



Rethinking the Kirby Puzzle: A Reassessment of Chinese Companies' Incorporation from the Public and Corporate Finance Perspectives, 1860-1949

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This paper attempts to offer a fresh view to rethink “the Kirby puzzle”—why companies are not well developed in China. In contrast to the commonly held view that the evolution of Chinese companies was the result of government intervention and inefficient legal enforcement, the conclusion of the research presented here is that the arrangement of public/corporate finance is a factor in that evolution. Moreover, based on financial interdependence, large businesses and governments usually formed business-government corporate groups with debt, directorship, and stock interlock during the period from 1860 to 1949. Given this finding regarding the existence of varied business-government corporate groups, a new answer to the Kirby Puzzle is that corporate underdevelopment in modern China was caused by the monopoly of business-government groups.

Why China's companies were underdeveloped is an old and controversial issue. In 1893, when China was under Western imperialist pressure, the Chinese diplomat Xue Fucheng and the prominent merchant Zhen Guanying published essays that bore the same title, “The problems that cause the underdevelopment of the institution of companies.” They argued that companies were the key to China's survival, and their work attracted the attention of the political and social elites. A hundred years later, in 1995, when China was undergoing radical changes in its economic structure, the American historian William C. Kirby published a paper

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entitled “China unincorporated: company law and business enterprise in twentieth-century China,” provoking a new round of discussion about why the company was not well developed in China. Scholars call this debate the “Kirby Puzzle.”¹

A conventional solution to the puzzle is that because of the predatory government, China’s companies cannot get sufficient legal protection for property rights and even usually suffer predation from the government. This answer sounds plausible throughout most of China’s long history. But does it unravel the puzzle completely? If so, how can we explain that there were still some periods in which business was profitable and even prospered? These include the stock boom of 1883, the golden age of the private company from 1920 to 1935, and the high earnings of some businesses under the nationalized movement during the Second World War, 1937-1945. These questions raise the need to rethink this puzzle.

Besides legal repression, in economic theory monopolies would be a cause of corporate underdevelopment. Reviewing the data of industry concentration in modern China, it shows that the market of modern China was an oligopoly most of the time.² And according to the historical literature, most of the monopolies were not natural monopolies but instead the result of privileges chartered by governments.³ Following this clue, the next question is what were, in fact, the relationships between governments and big businesses? Did they always sink into predator-prey relationships? Or have we been ignoring the interdependence between governments and businesses, and so missed seeing that just this neglected

¹ William C. Kirby, “China Unincorporated: Company Law and Business Enterprise in Twentieth-Century China,” *Journal of Asian Studies* 54 (Feb. 1995): 43-63; J. Ray Bowen II and David Rose, “On the Absence of Privately Owned, Publicly Traded Corporations in China: The Kirby Puzzle,” *Journal of Asian Studies* 57 (May 1998): 442-52.

² For example, in the cement industry, the percentage of sales of QiXin Co. (啟新洋灰公司) reached 90.02 in 1919; see Wu Chenming and Jiang Taixi, *The History of Chinese Business* (Beijing, 2003), 586. Moreover, in the banking industry, the total assets owned by the top nine banks by the end of 1927 constituted 70% of all Chinese banks’ assets and more than half of the total of all 160 Chinese banks by 1935; Linsun Cheng, *Banking in Modern China: Entrepreneurs, Professional Managers, and the Development of Chinese Banks, 1897-1937* (Cambridge, England, 2003), 65, 71. According to economic theory, market structure can be distinguished by the concentration ratio, which is the percentage of sales accounted for by a specified number of top firms in a market. Usually, when the concentration ratio of the top four firms (CR4) is over 40%, that market can be viewed as an oligopoly.

³ For instance, QiXin Co. received several privileges regarding tax, transportation, and monopoly rights within North China; Wu Chenming and Jiang Taixi, *History of Chinese Business*, 575.

interdependent relationship was what caused monopoly and repression in the corporate world?

Having examined companies' evolution from 1860 to 1949, this research finds that the arrangement of public/corporate finance is a factor that prompts political-business interdependence. Both business and government prefer monopolies to enhance their financing capability and profits, and with this common interest, they usually formed business-government corporate groups to monopolize the domestic market. That resulted in some businesses getting crowded out of these monopolistic groups, which meant they had difficulty getting financing and market access to develop their business. In the end, the process led to the repression of corporate growth in modern China.

Nevertheless, we have to notice that repression in corporate growth did not always remain on the same level. As with different public/corporate financial situations, the incorporation of business-government groups changed, with effects on the level of corporate repression. Therefore, this research divides the incorporation of business-government groups from 1860 to 1949 into three stages by financial situations.

To put this in clear perspective, this research analyzes the formations and transformation of business-government corporate groups from two angles: corporate finance and public finance. The structure of the financial market, whether diversified or monopolistic, defined the corporate financial capability and relative power to government. Meanwhile, the arrangement of the fiscal system, whether concentrated or decentralized, shaped the pattern and objectives of business-government cooperation. Similarly, for the government, its financial capability and strategy of forming alliances were also subject to these two angles—that is, the structure of the financial market and the arrangement of the fiscal system.

