book Reviews - Announcements

to be posted on the Chinese Business History web site

From its inception, *Chinese Business History* has been a means of communication among scholars. Now with the web site, we can expand this mission. To do so, we need help from readers. Here are some of the materials we want posted on the web site:

Working papers. Please share your unpublished working and conference papers on Chinese business history and related topics to let others know what your research interests are and to get feedback from scholars with related interests. Also encourage people you know to do the same. Papers need not be in English and can be in Chinese, Japanese, or other languages.

Book reviews or simply notices about relevant books or articles. Information about relatively obscure books or books published in Chinese and Japanese and other languages besides English is especially welcome.

Research materials. Information about sources for research on Chinese business history, their locations, and accessibility is always useful.

Announcements about conferences, workshops and panels. These need not be limited to Chinese business history. Notices might be about the general business and economic history organizations, contemporary economic developments in China and Asia, and historical topics of interest to researchers in Chinese business history.

Using the web site is easy. Go directly to the Chinese Business History Home Page by typing in **http://www.einaudi.cornell.edu/eastasia/publications/cbh/home.htm**

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