

査読論文

# Business Finance in the Grain Trade of the Lower Yangzi Region, 1870-1936

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## Abstract

This paper investigates the relationship between grain trade financing and business structure in the grain trade of the lower Yangzi region in the late nineteenth and early twentieth centuries (1870-1936). While the region's industrialization in the early twentieth century was taking place, grain trade also underwent structural changes. In particular, the emergence of 'vertically integrated enterprises' in the flour milling industry provided an opportunity for the extension and expansion in the networks and scale of the lower Yangzi grain trade. However, how did the participants in the rice and flour markets solve the financial problem of business expansion? Did the financial sector in the lower Yangzi region play an active role in the development of the grain market? Was there any difference between the rice and flour trade in terms of their respective financial structure? If so, why were they different? These questions will be central to our investigation.

## Keywords

business structure, grain trade finance, lower Yangzi region, market proliferation, market integration

## I. Introduction

During the period 1870-1936, many parts of China experienced rapid changes due to the opening to foreign trade and the introduction of new technologies in production, transportation, and communications.<sup>1</sup> Meanwhile, the country in the nineteenth century

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experienced what Yen-p'ing Hao describes as a 'commercial revolution', with new forms of money, credit, and banking being introduced or grown in their relative importance.<sup>2</sup> These developments in industry and commerce were extended well into the early twentieth century until the outbreak of the Second Sino-Japanese War in 1937.<sup>3</sup> In the midst of these market developments and institutional changes, how did the participants in the market solve their financial problem? What kind of change, if any, took place in the financial structure of the market participants? Did the financial sector in China play an active role in the development of the market?

These questions are important not only because of the long-established discussion among European and American scholars on the role of bank-industry relations, which is still inconclusive,<sup>4</sup> but also because of their relevance to the recent scholarly interest in China's financial and banking history. Scholars such as Yeh-chien Wang and Li Yixiang have extended the macro-economic discussion of bank-industry relations to the case of China; the former suggests the limited role played by banks to China's early-twentieth-century industrialization, while the latter suggests otherwise, especially the banks' role in providing circulating capital.<sup>5</sup> However, these scholars admitted that this debate cannot be thoroughly carried on without discussions from the micro-economic perspective. In this respect, other scholars such as Tomoko Shiroyama, Elisabeth Köll, and Kai Yiu Chan have been studying the financial devices and strategies adopted by republican Chinese businessmen to tap financial resources and tackle their financial problems. Beyond the notion of entrepreneurial devices, these studies also point out the importance of institutional arrangements to the actions of both bankers and businessmen during the early republican period.<sup>6</sup>

To answer the questions related to the dynamic inter-relationship between market, business, and finance, this paper adopts the case study approach by studying the grain trade in the lower Yangzi region from 1870 to 1936 in order to make a modest contribution to our understanding of the issue of business finance and market development. 'Grain' here refers to especially the two staple food grains of rice-paddy and flour-wheat. Their importance in the Chinese diet has attracted considerable scholarly attention.<sup>7</sup> Many of these previous studies have focused on the pre-nineteenth-century grain trade, market, and prices, with rice as the prime case of investigation. By comparing the financial change in the trade of rice with that of flour in the late nineteenth and early twentieth centuries,

this paper hopes to bring the discussion on the interaction between market development, business, and financial structures to a broader perspective. As the lower Yangzi region, an area here mainly refers to the Yangzi Delta, covering much of the waterways and flatland of the Jiangsu, Zhejiang, Jiangxi, and Anhui provinces, being an important grain market and a centre for grain-processing, the interaction of its financial sector with the market should be of illuminating implication to other parts of China.

## II. Trade Increase and Network Extension

To examine the problem of business finance of the grain trade in the lower Yangzi region, it is necessary to outline the scale and scope of the trade itself. In fact, before 1870, although trade of the two grains (or related crops, i.e., paddy and wheat) in the region did exist during the two centuries before, and local markets flourished to the extent that officials could produce regular price reports to the emperor, only rice and paddy could afford to be carried for long-distance.<sup>8</sup> Unlike rice (and paddy), wheat remained locally processed for flour, by animal or human power, and traded within the networks of local towns and markets.<sup>9</sup> Such an image persisted in the 1860s, when foreign writers reported the importance of the importation of rice but said ‘the trade in wheat, maize, and millet has hitherto been so trifling as to attract no attention.’<sup>10</sup>

In contrast, in the period under review, the trade of both grains flourished. For instance, the aggregate trade volume of rice and paddy in 1872, domestic and foreign, passing through the Imperial Maritime Customs in the lower Yangzi region amounted to more than 4.5 million piculs, with roughly 100,000 piculs of wheat and about 13,000 piculs of flour being reported.<sup>11</sup> Four decades later, in 1912, the trade volume of rice-paddy, wheat, and flour in the region increased to roughly 8 million piculs, 580,000 piculs, and 1.8 million piculs respectively.<sup>12</sup>

In subsequent years of the pre-war republic, the trade volume of these crops in the region continued to grow, with both flour and wheat experiencing increase to unprecedented levels. The aggregate transaction volume of rice and paddy trade in the lower Yangzi region rose from more than 20 million piculs in the period 1912-1916 to more than 36 million piculs in 1927-1931. Meanwhile, the aggregate transaction volume of flour jumped from more than 12 million piculs in 1912-1916 to more than 38 million piculs in

1927-1931. Even in the depression years of 1932-1934, both grains still maintained an aggregate transaction volume of more than 24 million piculs in rice and 35 million piculs in flour.<sup>13</sup>

