

Li Hongzhang and China Merchants Steamship Bureau

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Abstract: Li Hongzhang, one of the most important figures in the late Qing dynasty, founded the China Merchants Steamship Bureaus in 1872, the starting point of the development of China's modern shipping industry. He has spared no efforts for the growth of China Merchants Steamship Bureau, economically making a series of supporting measures such as special delivery for tribute grain, official grants and loans and preference for debts and taxation, and politically unyieldingly adherence to the policy of official supervision and non-government operation of China Merchants Steamship Bureaus under the public pressure. Unfortunately, the government reinforced the controlling of this bureau due to the personal political strategic shrinkage of Li Hongzhang and tight fiscal policy of Qing government as well as lessons from its previous operation. The feeble growth of China's modern shipping industries can be traced back to the ups and downs of this bureau as a representative of China's modern shipping industries.

Key words: Li Hongzhang, shipping industry in late Qing Dynasty, China Merchants Steamship Bureau

Introduction

Li Hongzhang, the founder of the China Merchants Steamship Bureau in 1872, is one of dominant characters in the late Qing dynasty. This bureau is the turning point for Westernization Movement from self-reliance to the pursuit of wealth, and the beginning of modernization of China Merchants Steamship Bureau. Political and economic supports of Li Hongzhang to the China Merchants Steamship Bureau have not only promoted the modernization of this bureau but broken the monopoly of foreign merchants to China's shipping industry. And it also has finished the tasks of delivering the northern tribute grains to the north and of "slightly graping the profits of shipping industry from foreign merchants". From previous research fruits on Li Hongzhang perspective, although many a scholar has engaged in the study of Li Hongzhang and numerous criticisms to the China Merchants Steamship Bureau and Li Hongzhang can be found, all research achievements have attached great importance to the operating system of "official supervision and non-government operation" of China Merchants Steamship Bureau, and yet less focused on the detail studies on combination of this company with the development of modern shipping industry. This paper has chronically analyzed the role of Li Hongzhang in initial difficulty, development and expansion and stagnation of modern shipping industry so as to explain the role of Li Hongzhang in the initial formation of shipping industry and the establishment of modern shipping system and to explore the

feeble growth of China's modern shipping industry.

1. Social intercourse and struggle: the role of Li Hongzhang in the initial development of China Merchants Steamship Bureau

After the opening of five trading ports, foreign merchant companies flooded into the Yangtze river and southern-east coastline under the protects of treaties and systems, and almost monopoly China's shipping industry, resulting in extreme difficulty for the northern delivery of tribute grain. To solve the problems of no ship for delivering tribute grain and learn foreign advanced shipping technology, it was primitive that tribute grain be transported by ships with mechanical power. Furthermore, as Westernization Movement went on, the demands to find new channel of financial resources was one of motivations to develop shipping industry.

Li Hongzhang had long been highly interested in setting up modern shipping industry and taken initiative to find ways for steamship delivery and strongly promoted the development of shipping industry. Under the background of doubts of colleagues to the establishment of China merchants steamship Bureau, he had made endeavors in many ways to lobby many a associate to understand the merits and disadvantages of this company. He had played a vital role in assisting and protecting the growth of the company facing a severe difficulty at its early development stage, making efforts to convince co-workers to agree that tribute grain should be delivered by and public funds and reliefs granted to the company.

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1.1 The background of China merchants steamship bureau founded by Li Hongzhang

Foreign businessmen poured to China to engage in steamship industry after the opening of five-trading ports. Shanghai alone had 15 companies running steamship in early 1960s. Foreign ships were well-known for rapid speed, convenience, safety and security. "It takes more than a month from Shanghai to Tianjin by large junk; however, it only needs a day by ship" (Association of Chinese Historians, 1954). The ship delivery had largely reduced the transportation loss. It was faster and safer than large junk. It was often the case that huge damages were caused during the long distance delivery, as pirates typically robbed large junk teams. While foreign ships had no worries about that situation as they were armed with artillery and protected by insurance corporations. As Chen Lanbin put it in his report, ship delivery was convenient and had no extra fees for transition and also guaranteed by insurance companies which would compensate its loss according to the original price should accidents take place. However, Chinese ship was quite inconvenient. The gulf between Chinese and western ships was huge. Chinese businessmen and folks had scrambled into foreign ships for decades. As a result, foreign ships continuously increased while Chinese civilian vessels constantly fell. The number of the former enjoyed a persistent rise, expanding any places for ship delivery from the coastline to the mainland. Consequently, the number of latter will gradually lower to zero (Chen, 1875).

Various preferential and privileges granted by Sino-foreign unequal treaties are essential to the rapid development of foreign ships. *The Trade Regulations for the Five Treaty Ports* and its *Risk Management Provisions* provided taxation preference for foreign businesses. With the payment of import tax, only 2.5% of the tax for the sub-port was needed before foreign ships delivered their products to Chinese inland. Thus China lost the effective measure of restricting foreign ships by tax rate to protect the shipping industry from domestic capitals, which was favorable to the development of foreign shipping industry. In March 1863, the Qing government canceled its restriction on sales of beans shipped by foreign businesses, bringing even more convenience to foreign shipping industry, and a disaster at the same time to the domestic sand ship industry.