The essay is organized as follows. A literature review and the analytical framework will be demonstrated first. Then incorporation of government-business corporate groups will be separated into three modes, each of which will be elaborated. Finally, the conclusion summarizes how the business-government corporate groups formed and how they caused the repression of corporate development.

Literature Review: Why China's Companies Are Underdeveloped

Table 1 is a summary of several scholars' arguments concerning the Kirby Puzzle. It appears that, apart from David Faure and Madeleine Zelin, most of them approach this puzzle from the perspective of statism and conclude that the key factor in China's underdeveloped companies lies in the interventionist propensity of the government, which made Chinese legal enforcement and laws the instruments of government intervention rather than the vehicle for protection of business rights. Thus, previous studies of

Table 1
Related Literature on the Kirby Puzzle

| Author | Year | Question | Answer |
|---------------------------------|-------------|--|--|
| Zhen Guanying | 1893 | Why were China's companies underdeveloped? | Lacking related law |
| Xue Fucheng | 1893 | Why were China's companies underdeveloped? | Lacking related law |
| Kirby | 1995 | Why is China unincorporated? | Government distrust of businessmen; government intervention; traditional family ties |
| Bowen & Rose | 1998 | Why does China rarely have privately owned, publicly traded companies? | Government discretionary fees (<i>kejuan zashui</i>) infringe on property rights; kinship networks |
| Fang, Liufang | 2003 | Why can't company law prompt company development? | Company law serves state-owned companies only |
| David Faure | 2006 | Why did the Chinese economy lag behind? | Financial market underdeveloped |
| Donald C. Clark | 2007 | Why was there a gap between legislation and law enforcement? | Economic legislation serves political purposes |
| Madeleine Zelin | 2009 | Why were so few limited liability firms registered with the state? | Failure to develop a sustainable share market, unstable politics |
| Billy K. L So and Albert S. Lee | Forthcoming | Why is China unincorporated? | Inefficient legal enforcement |

Source: Zhen Guanying, "Why were China's companies under-developed?" in *Zhen Guanying Ji*, ed. Xia Dongyuan, 2 vols. (1893; Shanghai, 1982)1:704; Xue Fucheng, "Why were China's companies under-developed?" *Xue Fucheng Xuanji*, ed. Ding Feglin and Wang Xinzhi (1893; Shanghai, 1987), 480-81; William C. Kirby, "China Unincorporated: Company Law and Business Enterprise in Twentieth-Century China," *Journal of Asian Studies* 54 (Feb. 1995): 43-63; J. Ray Bowen II and David Rose, "On the Absence of Privately Owned, Publicly Traded Corporations in China: The Kirby Puzzle," *Journal of Asian Studies* 57 (May 1998): 442-52; Fang Liufang, "Shijie Xue Fucheng he Kebi (Kirby) de Zhongguo gongsi zhi mi" (Answering the puzzle of Xue Fucheng and Kirby), in *Fazhi zai Zhongguo: zhidu, huayu yu shijian*, ed. Liang Zhiping (Beijing, 2002), 294-314; David Faure, *China and Capitalism: A History of Business Enterprise in Modern China* (Hong Kong, 2006); Donald C. Clark, "Legislating for a Market Economy in China," *China Quarterly* 191 (Sept. 2007): 567-85; Madeleine Zelin, "The Firm in Early Modern China," *Journal of Economic Behavior & Organization* 71 (2009): 623-37; Billy K. L. So and Albert S. Lee. "Legalization of Chinese Corporation, 1904-1929: Innovation and Continuity in Rules and Legislation," chap. 9 in *Treaty-port Economy in Modern China: Empirical Studies of Institutional Change and Economic Performance*, ed. Billy K. L. So and Ramon H. Myers (Berkeley, Calif., forthcoming).

Chinese companies place too much emphasis on legal institutions. Because legal institutions originate from state authority, prior research often focuses on the state's capacity and motivations and neglects the interdependence between the government and businesses in other dimensions. Therefore, the current research aims to find a proper perspective and to construct an analytical framework that allows the examination of the mutual dependence between government and companies as causal factors in the process of reevaluating the development of companies in China.

Analytical Framework

Public finance is one of the best starting points for an investigation of society, the spirit of a people, its cultural level, its social structure, the deeds its policy may prepare—all this and more is written in its fiscal history, stripped of all phrases. He who knows how to listen to the message here discerns the thunder of world history more clearly than anywhere else.

—Joseph A. Schumpeter⁴

Following Schumpeter's suggestion, examining the history from 1860 to the Chinese Communist Revolution in 1949, I argue in this essay that the development of companies in China was highly related to public finance. Effects of the influence of public finance are twofold. First, there was the effect on the financial market, when the government raised domestic debt to cover expenses. This caused a crowding-out effect and urged companies to seek cooperation with the government to access capital. In contrast, when the government adopted external debts, it could leave more financial resources for companies to raise funds in the domestic capital market. Furthermore, companies could compete with foreign companies, which bartered external debts for market access to the Chinese government. Second, for the strategy of business-government coalitions, the allocation of government revenues between central and provincial governments influenced the choices of partners by company owners. On the other hand, the competition for financial capital also drove central and local governments to incorporate various business groups.

Drawing on these findings, this research attempts to propose an analytic framework as follows.