Trade networks of these grains were also extended. In the pre-war republican years, foreign rice and paddy from Southeast Asia went into the region through Hong Kong. Meanwhile, the region itself hosted a considerable amount of domestic trade in rice and paddy, supplemented by those from others ports in Guangdong (such as Kowloon), and Hubei (such as Yichang). On the other hand, the region exported rice to both north and south, from Weihaiwei, Longkou, Andong, Qinhuangdao, Tianjin, Niuzhuang, Jiaochou, and Yantai in the north, and Guangzhou, Fuzhou, Xiamen, and Shantou in the south.<sup>14</sup> In some major ports such as Shanghai, a considerable portion of that trade remained to be re-exports to other domestic ports.<sup>15</sup>

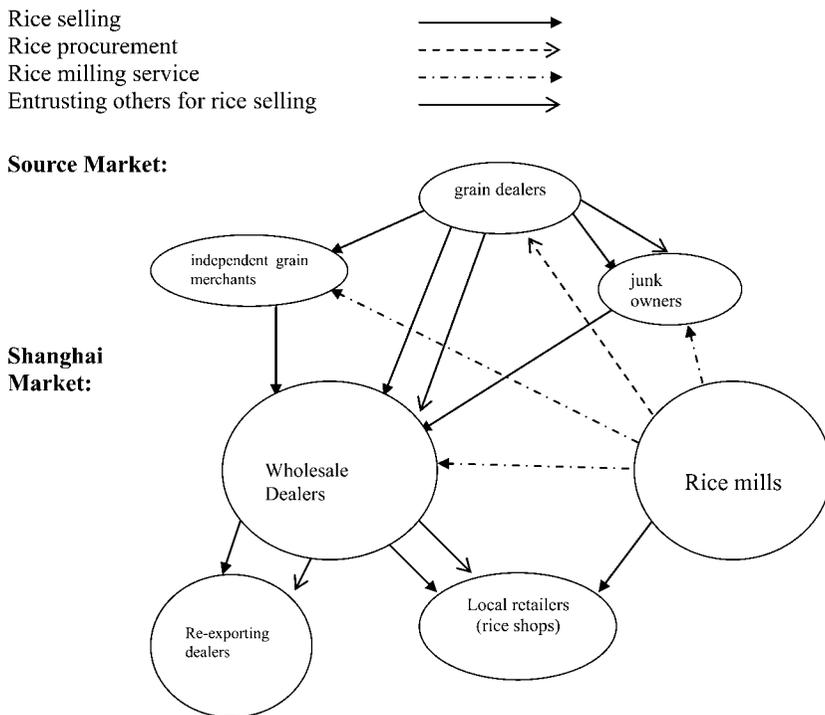
In wheat and flour trade, tremendous changes took place as it extended its networks' coverage over the country. Wheat was basically imported within the region, supplemented by foreign sources and those from the middle Yangzi region. Most of the grains were transported to the milling centres, particularly Shanghai and Wuxi. After being processed, flour from the lower Yangzi region was exported to the rest of the country, reaching an area covering not only within the region but also from North China's Weihaiwei, Longkou, Andong, Qinhuangdao, Tianjin, Niuzhuang, Jiaochou, and Yantai, to South China's Fuzhou, Xiamen, Shantou, Guangzhou, and Wuzhou, Beihai, Qiongzhou, and Mengzi in Southwest China, and to Yichang in the middle Yangzi River. Within the three decades before the outbreak of the Second Sino-Japanese War, the lower Yangzi region became considerably export-oriented in terms of flour.<sup>16</sup> Re-exports of wheat and flour that went through the ports of the region were also decreased, especially after the early 1920s.<sup>17</sup>

### III. Financing Market Proliferation: the Rice Trade

Although both rice and flour trade in the region increased, the trade of rice continued to rely upon the circulation of the food grain, while that of flour focused on its processing. Such a difference caused a divergence in the two commodities' marketing structure, and thence their pattern of business finance.

In the late nineteenth and early twentieth centuries, the flow of the crop was facilitated by a chain of market participants. According to some Japanese surveys in the 1900s, different groups of market participants who helped to bring the two produces to the markets in the lower Yangzi region included: 1) grain dealers in the source markets, who represented sellers there, 2) junk owners, who either acted as sellers' representatives or on their own account, and 3) independent grain merchants. These market participants approached another group of market intermediaries in the product markets, such as Shanghai, which included rice and grain dealers for wholesaling, 'rice shops' for retailing, and 're-exporting dealers' for re-exporting.<sup>18</sup> The flow of rice in the Shanghai market is simplified as in Diagram 1.

**Diagram 1. The Shanghai Rice Market c.a. the 1900s**



Source: Negishi Tadashi (根岸佶), comp., *Shinkoku Shōgyō Sōran (Dai Go Kan)* (A Comprehensive Directory of Commerce in the Qing Nation, The Fifth Volume 清國商業綜覽,第五卷)(Tokyo: Maruzen Kakushikigaisha 丸善株式會社, 1908), pp.15-26, 34-39; *Shinkoku Shōgyō Sōran (Dai Ichi Kan)*, pp.130-163; Tōa Dōbunkai (東亞同文會), *Shina Keizai Zensho (Dai Hachi Shū)*(Comprehensive Volume on China's Economy, Volume 8 支那經濟全書,第八輯)(Tokyo: Tōa Dōbunkai Hensan Kyoku 東亞同文會編纂局, 1908), pp.239-251.