With the help of fast, convenient, safe and reliable foreign ships, along with the regulatory protection, these money-seeking foreign banks earned huge profit with a cheap freight. The net profit of the shipping company of Russell & Co. in 1867 reached 810023 taels, nearly 6 times as much as the profit last year; from 1868 to 1870, the annual net profit surpassed 700 thousand taels, with the average profit rate of more than 40% in the 3 years. The capital of Russell & Co. increased from 1.25 million taels in 1867 to 1.875 million taels

in 1868; in 1870, it possessed 17 ships, a total tonnage of 25827 tons, and assets of nearly 2.4 million taels (Zhang, 2007).

Steamship for imperial transport was one of the main reasons for the rise of China's modern shipping industry. A vigor foreign shipping industry almost destroyed sand ship industry that once had shouldered the imperial transport, which brought great difficulties to the Qing government's transport. Imperial water transport in the Qing Dynasty has always been regarded as "the supreme mission" and "it is decisive for the government as it is the source for officials' salary and imperial subsistence" (Liu, 1988). At that moment, learning advanced shipping technologies from western countries to transport imperial grains through steamships became imperative. At the beginning of the 1860s, Augustine Heard & Co. even attempted to monopolize China's imperial water transport, which increased the vigilance of the Qing government.

The Qing government's financial urgency of finding fiscal support partly explained the development of the shipping industry. Due to years of wars, its finance was in jeopardy. Meanwhile, that a large number of military industries established in the Westernization Movement in the 1860s required even more funds to ensure their operation made it harder for the Qing government to financially support itself. "Every way to make money has been used and their potential became exhausted; now it is quite dangerous that businesses and people are all in predicament. (Gu & Dai, 2008)" In addition, the profits from the shipment on the Yangtze River and coasts were deprived by foreign ships, which was even more agitating for Westernization officials and Chinese merchants seeking for a lucrative way. "Since foreign businesses entered these trade ports, they have robbed the domestic mercantile shipping of large profits and the interests of inland merchants and citizens (Xia, 1982)." Therefore, the establishment of civilian enterprises for more funds was quite normal. Furthermore, compared with other westernization industries, the ship industry featured less short-term investment, high profit and flexible financial turnover, and thus Li Hongzhang, on behalf of the advocates of the Westernization, founded China Merchant Steamship Bureau in 1872.

1.2 Li Hongzhang and the Establishment of China Merchants Steamship Bureau

The intrusion of foreign steamships had such a huge impact on the industry of sand ships that no suitable ships were available for water transport. New steamships were thus duly considered.

In 1866, Li Hongzhang, who was appointed as the governor of Jiangnan (Now Jiangsu, Anhui and Shanghai) and Jiangxi Province, met Ying Bao, the governor of Wusong Region, to discuss about how to alleviate water transport

difficulties. Familiar with the business in south of the Yangtze River, Ying Bao put forward that “large sailing vessels can be procured officially for water transport (Plywood ships: foreign ships frequently sailing on the ocean within the Qing’s territory. They are very strong with two layers of wood and metal skin)” as he thought the way would “share the profits and rights from foreign countries” and, in the long term, “benefit both our own country and people’s lives”. Though it was the last resort, as Li Hongzhang considered, it was still somewhat feasible, so he submitted his statement to the Ministry of Foreign Affairs in the Qing Dynasty that “it is the last resort; there is no other ways to handle the problem”. Based on Li Hongzhang’s suggestion, the Qing Government decided that, on the one hand, foreign ships be procured for water transport, and on the other hand, since there had been many Chinese businessmen purchasing foreign ships, those businessmen be recruited to transport part of rice arranged to be sent to the capital (Institute of Modern History in the Central Academy of Taipei, 1957).

In the same year, Li Hongzhang stipulated The Draft Regulation on Procurement and Manufacture of Big Sailing Vessels and Other Ships by Chinese Businessmen, which, revised by the Ministry of Foreign Affairs, was finally named Regulation on Procurement and Manufacture of Foreign Fire-wheel Sailing Vessel and Other Ships by Chinese Businessmen. It stressed that the ships purchased from foreign businesses “no longer belong to foreign countries” and their captains “should be Chinese” (Institute of Modern History in the Central Academy of Taipei, 1957). The regulation was issued next year by the Qing Government. Facing the rapid increase of foreign ships in China, Li Hongzhang first pointed out that the procured sailing vessels can replace sand ships for water transport and stipulated detailed regulation for the popularity of vessels. Its promulgation and implementation was a sign that the Qing Government realized a rising transport of vessels was effective in coping with problems of water transport, which was also a cornerstone for the establishment of China Merchants Steamship Bureau.

In early 1872, Song Jin, the cabinet secretary, proposed to dismantle the Jiangnan Manufacture Bureau and Fuzhou Ship Building Bureau, triggering a heated discussion about the prospect of China’s shipping industry.