Research inquiries: 1) How did business-government corporate groups incorporate in modern China?⁵ 2) How did business-government corporate groups cause the repression of corporate development?

⁴ Joseph A. Schumpeter, *Economic Doctrine and Method: An Historical Sketch* (New York, 1954), 7.

⁵ "Corporation" and "incorporation" are frequently confused. The distinction

Research assumption: The incorporation of business-government corporate groups evolved from different arrangements of public/corporate finance.

Main arguments: 1) When governments (including the central and local governments) gain more credit shares in financial markets, it will crowd out the financing capacity of private companies and compel companies to seek cooperation or subsidies from governments.⁶ In contrast, when the financing capability of companies surpasses that of governments, private business groups will play the leading role. 2) When the fiscal system is centralized, private companies will try to cooperate with the central government. On the other hand, when local governments dominate the fiscal system, it usually promotes business-government coalitions between private companies and local governments.

Analytical methodology: Because of the lack of overall data, this research employs the following indicators to analyze the control over financial markets by the government or private companies: the ownership of financial organizations, the ratio of loan to and investment in public or private sectors, the interest rates of enterprise loans, and the interest rates of government bonds. When the financing capability of private companies dominated financial markets, it was distinct as the private sector's market. In contrast, if government financing capability dominated, the financial

between them is this; a corporation is a body (organization), which is a collection of many individuals united into one body; incorporation is the act by which that organization is created. See Stewart Kyd, *A Treatise on the Law of Corporations* (London, 1793), 13. Usually, corporation means a single company, but in this research, concerning a macro-level puzzle, I focus on corporate groups, which incorporate varied private and government companies, but not a single company. In other words, this research aims to explore what factors promoted the incorporation of the corporate group in China.

⁶ "Crowding out" happens when the government borrows heavily at the same time that businesses and individuals want to borrow, so the government, in effect, closes out the ability of the latter two groups to borrow. The government, which can afford to pay any interest rate, crowds out individuals and businesses which cannot pay the higher rates, thus slowing down economic activity." This definition is quoted from Robert James Shook, *Online Trader's Dictionary: The Most Up-to-Date and Authoritative Compendium of Financial Terms* (Franklin Lakes, N.J., 2002), 106. Here "credit share of government" means the capacity of government to obtain capital from financial markets and the power to distribute the capital within financial markets. Precisely, "financing capacity" means how much of a loan governments can get from financial markets; credit distribution indicates how much capital within financial markets the government controls. Usually, government financing capacity is observed by the amount of government bonds and loans and the government credit distribution is measured by the amount of assets of financial institutes that are controlled by the government. "Financing capacity" means the ability to obtain money from the market.

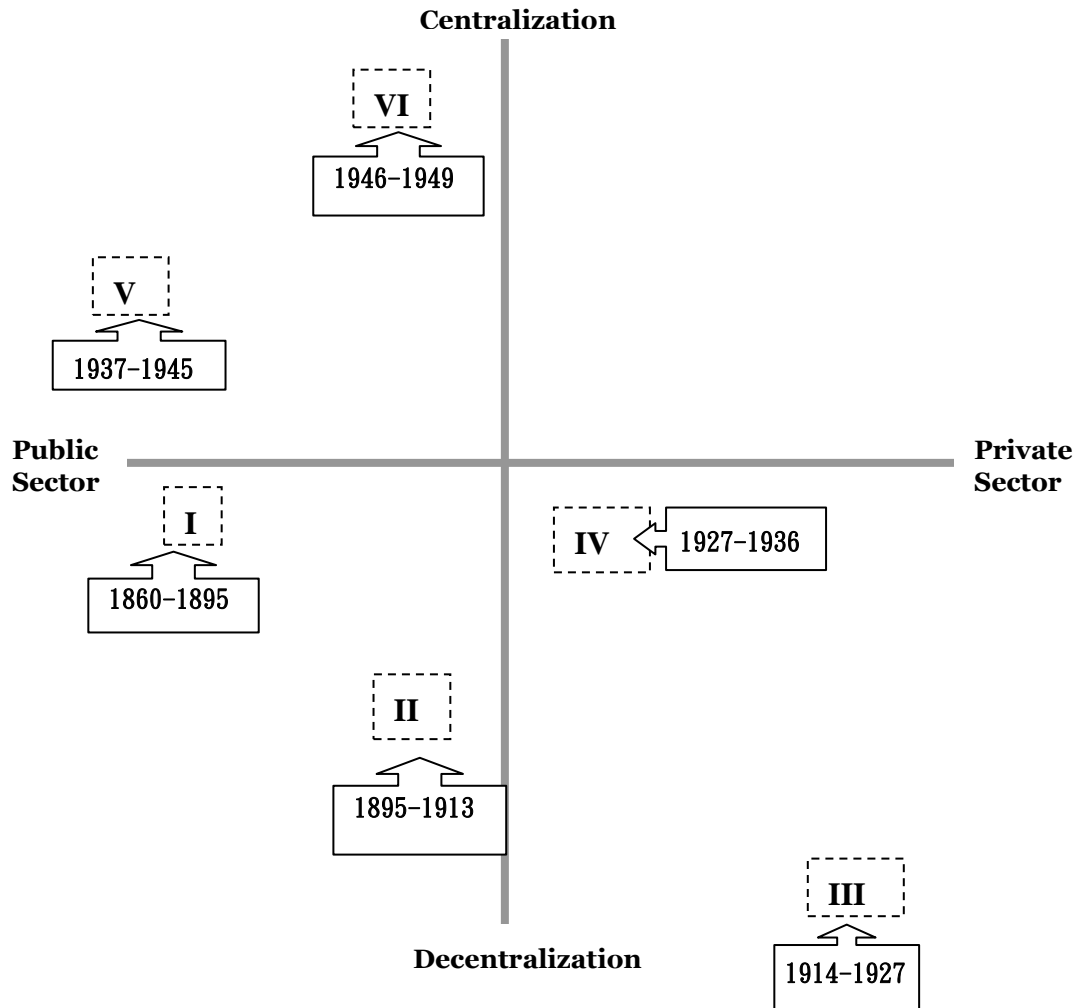
market was viewed as the public sector's market. Because of the lack of proper data and the inconsistency of statistical figures and methodology, it is not feasible to establish an overall panel dataset with which to ascertain the extent of decentralization of the financial system at various phases. One can only make judgments according to policy institutions and the relevant existing literature.