Within this chain of market participants, rice wholesale dealers (*mihao* 米號 or *mihang* 米行) in the product markets played the key function of facilitating the business transaction. These dealers were recognized by the state as brokers in the local markets, the ‘licensed brokers’ (*yahang* 牙行). Although being liable for tax imposed by the local government, these ‘licensed brokers’ were the only legal middlemen in market transactions, bringing together outport sellers and local or other outport buyers, or agents of both parties.<sup>19</sup> Even rice mills also accepted business entrusted by these wholesale dealers instead of obtaining materials by themselves.<sup>20</sup> Under the Qing practice, these wholesale dealers acted as guarantors of market transactions.<sup>21</sup> It implies that these brokers’ financial responsibility would be considerable in case of default by any party concerned.

What is intriguing is the role of finance in the facilitation of trade of both grains. Although available records do not allow any detailed study on the business finance of grain trade during the late nineteenth century, scattered descriptions do suggest a possible scenario: the growth of grain trade (rice, wheat, and beans) in Shanghai and its vicinity nourished the earliest generation of native banks (*qianzhuang* 錢莊) in the area well before 1870.<sup>22</sup> Possibly, both grain merchants and native junk owners were the fore-fathers of the native banks.<sup>23</sup> Even the origin of the local currency standard, the ‘Shanghai Tael’, could also be traced back to the grain trade via Shanghai.<sup>24</sup> Obviously, in some cases, grain merchants were also native bankers.

Although we have no further knowledge about their financial operations in detail, these native bankers who doubled as grain merchants might used their banks to settle accounts with those who traded with them. In particular, native bankers in the lower Yangzi region, especially those in Shanghai and Ningbo, developed the ‘transfer-tael system’, which allowed merchants to transfer funds between established native banks which were also guild members of the cities involved in the trade.<sup>25</sup> Grain merchants, therefore, could settle their accounts by cross-balancing their books with native bankers and their trade partners, instead of transferring silver or copper cash in kind.

Besides the financial guarantee provided by the brokers and the cross-balancing of accounts among grain merchants, grain trade in the lower Yangzi region during the 1900s also enjoyed the provision of credit through other financial instruments of the late Qing.

According to the above-mentioned Japanese researches of the 1900s, at the level of the wholesale dealers in Shanghai, although the unit of payment was based on silver or copper coins, transaction was more often undertaken with other forms of payments, such as cheques, native bank orders (*zhuangpiao* 莊票), and modern banknotes (*yinhang zhibi* 銀行紙幣), or cash notes (*qianpiao* 錢票), which were widely acceptable in Shanghai. Payments were mostly made at the time of transaction, though an allowance of delay for five to ten days was usually given.<sup>26</sup>

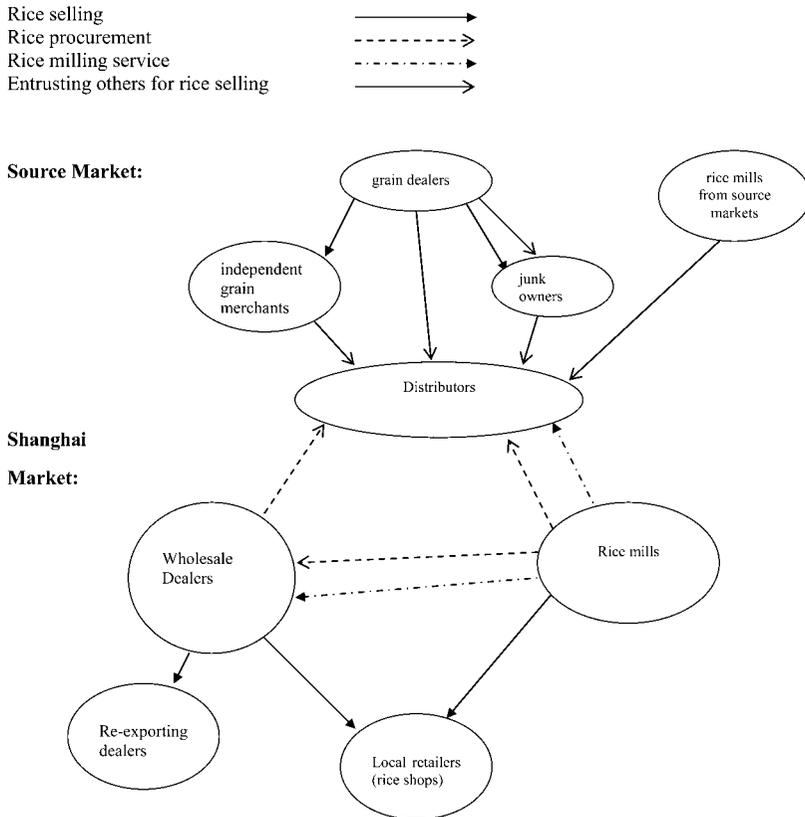
Indeed, during the late nineteenth and early twentieth centuries, as these credit instruments and paper currencies were in fact based upon the hope of redemption at the end of the day for hard currency, Chinese merchants would therefore be seriously affected in times of monetary crises, as silver circulation and supply often fluctuated.<sup>27</sup> Yet without these credit instruments and paper currencies, Chinese merchants with limited capital might even fail to meet the demand from the market at the start. Their acceptance of the credit instruments signifies their efforts to expand the size of the market.