In 1865, the Jiangnan Manufacture Bureau was founded by advocates of the westernization movement in Shanghai; in 1866, Fuzhou Ship Building Bureau was established in Mawei, Fujian Province. Both of them were large-scale ship building enterprises in China, but they came under severe criticism for such reasons as their huge manufacture costs, the large amount of expenditure of ships maintenance and wages of soldiers on the ships, as well as mismanagement. In January 1872, Song Jin reprimanded that building warships “costs too much”, and “it is actually worthless depletion in disguise of a long-term

promising cause”. He asked for cancellation of the two bureaus by stating that “it is utterly useless to strive for a thing unnecessarily beneficial by exhausting the wealth (Bao et al, 2008)”.

The advocates of westernization movement, led by Li Hongzhang, lambasted Song Jin’s proposals. Li made most of proposals to convey his greatest opposition against the cancellation of the two bureaus. On June 20, 1872, in his Statement of Not Canceling Ship Building Enterprises, Li Hongzhang stated that the conservatives who maintained cancellation were “confined to words and sentences but ignorant of the turning point in the thousand years of history; the cancellation stems from those who are only satisfied with the temporary steady circumstances but mindless of the trauma for the country since two or three decades ago as well as how to stabilize the country and confront foreign powers.” He also considered that the spending on every aspect of the country can be reduced in expect soldiers, fortification, weapons and warship building. Haphazard saving expenditure will not strengthen a country.

As to the criticism of huge costs, Li Hongzhang said, “The ship building in Fujian...and Shanghai are long-term projects for the country. I know they are quite expensive and we need a long time to see their effect, but we must develop our ship building now lest we should regret in the future for not investing in the part. These bureaus are now not able to be dismantled, because all of our efforts and prospects shall be ruined if we give up on it. Besides, our investment in ship building will become nothing, only to be a laugh stock for others and encourage enemies to intrude.” Thus here is the corollary: “From all these analysis, it is quite clear that the projects should not be canceled (Bao, et al, 2008).” His statement was so sincere and profound that Song’s proposal was denied as the westernization advocates insisted.

After the sparking discussion about China’s industry of shipping, an agreement seemed to have been reached about “merchants steamship” as a way of developing China’s shipping in the imperial court, but there still existed disputes on shipping development among officials and their subordinates from northern and southern factions. Southern officials was not in favor of a merchant bureau because of its possibility of dissipating the profits of traditional sand ship industry. For instance, Shen Bingcheng was concerned that “the increasing popularity of steamships procured by Chinese merchants” would “make traditional tariffs slump”; He Jing, the governor of Jiangnan and Jiangxi, was always inert to the merchant bureau. Not only did he refuse to support it, but also considered “the plan of merchant bureau can be deferred.” For this, Li Hongzhang wrote to He Jing to indicate that Wu Dating “knows nothing about the circumstances”; Feng Junguang “is only able to follow others’ ideas”; and Shen Bingcheng “has

selfishness" (Li, 2008). In the letter Li Hongzhang did not cite He Jing's name, but it was quite clear that he indirectly reproached him. When He Jing was busy with his parent's funeral, Zhang Shusheng took over his post, who was once a subordinate of Li Hongzhang. Li wrote to him to strive for his support: "During the nearly 20 years when we cooperated, have you seen me determined to do anything that had no certainty of success? Have you seen me flinch as I was determined to do anything?" He pointed out that "the water transport is not a large-scale one", but "it is a progress for the country, business, finance and military in thousands of years to come" (Li, 2008), which was of great significance. Zhang Shusheng showed his support in return. In retrospect, Li Hongzhang still felt stressful: "Thanks to the agreement of Zhejiang Province, thanks to Governor Zhenxuan (Zhang Shusheng) changing his mind, official steamships can commence their production (Li, 2008)." Li Hongzhang's efforts were rewarded by the establishment of China Merchants Steamship Bureau in January 1873 in Shanghai as the threshold of China's modern shipping industry.

As mentioned above, with foreign shipping companies flooding into China, traditional sand ship industry was destroyed and the imperial water transport was threatened. Along with an urge to finance the westernization movement, developing shipping by steamships became a tendency. Li Hongzhang was highly interested in such shipping, stipulating the regulation to start its popularity. China's modern shipping industry was not, however, smooth from scratch. There was no agreement between northern and southern officials for its huge costs in the preliminary stage and devastating effect on the profit of traditional sand shipping.

In teeth of the inertia of southern officials, Li Hongzhang, instead of frustration, tried to persuade or reproach them from the perspective of the country, and provided finance and food support to guarantee its establishment. It is safe to say that the key part of the establishment was Li Hongzhang's firm support for it under pressure from public opinion and thus he was the pioneer of China's modern shipping industry.