Based on this perspective of public finance, the Chinese case under discussion can be separated into six phases for the period 1860-1949. The financial character and company incorporation pattern of each phase can be shown on a coordinate axis (Fig. 1). Consequently, we might distinguish them into two types with two criteria (Table 2). When the central government controlled financial markets and dominated the main revenue, the strategy that the company owners usually took was one of cooperation with the central government, such as joint ventures, subsidies or privilege, and forming *national business-government corporate groups*. When local governments took the advantages in revenue allocation and financial markets, they usually formed *provincial business-government corporate groups*. Relatively, there are stronger *private corporate groups* under fiscal decentralization and the private sector's financial markets.

Table 2
Alternative Conditions of Public Finance as Functions of Political
Economic Company Alliance

| | | Financial Markets | |
|-------------------|------------------|---|--------------------------|
| | | Public Sector Market | Private Sector Market |
| Fiscal Allocation | Centralization | National business-government corporate group | |
| | Decentralization | Provincial business-government corporate groups | Private corporate groups |

Figure 1. Alternative Conditions of Public Finance as Functions of Political Economic Company Alliance in China, 1860-1949



X : financial market allocation
 Y : fiscal allocation

Provincial Business-Government Corporate Groups, 1860-1913

The characteristics of the public finance and financial market were: decentralization and the public sector's market. In order to pacify the Taiping Rebellion, the Qing government abolished the institution of financial centralization, which had been practiced since the inauguration of the Qing dynasty. The central government authorized local governors to

collect revenues and began the decentralization of public finance. This increased the financial autonomy of the local governments, which could now levy and retain local taxes. With regard to financial markets, although there were native banks, loans to private enterprises were limited because those banks were dependent on businesses with government, such as government saving and inter-government remittance. Therefore, under circumstances in which it was difficult to acquire loans, it made sense for private entrepreneurs to cooperate with local governments. Furthermore, the local governments relied on the experiences and knowledge of the entrepreneurs to deal with the companies that were established for competing with foreign companies within China. Thus, this relation of exchange promoted the formation of provincial business-government companies.

Generally speaking, from the pacification of the Taiping Rebellion to the demise of the Qing government, there were business-government coalitions centered around local governments. However, the financial impact of the First Sino-Japanese War in 1895 altered the pattern of alliance of these coalitions. This point will be expounded upon below, using the First Sino-Japanese War as a checkpoint in the narrative.

In an attempt to survive, the Qing government began to run government enterprises. However, because of the stringent public financial conditions an officially supervised, privately owned company, the China Merchants' Steam Navigation Company (輪船招商局), was established. Thereafter, various local governments also implemented similar policies. The incentives for such policy imitation were twofold. First, the local governments expected to gain more profits from companies. Second, whenever the local governments set up a new officially supervised private business, there would be a legitimate reason for them to increase the right to levy more local taxes.⁷ Therefore, the officially supervised private enterprises (官督商辦企業) became popular, which also stimulated the booming stock market and the first bull market for China in 1883. However, these enterprises were only nominally private. In reality, they were heavily dependent on official capital to support their operation (see Table 3). In other words, the enterprises at this period were supported by provincial public finance, even though they were nominally privately funded. In addition to the officially supervised private enterprises, many privately funded enterprises were also seeking local government financial support. This is because the lending rate of governments amounted to only 4 to 6 percent, compared to the high lending rate of the native banks (the

⁷ Zhang Kaiyuan, Ma Min, and Zhu Ying eds., *Zhongguo Jindaishishangdi Guanshen shnagxue* (The Business of Officials and Gentry in Modern China) (Wuhan, 2000), 42.

average daily interest rate was 17.8 percent between 1872 and 1895).⁸ It was possible for some private enterprises established by officials to secure interest-free loans.⁹

Table 3
Percentage of Capital Supported by Government in Officially Supervised Private Enterprises

| Company | Percentage of Official Capital |
|---|--------------------------------|
| Qingxi Iron Company (青溪鐵廠) | 50 |
| Mohe Golden Mining Company (漠河金礦) | 50 |
| Tianjin Railway Company (天津鐵路公司) | 64 |
| Tianjin Telegraph Bureau (天津電報局) | 70 |
| Hubei Silk Textile Bureau (湖北巢絲局) | 80 |
| Shanghai Machine Weaving Bureau (上海機器織布局) | 60 |
| China Merchants' Steam Navigation Company (輪船招商局) | 50 |

Source: Li Yixian, *Relationship between Banks and Enterprises in China, 1897-1945* (Taipei, 1997), 9.