Grain merchants or dealers from the source markets or the buyers in the product market in Shanghai could also make use of another instrument for credit, the certificate issued by warehouses (*zhandan* 棧單) owned by the wholesale dealers in Shanghai. Grain merchants who sought for potential buyers in the product market could send their crops into this kind of warehouse which issued the certificate on the storage. The grain merchants could then bring the certificate to local bankers for discounting. Same system applied to the buyers in the product market who needed funds for the transaction.<sup>28</sup> In this sense, although the warehouse did not provide credit to the merchants, while the banks did not take care of storage affairs, both parties helped the grain merchant's finance. In some other markets in the lower Yangzi region, such as Wuxi, some warehouses even provided loans to grain merchants who stored the crops in the lender warehouse. However, it is not clear when this practice began.<sup>29</sup>

In the next twenty years or so, although the rice market continued to grow, there was no step taken by market participants for integration. (See Diagram 2) According to the reports of the early 1930s, the wholesale dealers in such large markets as Shanghai continued to play a crucial role in the rice trade.<sup>30</sup> The only major change happened to this group of market participants was business concentration, as the number of wholesale

dealers decreased from 298 firms in the 1900s to only 117 in the early 1930s.<sup>31</sup> On the other hand, new market agents appeared to serve the needs in the market, particularly in the area of financing. In the three decades after the 1900s, a new group of market agents grew in its importance in the market by providing financial services to others. They were called the *'jingxiaoshang'* 經銷商 or *'jingshou'* 經售 ('distributors') who originated in the late nineteenth century but flourished in the 1910s.<sup>32</sup> Besides their various services for other market participants, the distributors also advanced needed funds to both buyers and sellers for 10 to 20 days.

**Diagram 2. The Shanghai Rice Market c.a. the 1930s**



Source: Shanghai Shangye Chuxu Yinhang Diaochabu (Investigation Department of the Shanghai Commercial and Savings Bank 上海商業儲蓄銀行調查部), comp., *Mi* (Rice 米) (Shanghai: Shangye Chuxu Yinhang Diaochabu, 1931), pp.76-78; 'Shanghai zhi Miye Diaocha' (Investigation of the rice trade in Shanghai 上海之米業調查), *Gongshang Banyuekan* (Industrial-Commercial Bi-monthly 工商半月刊), Vol.2 No.19 (1 Oct. 1930), 'Diaocha' (Investigation 調查), pp.1-27, particularly, pp.10-11; Yao Qingsan 姚慶三 and Ang Juemin 昂覺民, 'Shanghai Mishi Diaocha' (Survey of Shanghai's rice market 上海米市調查), *Shehui Jingji Yuebao* (Socio-Economic Monthly 社會經濟月報), Vol.2 No. 1 (Jan. 1935), pp.1-53.

The provision of loans or credits by the 'distributors' in the Shanghai rice market means that the original market structure in the 1900s probably did not possess the financial capacity for an increasing volume of business transaction. The demand for more funds probably came from the ever-growing prices of the crop. Chart 1 is a case in point, which demonstrates the rising imported rice prices in China during the period 1882-1931. It shows that price of imported rice rose from around 1 Haikwan Tael per picul in the early 1880s to more than 3 Haikwan Taels per picul in the late 1900s and early 1910s, more than doubled in two decades. The price of imported rice continued to move upward to more than 5 Haikwan Taels per picul in the early 1930s, nearly doubled again over the late 1900s figures. Domestic prices also show a similar picture. Chart 2 demonstrates the rising domestic rice prices in Shanghai during the pre-war republican years. It shows that price of the crop rose from around 8 yuan per unit in 1912 to around 16 yuan in 1931, doubled in two decades. Although the subsequent years witnessed a drop in rice prices, most of the price quotations ranged above 10 yuan per unit. Provided that the volume of transaction in rice in these years was ever-increasing, the total capital involved in transaction would be enormous.

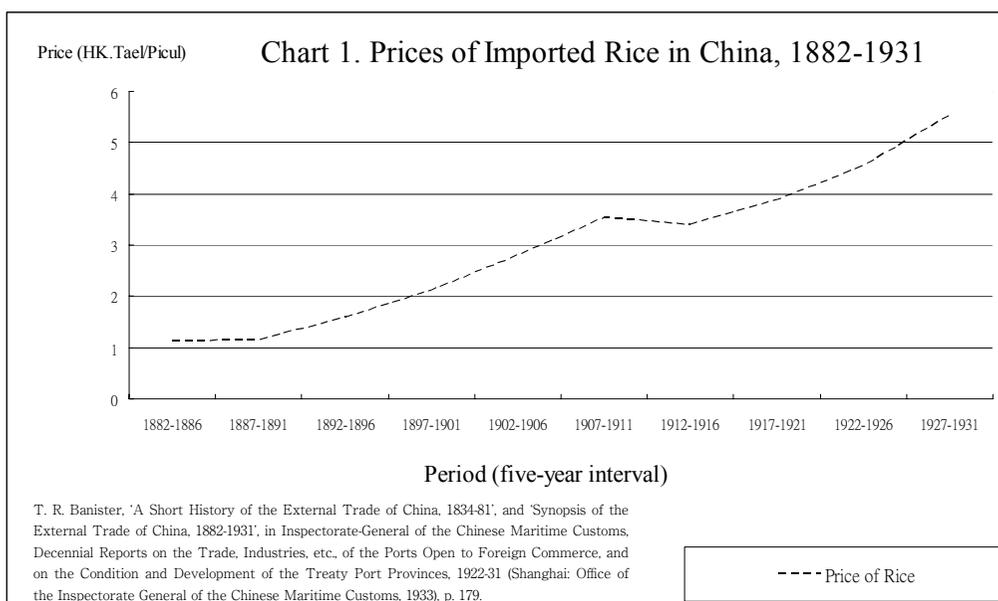
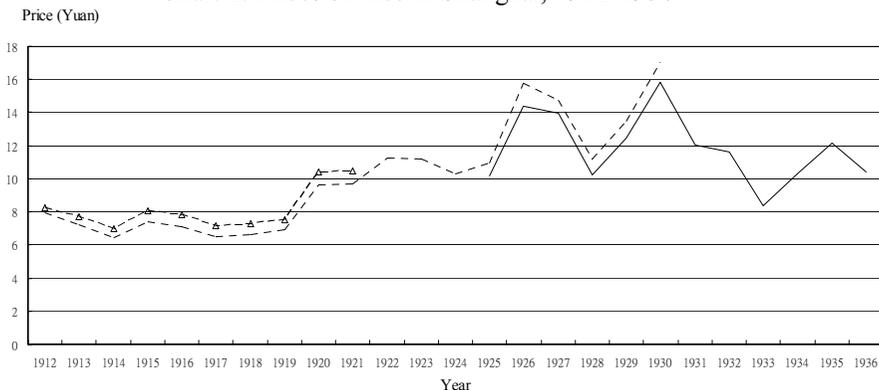
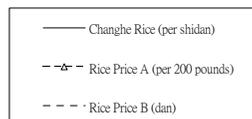