2. Support and maintenance: Li Hongzhang and the development of China Merchants Steamship Bureau (1873-1884)

At first, China Merchants Steamship Bureau encountered such difficulties as shortage of stock and blockade of foreign businesses, but Li Hongzhang provided his support for the newborn China Merchants Steamship Bureau by taking economic measures like special imperial water transport paths, official funds, and tax and debt cut. His political support was one of the reasons for its rapid rising. In the first decade of the bureau, Li Hongzhang brought more management power to businessmen and prevented it from the influence of officials,

winning satisfactory results.

2.1 Economic Support for China Merchants Steamship Bureau

Li Hongzhang's economic support for China Merchants Steamship Bureau lay in special imperial water transport paths, official funds as well as tax and debt cut.

But it was utterly hard to raise capital initially. The first appointed general manager, Zhu Qi'ang, found no ways to handle it. The famous Chinese businessman Hu Xueyan "refused to join in for fear of the retaliation of foreign businesses"; though Li Zhenyu agreed at first, he "eventually declined for disputes among the members". Despite hundreds of measures taken, only ten thousand taels of silver was raised, and businessmen in Shanghai have not provided ready fund as they wished 100 thousand taels. Considering the circumstances, Li Hongzhang (2008) asked for imperial support of 200 thousand shi (1 shi=28 kilograms) in rice "transported by merchant steamships" to maintain the finance of the bureau.

Water transport charge accounted for an important part of the bureau's income. "30 percent of charge can guarantee no deficit" (Yi & Hu, 2005), which was an advantage in its competition against foreign steamships. With the initial difficulties overcome, Li Hongzhang always maintained the bureau's management of imperial water transport. Subsequent to the transport of the 20-thousand-shi imperial rice in 1872, new policies were stipulated in favor of the bureau. In 1873, the ratio of sand ships to steamships was 8:2. A rising steamship bureau and a shrinking sand ship industry changed the ratio to 6:4 (Wu & Yao, et al, 1918) within a short period. In November 1877, Li Hongzhang noted, in his statement of *Marine Transport of Official Resources Assigned to the Merchant Bureau*, that "40-50 percent of the imperial rice transported through the waters in Jiangsu and Zhejiang should be shipped by the steamships of the bureau without less amount"; and that apart from the imperial rice, other resources of Chinese merchants for water transit were required to be transported by the steamship bureau: Li Hongzhang (2008) claims that "Resources of Chinese merchants for official use, if necessary to take water transport, should be shipped by the China Merchants Steamship Bureau according to the regulation (p. 499)." All those incessant efforts were paid back because from the 26th year in the reign of the Emperor Guangxu (1900), saying by Wu Xin & Yao Wen et al (1918) that "the steamship transport was in charge of all imperial water transport (p.15)."

Besides, Li Hongzhang capitalized on his social network to obtain more imperial rice for the bureau's water transport. As it was said above, when He Jing was busy with his parent's funeral and Zhang Shusheng took over his post as the governor, Li Hongzhang seized the opportunity to persuade him to only support the steamship bureau but also promise to provide 100-thousand-shi imperial rice in Jiangsu and another 100

thousand in Jiangbei for northward transport of the bureau (Ni, 2007). How much attention Li Hongzhang paid to the merchant

steamship bureau can be fully seen from his making use of his political resources to help the bureau out of hardships.

Figure.1 Imperial Rice Transported by China Merchants Steamship Bureau (Unit: Tael)

Years	Rice Amount (dan)	Transport Charge Ratio	Total Income (Rice Amount × Transport Charge Ratio)
June 1873	170000	0.60	102000
1873-1874	250000	0.60	150000
1874-1875	3000000 ¹	0.60	180000
1875-1876	450000	0.60	270000
1876-1877	290000	0.60	174000
1877-1878	523000	0.60	313800
1878-1879	520000	0.60	312000
1879-1880	570000	0.60	342000
1880-1881	475415	0.531	252445
1881-1882	557000	0.531	295767
1882-1883	580000	0.531	307980

Source: Li Zhigang: *Li Hongzhang and Modern Enterprises: China Merchants Steamship Bureau, 1872-1885*

Note 1: As cited from the original text. It seems a typo of the author for the rice amount surged without a large increase in the total income.

Apart from more imperial rice for the bureau, Li Hongzhang directly borrowed official fund for it. Because of the initial capital-raising difficulties, he borrowed 200 thousand chuan of official fund (135 thousand silver taels) from the payment of Zhili (Now Hebei Province) for the

procurement of steamships. Resources show that Li Hongzhang's 50 thousand taels of private investment was included in the initial fund raised by Zhu Qi'ang (Chen, 2013), which can prove his support for the bureau.