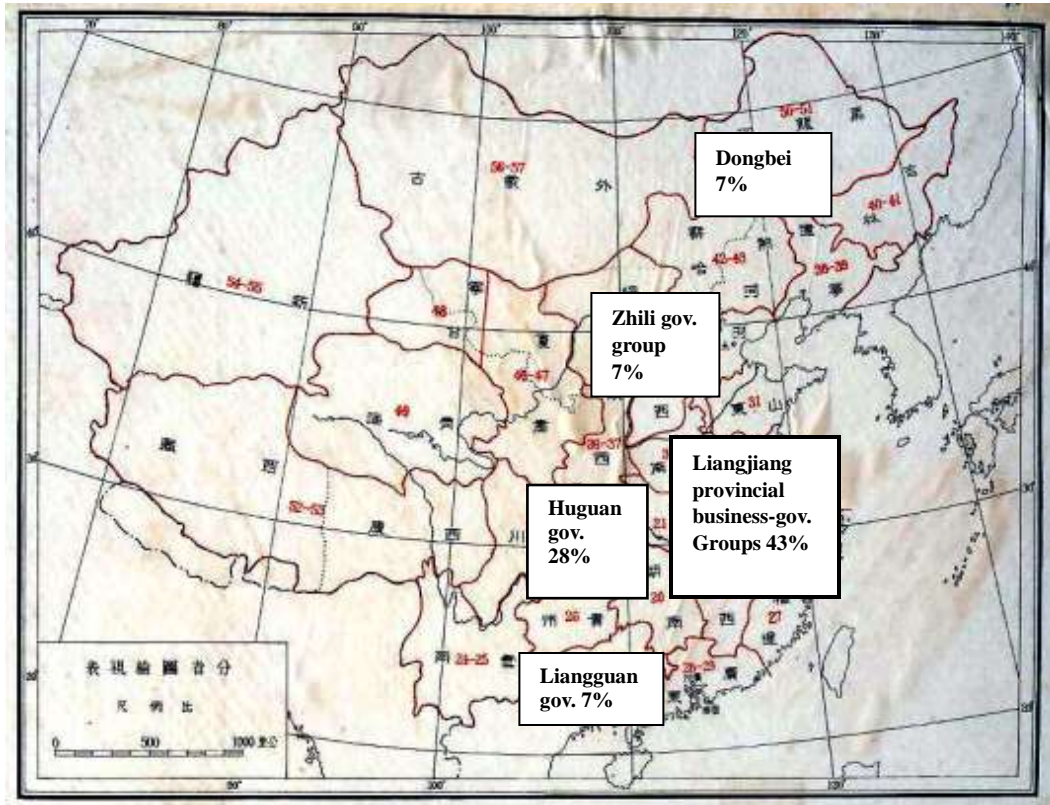
Thus, provincial business-government groups centered around local governors emerged. The core consisted of the officially supervised private enterprises, with an outer circle of private enterprises with personal connections to provincial governors. The financial sources of these enterprises originated from the revenues of local governments. Also, through cross-share holdings and inter-loans between enterprises, these provincial business-government groups were tied together further. This internal financial coordination within groups was dominated by the local governors or their secretaries, such as Cheng Xuanhuai, who was an important financial secretary for Provincial Governor Li Hongzhang. Figure 2 shows that the Liangjiang provincial business-government

⁸ The average daily interest rate of native banks was calculated from the panel data in *Shanghai qianzhuang shiliao*: Zhongguorenmin yinhang Shanghai fanhang, ed., *Shanghai qianzhuang shiliao* (Materials of Shanghai Native Banks) (Shanghai, 1960), 630-34.

⁹ Li Yixian, *Relationship between Banks and Enterprises in China, 1897-1945* (Taipei, 1997), 24-25.

corporate group was the largest group during 1860-1895. Its corporate capital reached 43 percent of total national corporate capital.

Figure 2. Provincial Business-Government Corporate Groups, 1860-1895



Source: The datasets on corporate capital were collected and calculated from the database in Du Xuncheng, *Minzu zibenzhuayi yu jiuzhongguozhengfu, 1840-1937* (National capitalism and the Chinese government, 1840-1937) (Shanghai, 1991), 286-528.

After the Sino-Japanese War, dividing up the huge amount of indemnity further promoted financial decentralization.¹⁰ This decentralization also led the provincial government into a financial crisis. From Table 4, one can see that the whole of public finance enjoyed a budgetary surplus in the previous period. But after the first Sino-Japanese War, budgetary deficits were registered, and the situation became aggravated after the Boxer Uprising. Therefore, the local governments no longer possessed enough financial power to sustain the enterprises established during the previous phase. Many enterprises were closed or privatized by

¹⁰ Zhang Kaiyuan, Ma Min, and Zhu Ying, eds., *Zhongguo Jindaishishangdi Guanshen shangxue*, 44-52.