Chart 2. Prices of Rice in Shanghai, 1912-1936



Source: Kai Yiu Chan, 'Rice, Flour and Urban Food Consumption in Pre-War China, 1912-1936', paper presented at the 2002 Annual Conference of the Association of Business Historians, hosted by Centre for International Business History, the University of Reading, UK, 28-29 June 2002.



In addition to the emergence of the 'distributors' in Shanghai, existing institutions of the pre-war republican period continued to provide financial resources to facilitate trade. For example, rice shops, which were responsible for the retailing of rice, usually provided credits to customers by settling accounts on monthly basis.<sup>33</sup> Meanwhile, some rice mills also provided advanced funds to rice merchants who would in turn entrust the mill to process the crop for a fee.<sup>34</sup> The financial sector also enlarged its involvement in the finance of rice trade by providing more varieties of credits to the market than in the 1900s. These new credit services included mortgage loans based on the property of the rice mill or the crops of the grain merchants, overdrafts based on individual merchant's or dealer's credibility, or 'advances against documentary draft' (*yahui* 押匯) based on the documents for the crops in the source markets, domestic or foreign. Yet these financial services were either not welcomed by the grain merchants or being too short-term to attract customers.<sup>35</sup>

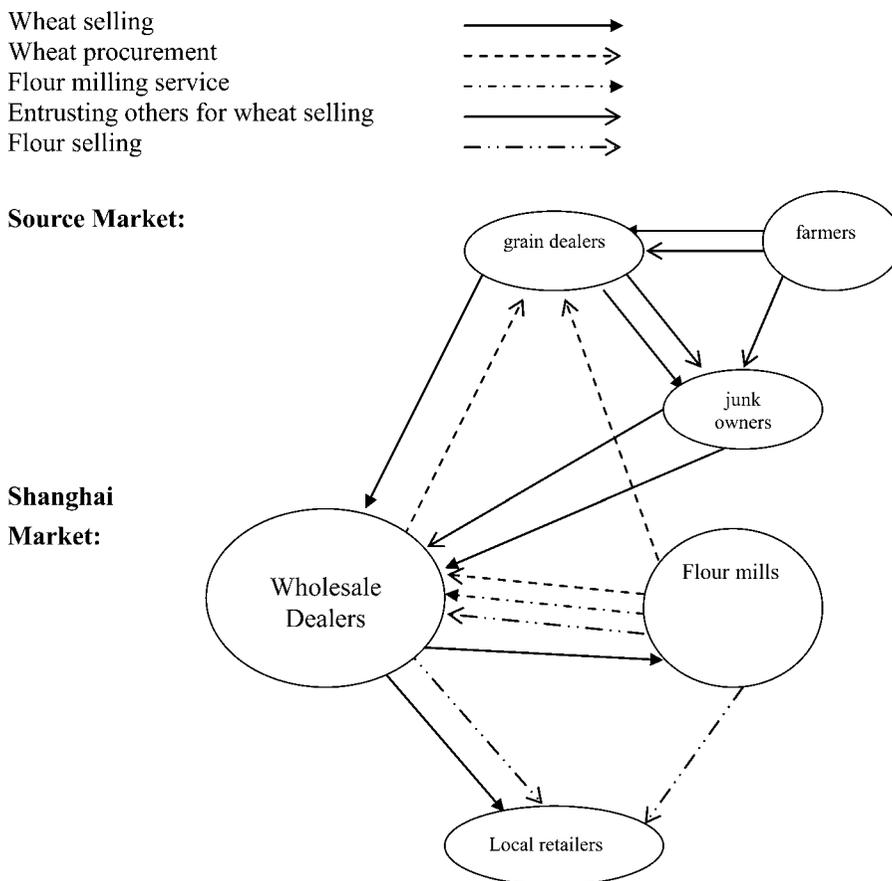
The huge demand for financial resources in rice trade also applied to other source markets in the lower Yangzi region. However, the source of capital was more likely to be provided for by local market agents. Indeed, the early 1930s' surveys of some major upstream rice markets, including Wuxi, Zhenjiang, and Wuhu, suggest that the pattern and practice of trade was more or less the same as in Shanghai. Transactions were done by negotiations of different market agents instead of an integrated body. Much of the financial

risks laid upon the local wholesale dealers (*mihang* 米行), who not only provided credits to the grain merchants from the product markets (such as Shanghai) but also paid the grain price to the farmers in cash or in advance. They might also possess their own milling machines and warehouses to serve different needs of their customers. They might borrow from local modern banks or native banks but should possess a considerable amount of capital for the purchasing of the crops at seasonal occasions.<sup>36</sup> In a nutshell, these local wholesale dealers played the same role as the 'distributors' in the Shanghai market.