Figure.2 The Borrowed Fund and Official Fund for the China Merchants Steamship Bureau (Unit: Tael)

Year	Total Borrowed	Official Fund	Proportion of Official Fund (%)
1873-1874	123023	123023	100.00
1874-1875	649595	136957	21.08
1875-1876	1438357	353499	24.58
1876-1877	3234088	1866979	57.73
1877-1878	3819702	1928868	50.50
1878-1879	3153588	1928868	61.52
1879-1880	3056746	1903868	62.28
1880-1881	2620529	1518867	57.96
1881-1882	3537512	1217967	34.43
1882-1883	3334637	964292	28.92
1883-1884	2270852	1192565	52.52
1884-1885	2169690	1170222	53.93
1885-1886	1882232	1065254	56.60
1886-1887	1418016	793715	55.97
1887-1888	1260535	688241	54.60

Source: Li Zhigang: *State Ownership of the China Merchants Steamship Bureau, 1878-1881*

Li Hongzhang (2008) usually emphasized the commercial nature of the bureau: "Official sector is in charge of general guideline, and businesses are responsible for details" (p. 533), so official capitals were immensely invested only when the bureau was in trouble. As Figure 2 shows, the proportion of official fund in all borrowed fund was so large as to reach 60%, mainly because Russell & Co. from the US was merged into

the bureau in 1877, when Shen Baozhen, the governor of Jiangnan and Jiangxi at that time, invested 1 million taels as the "official capital" into the bureau and required it to pay back the principal and interest, which sustain the high proportion of official fund.

Previously, a lot of scholars did not consider Li Hongzhang played an effective role in the merger, but

Professor Yi Huili (2009) of East China Normal University pointed out that “given the management system of the merchant steamship bureau, merger would not proceed without the authorization of Li Hongzhang ... He kept keen passion toward the merger. (p. 45) ” The author highly agreed to the opinion. Though there was no direct financial support for the merger, Li Hongzhang proactively got involved in the negotiation with Sheng Xuanhuai, Tang Tingshu and Shen Baozhen to “blend” all these parts and make a difference in the merger.

With the merger of Russell & Co., the merchant steamship bureau was in economic hardship because on the one hand foreign businesses reduced prices for competition and on the other hand the government should pay back a large amount of loans. To weather the hardship for the bureau, Li Hongzhang suggested deferring the payment of the interests from official stocks in the first three years. Later on, he proposed in his statement (2008) that the interests be paid after the 6th year of the Emperor Guangxu in 1880 (p.325).

In Figure 2, the second crest of the official fund proportion appeared after 1883 because of, as the author inferred, the financial storm in Shanghai, when money houses went bankruptcy, the merchant bureau failed to operate smoothly and the Chinese-French War broke out. Under the circumstances, the bureau had to be sustained with the official support. In 1886, the financial storm as the bureau went through, it still faced severe economic downturn, so Li Hongzhang made a statement for approval of three preferential policies: “(1) the bureau’s ships return with no freight and the export tax for loading in the three northern ports is cut by 20%; (2) the bureau’s ships load the hatbox tea from Hubei to Tianjin, six qian (a measure of currency) of export tax levied for every jin (about 596 grams) and half taxation for re-import exempted; (3) transport charge of the bureau’s ships is paid with reference to the charge of sand ships (4 qian 3 fen 1 li for)” (Li, 2008, p. 325). All these policies contributed much to the bureau’s recovery.

Official fund was an important support for westernization enterprises as they were in difficulties. Li Hongzhang helped them out of predicaments and prevented them with such measures as official fund and preferential policies.

2.2 Endeavored to Sustain the Status of Businesses in the Bureau

Li Hongzhang has noted that the bureau should be officially supervised, and operated by businesses in 1872, appointing Tang Tingshu to stipulate regulations favorable for businesses such as *The Regulations of China Merchants Steamship Bureau* and *Regulations for Merchant Steamships* to keep their dominance in the bureau. In 1880, however, the competition of Xiang and Huai factions triggered rumors of “nationalizing the bureau”. Faced with the pressure of public

opinion, Li Hongzhang tried to prevent the bureau from the official control for better operation.

One of the purposes of westernization enterprises was “distracting the profits from foreign businesses”, which meant directly confronting them, so it was not appropriate for the government to operate these enterprises. That the enterprises stood at the front competing and the government backed up must be better for enterprises for their advantages can interact.

When formulating the framework of the bureau in 1872, Li Hongzhang (2008) put forward that it should be supervised by the government and operated by businesses, and the latter dominated: “The government sets the guideline and rectifies the problems, leaving businesses to stipulate relevant treaties for their own demand ... Surplus or deficit are their own responsibility, irrelevant to the government (p. 258)”. When Tang Tingshu was appointed as the general secret for businesses in 1873, he stipulated new regulations for the bureau and businesses that approved the dominance of businesses and the role of the government. The regulations for businesses ordered “steamships are managed by businesses”; the chairman of the board should be elected by businessmen: “the board chairman is planned to elect”. In the regulations for the bureau, new capitals must “be raised by business members”; significant events should be “discussed by stockholders”; the board chairman had a say, able to ask for a change of the general secretary by countersigning (The Transportation History Compilation Committee of the Ministry of Transportation and Railway, 1931, p. 147). Compared with the regulations of Zhu Qi’ang, new ones brought more rights to shareholders, showing its commercial nature.