Table 4
Chinese Public Finance, 1854-1915

| Year | Revenue (10,000 tael) | Expenditure (10,000 tael) | Deficit (10,000 tael) |
|--|---------------------------|-------------------------------|---------------------------|
| 1854 | 499.6 | 503.1 | 3.5 |
| 1855 | 306.7 | 323.3 | 16.6 |
| 1856 | 266.9 | 270.5 | 3.6 |
| | | | |
| 1885 | 7,709 | 7,287 | |
| 1886 | 8,127 | 7,855 | |
| 1887 | 8,422 | 8,128 | |
| 1888 | 8,839 | 8,196 | |
| 1889 | 8,076 | 7,307 | |
| 1890 | 8,681 | 7,941 | |
| 1891 | 8,968 | 7,935 | |
| 1892 | 8,336 | 7,564 | |
| 1893 | 8,311 | 7,343 | |
| 1894 | 8,103 | 8,027 | |
| Years before the Boxer Rebellion | 8,820 | 101,12 | 1,292 |
| 1903 | 10,492 | 113,492 | 300 |
| 1908 | 2,348 | 23,700 | 23,466 |
| 1910 | 29,696 | 33,865 | 4,169 |
| 1911 | 29,696 | 33,865 | 4,159 |
| 1913 | 55,703 (million yuan) | 64,221 (million yuan) | 8,521 |

Source: Data for 1854-1856 are from Zhou Yumin, *Wanqing Caizheng yu Shehui bianqian* (The transformation of public finance and society in the late Qing dynasty) (Shanghai, 2000), 147; data for 1885-1894 and 1910 are from Zhou, *Wanqing Caizheng yu Shehui bianqian*, 237, 316, 384; data for 1908 and 1911 are from Shen Xuefeng, *Wanqing Caizhengzhichu Zhengceyanjiu* (The study of public finance in the late Qing period) (Beijing, 2006), 31; data for 1913 are from Guan Jiyu, *Minguosishinianlaizhi Caizheng* (Public finance in the Republic era) (Taipei, 1976), 31.

officials. However, this does not mean that the groups of local enterprises collapsed. On the contrary, local enterprise coalitions emerged in a different and more pervasive form: railway and mining joint-stock companies.

In addition to its promotion of decentralization, the first Sino-Japanese War had another political effect: the Qing central government began to utilize foreign debts as a financial instrument. In order to obtain foreign loans, the central government used railways and the right of mineral exploitation as deposits. This led to the inroads of foreign capital. This intrusion damaged the economic interests of local governments.¹¹ As a counter-measure, the local governments actively supported the establishment of railway and mining companies. Stimulated by nationalism, each province set up railway and mining companies, and their stocks were very popular. Overall, between 1905 and 1911, the railway and mining companies of each province accumulated capital of 90 million yuan. This amount exceeded the entire private capital of other industries during the same period.¹²

Nevertheless, similar to the officially supervised private enterprises of the previous phase, the railway and mining companies still relied on local financial support because of the limited capital for loans, although they were called “private” companies. At this time, the local governments could not utilize their financial surplus to sustain these companies and instead used the methods of enforced subscription and extra tax leverage to support them.¹³

Thus, the characteristics of incorporation were as follows: with respect to external financial relations, the central government formed government-business coalitions with foreign businesses. On the other hand, those local governments and gentries whose economic interests were damaged by the central government–foreign business groups formed local government-business coalitions centered around railway and mining companies, and their financial sources were the increased tax revenues.

¹¹ In the case of the Peking Syndicate (福公司), the railway and mining companies with foreign investment threatened the profits of local enterprises and reduced their capacity to earn profits. This caused the loss of revenues of the local government. See Wang Shouqian, *Maitan yu zheng zhi* (Coal and politics) (Beijing, 2009).

¹² Zhang Zhingmin, *Jiannan di bianqian* (A tough transformation: a study of corporate institutions in modern China) (Shanghai, 2001) pp. 364.

¹³ Zhang Zhingmin, *Jiannan di bianqian*, 364-68; Zhang Kaiyuan, Ma Min, and Zhu Ying, eds., *Zhongguo Jindaishishangdi Guanshen shnagxue*, 42; Ning Rucheng, ed., *Zhonghuaminguo tielushi ziliao, 1912-1949* (Materials of railway history in the Republic era, 1912-1949) (Beijing, 2002), 1147-48.

Private Corporate Groups, 1914-1936

The characteristics of public finance and financial markets were high decentralization and the emergence of modern financial markets for the private sector. After the 1911 Revolution, although there was a tendency of financial centralization for a short period of time under the reign of Yuan Shikai, the nation was disintegrated and financial decentralization in a form of confederacy emerged after Yuan's death. The finances of the central government depended on the donations of local governments. In the end, the local governments even refused to remit taxes to the central government. Furthermore, because of the disintegration of the tax system and the increase of military expenditures, the central government issued bank notes and bonds as a means to collect revenue. These kinds of changes promoted the emergence of modern financial markets.