In a sense, in the process of market development in the lower Yangzi region, rice trade witnessed a proliferation of market agents which provided capital and credit to finance the circulation of the crop. The involvement of banking institutions also took place mainly in circulating capital, in the form of financial instruments and credits, instead of fixed capital for machinery and buildings. Such a development pattern was considerably different from that of the flour trade, the subject of the next section.

#### IV. Financing Market Integration: the Flour Trade

In fact, in the late nineteenth and early twentieth centuries, the market structure of the flour-wheat trade in the lower Yangzi region was not very different from that of rice and paddy. In fact, some of the wholesale dealers of grains (*zalianghang* 雜糧行 or *lianghang* 糧行) handled both rice and wheat trade. Similar to what they did with the rice trade, these grain dealers in such product markets as Shanghai received the sellers from the source markets or acting as representatives of the buyers in the product markets (including the flour mills). In this commodity flow, the flour mills in Shanghai could send off their own representatives to the source markets but they usually approached the grain dealers either in the product markets or in the outport source markets for supply to reduce risk in having poor quality crops.<sup>37</sup> The flow of wheat for flour in the Shanghai market is simplified as in Diagram 3.

**Diagram 3. The Shanghai Wheat and Flour Market c.a. the 1900s**

Source: Tōa Dōbunkai (東亞同文會), *Shina Keizai Zensho (Dai Hachi Shū)*(Comprehensive Volume on China's Economy, Volume 8 支那經濟全書,第八輯)(Tokyo: Tōa Dōbunkai Hensan Kyoku 東亞同文會編纂局, 1908), pp.289-293.

To finance this commodity flow, if the mills sent their representatives to the source markets, they would need to prepare a large amount of cash in small denomination. In contrast, if the mills purchased through the grain dealers, they could either pay in cash or delay payment for one to two weeks. They could even issue promissory notes (*qipiao* 期票) for trade credit. Therefore, the mills often approached the grain dealers for trade credit.<sup>38</sup>

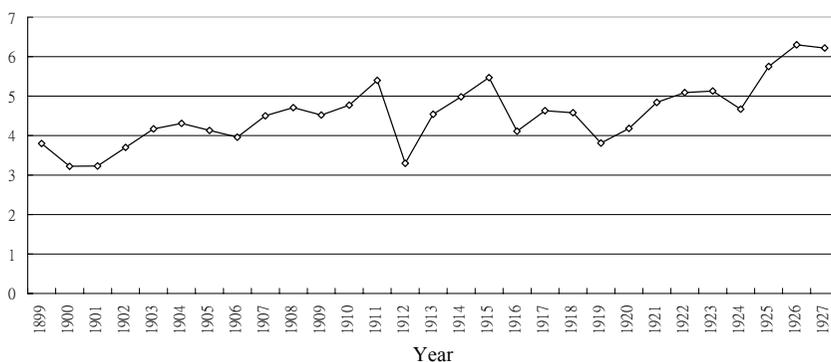
However, in the next few decades until the outbreak of war in 1937, the flour trade in

the lower Yangzi region underwent substantial structural transformation. Crucial to this transformation was the flour mills in the lower Yangzi region which took initiatives to adopt institutional devices to obtain supply of raw materials. One of these devices was the establishment of the '*Shoumai Gonghui*' (收麥公會), a trade organization on wheat purchasing. It was set up in 1908 by seven flour mills in Shanghai and Wuxi to adopt concerted actions in negotiation with the grain dealers in Shanghai and outport source markets.<sup>39</sup> In doing so, the mill owners hoped to reduce or stabilize wheat prices through enhanced bargaining power in collective negotiation.

Although this institution might not be able to take full credits for the stability and slow growth of wheat prices in the 1910s and 1920s, it certainly had some effects on the statistics, as shown in Chart 3. This chart demonstrates that although prices of wheat in the post-1908 years fluctuated, it moved mostly within the range of 4 to 5 yuan per picul, until prices went record high in 1927 and after. Reasons for the turbulence in wheat prices require further research. War, such as that after the 1911 Revolution and that causing the fall of Yuan Shikai, might, on the one hand, push up prices, and on the other hand, might cause delays in transportation and production, and thus lowering the demand. Some extraordinary shipments of wheat from Sichuan to Shanghai shortly after the 1911 Revolution had even saved some lower Yangzi flour mills from bankruptcy, as wheat could be purchased at bargain prices.<sup>40</sup> However, given the relative stability of wheat prices, the increase in transaction volume of wheat would only proportionately raise the demand for circulating funds. Flour mill owners would not have to encounter the financial problems created by both trade increase and rising trend of raw material prices as we have discussed in the rice and paddy trade.