To prevent government intervention, the regulations strictly limited the power of the government: “As long as something is to be done by the businesses, it should be managed according to the norm for easier execution. Now an experienced businessman is going to be elected to assist the secretary general; other personnel must be selected based on a strict criterion and inertia is not allowed. Commissioners are not to be arranged, and such posts as document writer, copier and office attendant should be canceled for saving more expenditure. The funds are supposed to be recorded in journals every day, every month and every year. When there is something to be reported in terms of the business within the bureau and the calculation, it can be stated according to the original version without another special registration so as to avoid red tape (The Transportation History Compilation Committee of the Ministry of Transportation and Railway, 1931, p. 148).” To reduce the bureaucratic working, the board chairman checked the accounts for less embezzlement and wasting.

Under that political environment, the conservative were at war with new westernization enterprises, among which the

bureau under the government supervision and businesses management was naturally coming under the censure of those conservative officials. In 1877, the Censor Dong Tanghan stated that “the Merchant Steamship Bureau be immediately restructured for its status”, and that the bureau should be “managed by northern and southern commercial officials” to have a “more strict inspection without more expenditure.” That meant to impose more government control on the bureau.

Li Hongzhang repudiated by saying that the bureau “took the capital from businesses as the principal and was managed according the regulations, and it had been stated in the 11th year under the reign of the Emperor Tongzhi (1872) that the businesses rather than the government took the responsibility for the surplus and deficit.” And because “the business related to steamship transport is a part of the westernization, it should not be intervened too much by the government. It was totally different from those institutions that are established and funded by the government,” so the bureau was supposed “to be managed by businesses instead of government (Li, 2008, p.48).”

But it was only a start. In 1880, Wang Xianqian, the official in the Imperial College, set off an impeachment on the steamship bureau, considering “the bureau was in a mess and an array of problems (Association of Chinese Historians, 1954, p.39)” and maintaining it should be handled by appointing commissioners and managed by the government. An official in Hunan, Liu Kunyi, pointed out from the perspective of the government that if the government took the dominance, “businesses and the market would not be interested in the industry, so businesses must have their own status”. Therefore a makeshift was produced: “1.4 million taels was invested into the bureau as the official capital in the same way as private capital was put into it (Association of Chinese Historians, 1954, p.44)”. According to this, the bureau was purchased by the government, going against its commercial nature.

In face of the criticism of officials in Hunan, Li Hongzhang not only renewed the policy of “businesses for management and government for support”: “support means that the government provides assistance when there were problems. As long as the bureau pays back the official fund, its surplus and deficit are not related to the government ... It is the businesses rather than the government that is responsible for its economy,” but also stressed that a state-owned bureau will impose a huge strike on businessmen: “Wang Xianqian cast another doubt, perplexing those businesses. I am afraid that people involved in the bureau would be so confused that disagreement may distract them and undermine the industry (Association of Chinese Historians, 1954, p. 61).”

Meanwhile, in order to keep the confidence of inner merchants of the bureau, Li Hongzhang removed Ye Tingjuan, who supported a state-owned bureau, from the post in the

bureau, and took a radical measure to sustain the commercial system of the bureau by empowering the management to Liu Kunyi. “I dare not to shift my responsibility for the bureau, but Wang Xianqian said Shanghai and most ports along the rivers are within the jurisdiction of southern part so commissioners in that area should be appointed as the general manager. How can I go off limits to give others a handle against myself? Besides, despite a sign of recovery in the bureau, I am not sure about my ability to choose the personnel, but I want to recommend Liu Kunyi, the southern official for better way of selecting people and alleviating the waves of public opinions to protect the rights in the bureau. If it is determined, please appoint Liu Kunyi as the general secretary, and I will not interfere with its business (Association of Chinese Historians, 1954, p.61).”

Eventually in the competition of power in the bureau between official in Hunan and Huai, Li Hongzhang won. In the summer of 1881, Yixin, the Prime Minister, decided that “the bureau should be managed by Li Hongzhang”, and that “the decision has been made through discussion with other officials and disagreement will not be accepted”(Association of Chinese Historians, 1954, p.68). After the story of a “state-owned” bureau, it kept its businesses-managed system with the efforts of Li Hongzhang.

The bureau was always under the control of the government, but why did Li Hongzhang stick to the principle that it should be managed by businesses? One of the reasons was that it was “quite hard to raise the fund (Xia, 1982, p. 368)” for industrial enterprises. “Gathering the power of various businesses is an easier way” if it was managed and financed by businesses. Another reason was that the stock and management from businesses would bring more profit than those of the government did. A quote of Zuo Zongtang can better reflect the reason: “if it is managed by the government, there will be more problems. Production’s quality cannot be guaranteed and the fund can be in shortage.” “It is quite hard to tackle the problems from the government management, so letting businesses responsible for its operation is better for there can be less expenditure and more profit. But it seem that the government should guide the businesses for their management at first.” (Zuo & Deng, 1986, p. 368)

In conclusion, economically, Li Hongzhang took such policies as the special management rights, borrowing official funds and tax cut to help the bureau out of the predicament, improve its competence against foreign businesses and prevent the environment for its development. Politically, he prevailed in the competition against the conservative and the faction in Hunan, and weather the pressure from negative opinions toward the bureau to guard the system under the government supervision and businesses management for a benign internal environment for the bureau’s development. His economic and political measures accelerated its expansion and increased its

stock price, forcing Jardine Matheson and Swire to sign the parity contract and reaching balance between these enterprises in East Asia.