To begin with, each local government set up and cultivated their local banks. They authorized the banks to issue notes and bonds. Therefore, a new type of bank rapidly developed as a result of credit expansion based on the issuance of notes and the accruing of interest through public bonds (up to 30 percent).¹⁴ Although these banks profited from public finance at the beginning, they began to provide loans to enterprises after the First World War because of the deterioration of government debt credit and the increase in the profit-making capacity of domestic enterprises. It is worth noting that, because most of the banks in this phase were formed by officials or their relatives, the loans provided by the banks to private enterprises still centered around local business-government networks.¹⁵ At the end of this phase, along with the increase in enterprises' profits, the enterprises reversed the direction of investment and stepped into the banking industry, establishing their own banks. The scope of the loans to the private sector provided by the financial market thus increased.

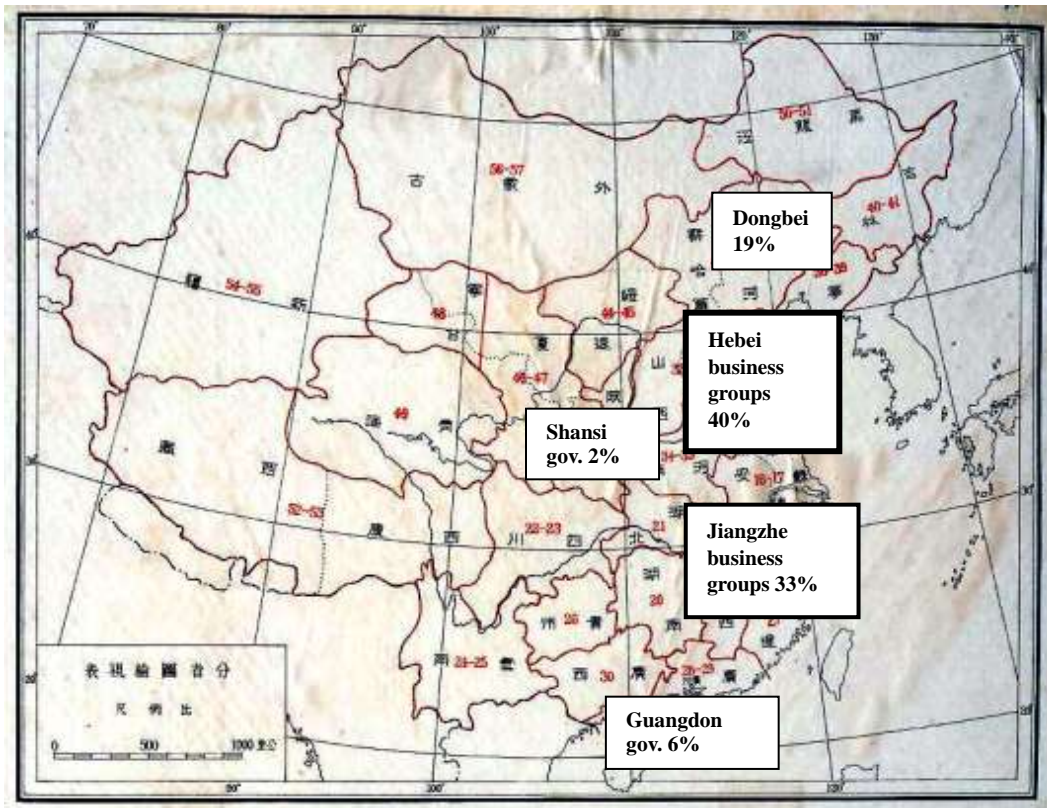
Generally speaking, benefiting from the issuance of notes and bonds, a financial market was gradually formed. After the First World War, the market started to make loans to the private sector. This resulted in the emergence of coalitions between private enterprises, such as the Zhou

¹⁴ Qian Jiaju, ed., *Jiuzhongguo gongzhaishi ziliao* (Materials of government bonds in Modern China, 1894-1949) (Beijing, 1984), 14; Zhang Limin, "Chinese Banks in North China," in *The Chinese Economy within the Global Economic Framework*, ed. Chang Donggang et al. (Beijing, 2005), 240. The lowest discount on the sale of bonds was 15%. With interest, the banks could make around 30% profit. See Zhongguorenmin yinhang Shanghai fenheng, ed., *Jincheng yinhang shiliao* (Historical materials of Jincheng Bank) (Shanghai, 1983), 42.

¹⁵ Among the banks that had more than one million in capital, 59% of them were established by persons with backgrounds as state officials. See Zhao Linyun and Qu Yonghua, "The limitation in economic development under the unstable constitutional Beiyang government," in *The Chinese Economy within the Global Economic Framework*, ed. Chang Donggang et al., 255.

Xuexi Group, Tongfufeng Business Group, Dasheng Business Group, Rong Business Group, and Liuhongsheng Business Group. Usually, according to geography, the Zhou Xuexi Group and Tongfufeng Business Group are called “Hebei business groups”; the other three are known as “Jiangzhe business groups” (see Fig. 3). However, because the establishment of these banks was linked to local political networks, the targets of loans were still related to local officials.¹⁶ It was especially easy for the Zhouxuexi Business

Figure 3. The Proportion of Corporate Capital of Private and Provincial Corporate Groups in Total National Corporate Capital, 1912-1927



Source: The datasets on corporate capital were collected and calculated from the database in Du Xuncheng, *Minzu zibenzhuyi yu jiuzhongguozhengfu, 1840-1937* (National capitalism and Chinese government, 1840-1937) (Shanghai, 1991), 286-528.