Chart 3. Prices of Wheat in Shanghai, 1899-1927

Price (Yuan/Picul)

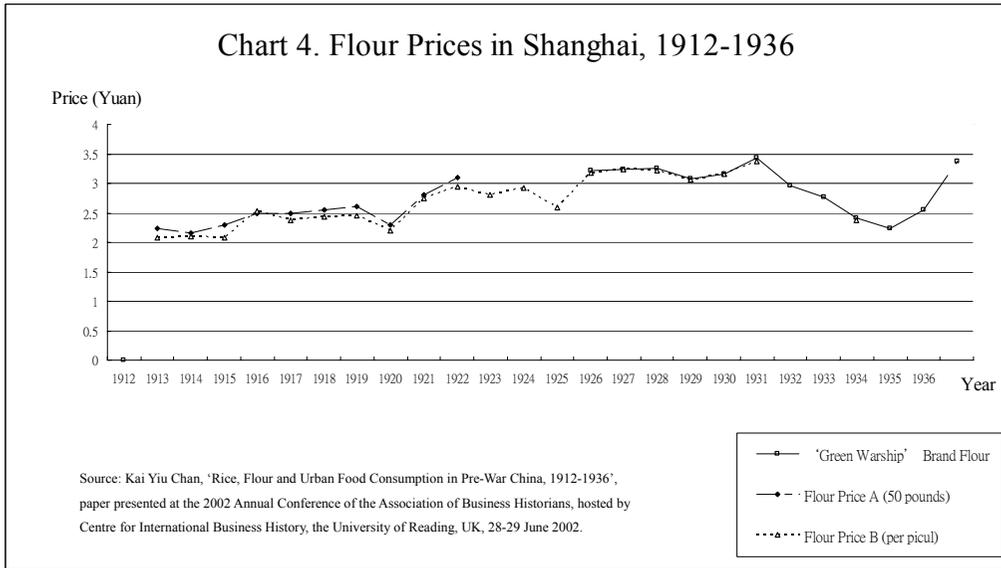


Sources: Unknown author, 'Sanshi Nianlai Shanghai Maijia Tongji' (Price Statistics of Wheat in Shanghai Over the Last Thirty Years 三十年來上海麥價統計), 1929, in 'Zhongguo Jingji Tongji Yanjiusuo Dang'an' (Archives of the Chinese Institute of Economics and Statistics 中國經濟統計研究所檔案), 01-099, (in the holding of the Resource Center for Chinese Business History, the Shanghai Academy of Social Sciences, Shanghai).

◆ Average Price (Yuan/Picul)

In the 1910s and early 1920s, some flour mill owners also built up the trade with other established or new market agents. These included foreign trading firms who helped the mills to sell the flour abroad during the First World War and the purchasing of foreign wheat, especially in the 1920s, to supplement local dearth of raw materials. Some mill owners also made use of the commodity exchanges, which were set up widely in the late 1910s and early 1920s, to obtain raw materials and to sell the futures of their products.<sup>41</sup>

The exchange might also have an impact on the flour prices in Shanghai. It was ruled that only Chinese flour mill owners could enlist their products in the flour exchange, and therefore considerably control the supply of the products. Meanwhile, brokers, backed by their clients who were also flour mill owners, tried to affect prices by buying, selling, and hoarding futures of the produce.<sup>42</sup> To a considerable extent, this strategy seems to work in the 1920s. Flour prices rose up in the early 1920s from under 2.5 yuan per unit to nearly 3 yuan a unit in the middle of the decade, and maintained at the level above 3 yuan per unit after 1926 until the depression set in in the 1930s. (See Chart 4)



Side-by-side with these market agents, more importantly, the mill owners approached the source and product markets by themselves through an internal-institutional device, 'offices', under the command of the mill owners. In the late 1900s and early 1910s, some flour mill owners in the lower Yangzi region, including the Rongs from Wuxi and the Suns from Anhui, set up their own offices in the source and product markets to collect raw materials (the 'wheat-purchasing offices' *banmaizhuang* 辦麥莊) and to distribute final products (the 'wholesaling offices' *pifachu* 批發處).<sup>43</sup> Despite the differences in organization between the collecting and marketing offices, these business units were effectively controlled by the headquarters in Shanghai, making these enterprises qualified to be regarded as 'vertically integrated enterprises'.<sup>44</sup> By doing so, the mills could obtain a reliable source of supply and marketing outlet side-by-side with the existing market agents. (See Diagram 4)



In this new structure of the flour-wheat market, indeed, wholesale dealers still played an important role in financing. The wholesale dealers continued to provide considerable credits by accepting the cheques or promissory notes issued by the mill owners. In Shanghai, these bills could be cashed in 10 days, while in the outport markets, 3 to 10 days. Both would allow the mill owners to buy time to sell their products.<sup>45</sup> It was said that some of the mills, such as those of the Rong brothers, could even manage to sell their flour before these bills being due.<sup>46</sup>

However, on many occasions, flour mills still took up much of the financial responsibility. Reports of the mid-1930s pointed out the fact that local mills in Taixian, Wujin, Tongshan, Huaiyin, Jiangdu, Wuxi, and in the capital Nanjing, had to pay cash upon transaction, either through a local dealer or collect directly from the farmers.<sup>47</sup> Besides, the mills had to pay all the costs and wages for the personnel and agency at the outport offices, not to say the costs for machinery and building. Their financial burden was considerable.

The flour mills in Shanghai might also acted as the clearing house for settlement of accounts between outport wholesale dealers and the mills' outport purchasing and marketing offices. In this respect, only two set of scattered materials can provide some hints to uncover this secretive and intricate arrangement. The first set concerns an emergency situation in 1925 due to the war then affecting Wuxi. The head of the Mow Sing Flour Mills and Foh Sing Flour Mills, Rong Zongjing, himself a Wuxi man, announced that his mills' head office in Shanghai could handle the remittance of his Wuxi fellows.<sup>48</sup> Presumably, his head office in Shanghai must have long been keeping the books and funds of his mills and outport offices for internal transfer through bookkeeping. The second set of documents concerns complaints from the bankers in January 1937. According to the bankers' account, the Foh Sing Flour Mills and their outport customers settled their accounts in Shanghai, although the commodities had already been processed for 'advances against documentary draft' with the bank.<sup>49</sup> Obviously, the mills continued the practice of internal transfer of funds through the Shanghai head office until the eve of the outbreak of the Second Sino-Japanese War.