3. Shrinking and More Control: Li Hongzhang and the stagnant China Merchants Steamship Bureau (1885-1901)

In 1883, Sheng Xuanhuai joined the bureau with the help of the financial storm in Shanghai. As the “supervisor”, he first stipulated the regulations such as *Ten Principles for Selecting the Personnel* and *Ten Principles for Financing* to impose more government control on the bureau; second, he refused to raise capital and invest in ships; and last, he increased the reward for the government and the investment into new westernization enterprises. There were various reasons for more control, and the most fundamental reason was that Li Hongzhang could bring less support for the bureau because he was criticized by the public after the Chinese-French War.

3.1 Sheng Xuanhuai into the Bureau

In 1883, the outbreak of a financial storm in Shanghai closed money houses and impeded the bureau’s finance. Xu Run was removed from his post because of his disclosed embezzlement for speculation. At the same time, Tang Tingshu was visiting abroad, and he was moved from the bureau to manage Kaiping Coal Mine. Sheng Xuanhuai asked Li Hongzhang for a post as the “supervisor” of the bureau in attempt to dominate. The bureau was always a government-supervised and business-managed enterprise, but it experienced two stages with different government imposition. If the first decade of the bureau (1873-1883) is dominated by businesses, the government took the hold when Sheng Xuanhuai mastered the bureau in 1883.

First, he filled out a large amount of the bureau stocks in

low prices, and “shared 40-50% of the stock” (Fan, 1985, p.258) in 1887, becoming the largest shareholder, but his silver bullet in the bureau was the imperial authority to “supervise and renovate the bureau”. As he went into the bureau, he revised the regulations, the first of which became: “A commissioner should be appointed for careful inspection; personnel and finance are arranged by the commissioner.” The ninth articles of *The History of Transportation: Navigation Affairs* says, “(The board chairman) can be removed if incompetent (1931, p.157).” He seemed to be the imperial official to override other chairmen and to randomly switch the personnel. No wonder he was criticized that he “overrode businesses with his official identity and cheated other officials as a businessman (Yi & Hu, 2005, p.243).”

“Stingy” can best describe him in the bureau. He was totally not interested in attracting new capitals and procuring new ships. In 1891, Xie Jiafu maintained that Xu Run, who had become down and out, can be recruited, but Xu (2012, p.49) was repudiated because his opinion that “new ships should be procured to reach the economic balance was different from Sheng’s”. According to the author, Sheng’s “stingy” policy stemmed from the immense government loan and foreign debts. Procurement of ships would incur officials’ criticism when the economy was unstable. To keep his post and himself from censure, he implemented “stingy” policies that stagnated the bureau’s business.

Stingy as he was for the bureau’s business, he invested too much into other westernization enterprises and rewarded a large sum to the government. His bureau became his own “private accountant office”. Li Hongzhang gave him an appropriate comment: “He attempted to do a big business when he sought a high-ranked post.”

Figure.3 The Bureau’s Investment in Emerged Enterprises (1885-1901)

Year	Investment
1885	Over 60900 taels for Jingmen Mine of Anhui; 210 thousand taels for Kaiping Mine
1888	Kaiping Mine basically paid back the principal and interest
1891	100 thousand taels for the Looms Bureau
1896	Stock of 800 thousand taels for the Imperial Bank of China
1898	100 thousand taels for the equity of Hubei iron works, which owned 20000 taels of equity Taiwan Trading Bureau (Taiwan Business Bureau)
1899	100 thousand taels for Pingxiang Coal Mine equity
1901	800 thousand taels for the shares of the Imperial Bank of China; 274 thousand taels for Hubei iron works’s shares; and 164400 taels for the shares of Pingxiang Coal Mine

Source: Li Zhigang: *Operation and Management Problems of China Merchants Steamship Bureau, 1872-1901*

Fig.4 Financial Support for Government from China Merchants Steamship Bureau

Year	Amount	Usage
The 17 th Year of Guangxu (1891)	100000	Disaster Relief
20 th (1894)		
25 th -29 th	55200	The Birthday Celebration of the Empress Dowager Cixi
25 th -29 th	380000	Reward Official Funds to the Government
(1899-1903)	300000	The Second-round Support for the Northern Faction
27 th (1901)		
29 th (1903)	34600	Northern Faction
Total	20000	
	889800	

Source: Li Zhigang: *Operation and Management Problems of China Merchants Steamship Bureau, 1872-1901*