Meanwhile, the flour mills made use of the financial institutions, native or modern, to obtain loans and credits for trade. For instance, flour mills could use the warehouse

certificates to ask for banks at the source markets to lend by ‘advances against documentary draft’.<sup>50</sup> In doing so, the mills’ scale of production should be large enough both to absorb raw materials and to process the flour in large quantities.<sup>51</sup> Flour mills also borrowed from modern and native banks by mortgaging their buildings and machinery, or by overdrafts based on personal or institutional credibility.<sup>52</sup>

To supplement loans from bankers, some flour mills also adopted certain financial devices and strategies. For instance, the various flour mills of the Rong brothers established a system of financial operation to borrow and lend capital among themselves, namely the ‘current account with other factories’ (*gechang wanglai* 各廠往來), in the 1910s, and through the co-ordination of the ‘headquarters company’ (*zong gongsi* 總公司) under Rong Zongjing’s command in the late 1920s and early 1930s. This ‘headquarters company’ even possessed a ‘Staff’s Saving Department’ to receive deposits from its staff. The Rong brothers also made use of the funds of their own native banks, or invested in some native and modern Chinese banks to affect these banks’ lending policy.<sup>53</sup> Another example was the owners of the Fu Feng Flour Mills, the Sun family of Anhui, who were also owners of the Chung Foo Union Bank (*Zhongfu Yinhang* 中孚銀行), though it is not sure whether the bank or the mill provided the surplus fund for financing.<sup>54</sup>

In short, as the flour mills in the lower Yangzi region played an active role in restructuring the wheat and flour market, their financial involvement and responsibility in trade finance was enhanced to ensure the smooth flow of the commodity from the source markets to the factories. They approached banks and adopted new financial devices for capital, and in turn, transferred these funds for both commodity circulation and production. Such characteristic contrasts sharply with what one can observe in the trade of rice.

## V. Conclusion

What are the implications of our observations on the grain trade in the lower Yangzi region to our understanding of the role of finance in the market development of China during the late nineteenth and early twentieth centuries? The above discussions clearly figure out two important actors in the finance of the grain trade: the wholesale dealers in rice trade, and the flour mills in flour trade. They were important because of their

respective financial role in facilitating trade and processing, and their credibility to attract capital borrowed from bankers, either in the form of mortgage, overdrafts, or in 'advances against documentary draft'. They were also very sensitive in making use of all the financial instruments and institutions available in order to facilitate business financing.

Such an argument certainly brings our discussion back to the question whether the financial sector in China played an active role in the development of the market. At this preliminary stage of my research, I am reluctant to produce a quick answer without further reconsiderations but the above discussions and observations seem to suggest that the financial sector in China then was only passively providing services for merchants and manufacturers to consider. To finance the grain trade in the late nineteenth and early twentieth centuries, it was obviously the merchants and manufacturers who were creative and viable in search for substantial means.

I do not intend to downplay the work of the bankers, native or modern, to the financial history of Chinese business. The bankers of the late nineteenth and early twentieth centuries should have their own calculation of risks and returns, resulting in their passive role in providing funds for business finance. Some individual bankers might also have their own projects for some particular firms, for personal reasons perhaps. However, as the transaction and circulation of the crops often needed credits and funds in the first place from the market participants themselves, it would be hard to imagine that the bankers of this period had done what might be thought as enough in facilitating trade finance.

On the other hand, the market participants of the grain trade in the lower Yangzi region managed to provide the needed financial resources in the first place and ultimately succeeded in attracting credits and loans from the bankers. Obviously, the institutional arrangements behind the scene must be complex and should not be under-estimated for their viability. In particular, the transfer of funds among mills and outport offices under the ownership of the same group of businessmen (e.g. the Rong brothers) certainly provided considerable financial resources to meet outside demand.<sup>55</sup> Other than this, was there other institutional arrangements working for the same cause? At this stage, it is hard to tell but this question will certainly be an important focus for further research.

To conclude, the study of business finance of grain trade in the lower Yangzi region

suggests that some market participants played a crucial role not only in the process of market development but also in the provisioning of financial resources to facilitate trade. Such a role reveals the vitality of the institutional arrangements of the market participants to absorb risk and manage finance. Without these institutional arrangements, the market probably would have to fall back on the rather passive and conservative financial sector for resources and credit. A slower pace of growth and smaller scale of business, therefore, might have come forth.

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- 52 See for example, Zhongguo Renmin Yinhang Shanghaishi Fenheng Jinrong Yanjiushi (Monetary Research Office of Shanghai Branch of the People's Bank of China 中國人民銀行上海市分行金融研究室), comp., *Shanghai Shangye Chuxu Yinhang Shiliao* (Historical materials on the Shanghai Commercial and Savings Bank 上海商業儲蓄銀行史料)(Shanghai: Shanghai Renmin Chubanshe, 1990), pp.160-163; and *Shanghai Qianzhuang Shiliao*, pp.784-787, 802-805, 820-822, 842-845.
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- 55 Besides the Rong brothers, see also the business 'empires' of Zhan Jian and Liu Hongsheng, who had similar institutional arrangements for business finance. See Elisabeth Köll, *From Cotton Mill to Business Empire*, pp.158-208; Kai Yiu Chan, *Business Expansion and Structural Change in Pre-war China*, pp.77-98, 125-154.