As Figure 3 and Figure 4 show, from 1885 to 1901, the bureau's investment to other emerging Westernization enterprises has reached more than 262 teals in total, and nearly 90 taels were served to the court during the ten years, with a total of nearly 3.5 million taels. It should be noticed that in 1877, the total amount for purchasing Russell & Co. was only 2.22 million taels of silver, but as Sheng Xuanhuai took office, the investment to new westernization enterprises alone has surpassed the number. Besides, Sheng's foreign investment was only approved by Li Hongzhang, while the board chairman was never consulted, which meant the bureau has become a titular business-managed enterprise. It was no wonder that Zheng Guanying complained that "The use of the bureau's funds was never discussed with the shareholders but only with the governor for his approval, which went against the norm of business If the power was conferred in such a way regardless of any shareholders ... it would be intolerable to see the secretary general rob the public fund for private purposes." (Xia, 2013, p.1007)

3.2 The Reasons for More Government Control on the Bureau

Through the discussion above, we can clearly see that after 1883, when Sheng Xuanhuai took the office, the government's control on China Merchants Steamship Bureau was obviously strengthened.

Ostensibly, the government imposed more control on the bureau was a decision made from its experience and lessons. In Sheng Xuanhuai's *Overview* of the bureau, he said, "Tang Tingshu and Xu Run gradually dominated the bureau They were so unscrupulous that everything in the bureau was corrupted. The Bureau had severe problems and heavy deficit, and it is impossible that if the government sees it happen without any action to protect the bureau profits will not be engulfed by foreign businesses! (*The History of Transportation: Navigation Affairs*, 1931, p.157)" Sheng Xuanhuai seemed to change the situation in which Tang Tingshu and Xu Run "dominated" the bureau, but as mentioned above, the measures he took not only failed to change the situation, but aggravated

its severity. Therefore the reason cannot explain the government control on the bureau.

In the author's opinion, Li Hongzhang's political strategic contraction was the fundamental reason for the government control on the bureau after 1883. After 1872, when Zeng Guofan died, Li Hongzhang and his forces in Huai became prosperous. He won the appreciation and appointment of the central government leaders such as Yixin and Yixuan so that his political prestige was greatly improved. His westernization enterprises such as Jiangnan Manufacturing Bureau and China Merchants Steamship Bureau were popular at the same time. Li Hongzhang was able to sponsor these enterprises quite easily. But after 1883, however, his conservative military strategy and appeasement in the Chinese-French War brought him severe criticism in the court, especially the scathing censure from the Qingliu faction. Although his political status has not faltered, Li Hongzhang was pushed to a dangerous situation. Not only did he actions were controlled, but even every move was inspected by every sector. On top of it, the financial storm in Shanghai had the embezzlement of Xu Run and Tang Tingshu exposed. In order to protect himself, he had to give up the previous business strategy for the bureau and supported more government control. Li Hongzhang's political contraction to rescind the policy for the bureau was the main reason for more government imposition.

In addition, the financial shortage of the Qing government was also responsible for its strengthened control in the late period. At the beginning of the 1880s the Chinese-French war and the Japanese threat to North Korea forced the government to spend a large sum on military for security, which meant it did not have sufficient funds to support westernization enterprises. Instead of helping the westernization enterprises, the government required them to serve more to sustain the government operation. It also reflected that the government was in hard trouble in terms of finance.

With Sheng Xuanhuai entering the bureau in 1883, he imposed more control on it, worsening and even stagnating the operation in the bureau. The main reason for the government

control were to deal with the problems from the management of Tang Tingshu and Xu Run, the political retreat of Li Hongzhang and the financial shortage of the Qing government. Among the three reasons, Li Hongzhang's political retreat and his withdrawing the protection for the business-managed system should be the most important and fundamental reason.

Conclusion

To sum up, Li Hongzhang made an indelible difference in the development of China Merchants Steamship Bureau. In the early period (1872-1883), Li Hongzhang, with his political influence, promoted modern shipping industry and established the bureau by overcoming various difficulties. Meanwhile, he provided economic support for the bureau by granting the special rights for transporting imperial resources, borrowing official funds and preferential taxation and debt policies; politically he insisted a business-managed system in spite of much opposition, which helped create a congenial environment and effective protection for its development. In the late period (1883-1901), the government strengthened its control mainly because of Li Hongzhang's political strategic retreat, the tight finance of the Qing government and the renovation based on the previous lessons. Li Hongzhang spared no efforts for the bureau, and thus contributed to the birth and growth of modern China's shipping industry. He was the pioneer of the industry, propelling its development.

Indeed, Li Hongzhang founded and supported China Merchants Steamship Bureau, promoting the development of China's modern shipping industry and making remarkable achievements, but we have to admit that the ups and downs of the bureau were completely at the mercy of him. As Professor Li Zhigang (1990) from the University of Queensland said, "the main problem of the bureau was that its system was highly dependant on Li Hongzhang rather than on the law". The author extremely agrees with this view. We can see from the analysis that it was not capital and management policies but the situation of some political powers in some factions that decided the development of China's modern shipping industry. A clear understanding of this fact will help us to understand the reasons why China's modern shipping industry became stagnant.

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