¹⁶ Especially in the case of Beifang Bank (北方銀行), most of the investors were warlords and bureaucrats. The origins of saving mainly came from them as well. Take Kincheng Bank as an example, where the percentage of the savings of these military and bureaucratic personnel among total savings was 38.15% in 1917, 37.52% in 1921, and 50.87% in 1928.

and the Tongfufeng Business Group to secure loans from banks, because of the founders' political backgrounds in the Beiyang bureaucracy.

Such were the general conditions in China between 1914 and 1936. However, after the Nationalists gained control of the central government, the nature of the financial system altered. This also changed the nature of the coalitions of enterprises. I separate this phase into two parts by using the year 1928 as the watershed to compare the two eras.

As mentioned above, the main financial instrument of the government was the issuance of bonds and bank notes. The profitable interest rate of bonds stimulated the rise of the banking industry and further promoted the financial market. However, because the Beiyang government failed to extract enough taxes to repay bonds and back up bank notes, the government was forced to stop the issuance of notes. This was tantamount to the bankruptcy of the Beiyang government and compelled the banking industry to withdraw their investment in government bonds. Meanwhile, because of the start of the First World War, there was a sharp drop in imports (between 1913 and 1918, imports decreased by 34 percent and exports increased by 40 percent). This became a great opportunity for domestic industries to grow. The rate of profit they could make was between 10 and 189 percent (see Table 5). It was even higher than the interest rate of 30 percent that could have been earned in the trade of bonds. Because of the high risk of investing in government bonds and the high profit rate of investing in enterprises, capital was diverted from government to business. For example, the loan provided by Kincheng Bank (金城銀行) to enterprises was raised from 15 percent in 1919 to 25.55

Table 5
Corporate Returns for 1914-1925

| Company | Industry | Rate of Return |
|--|---------------|---|
| Shenxin Textile Company (申新一廠) | Textiles | 9.5% in 1916; 131% in 1919 |
| The Dasheng Cotton Mill Company (大生紗廠) | Textiles | 1914-1921 annual average is 42.8% peak : 105.8% in 1919 |
| Fuxin Flour Co.(福新一廠) | Flour | 1914-1921, annual average 127.6% Peak: 189% in 1915 and 1917 |
| Fufeng Flour Co.(阜豐面粉廠) | Flour | 56.2% in 1918, 64.2% in 1919 |
| Jiangnan Shipyard Co.(江南造船所) | Ship-building | 1913-1925, annual average is 22.1% |

Source: Li Yixian, *Relationship between Banks and Enterprises in China, 1897-1945* (Taipei, 1997), 40.

percent in 1927.¹⁷ In addition, after the enterprises earned profits, they also set up banks for financing their own corporate groups (see Table 6). Thus, the financial market transferred from a public sector's market to the private sector. The enterprises no longer sought financial support from the government and formed corporate groups with high autonomy.

As mentioned earlier, the banking industry began to invest in enterprises after the financial crisis of the Beiyang government. This resulted in the reliance by the Beiyang government on foreign debt. During the entire period of the Beiyang regime, the amount of domestic-foreign debt was 80 million to 34 million.¹⁸ By the end of the period, the Beiyang

Table 6
Banks Founded by Corporate Groups

| Business Group | Method of Investment | Bank |
|--|--------------------------------|---|
| Zhouxuexi Business Group (周學熙企業集團) | Direct investment | The National Industrial Bank of China (中國實業銀行) |
| Tongfufeng Business Group (通孚豐企業集團) | Direct investment | Zhongfu Bank (中孚銀行) |
| Dasheng Business Group (大生企業集團) | Direct investment, Shareholder | Nantonghuaihai Shiye Bank (南通淮海實業銀行) |
| Liuhongsheng Business Group (劉鴻生企業集團) | Direct investment | The Shanghai Commercial & Saving Bank (上海商業儲蓄銀行) |
| Rong Business Group (榮氏企業集團) | Shareholder | Enterprise Bank of China (中國企業銀行) |
| | | Bank of China (中國銀行), The Shanghai Commercial & Saving Bank, Bank of Domestic goods (中國國貨銀行), Native Bank of Xinkang (信康錢庄), Native Bank of Rongkang (榮康錢庄), Native Bank of Huixu (匯旭錢庄), Native Bank of Zhentai (振泰錢庄) |

Source: Li Yixian, *Relationship between Banks and Enterprises in China, 1897-1945* (Taipei, 1997), 206-11; Economic Institution of Shanghai Academy of Social Science, *Rongjia qiye shiliao* (Materials of Rongjia Business Group), 2 vols. (Shanghai, 1962), 1: 652-53.

¹⁷ Zhang Limin, "Chinese banks in north China," 240-43.

¹⁸ Yu Heping, "Analyzing the leading role of the private sector in the Republic Era," in Chang Donggang et al., eds., *The Chinese Economy within the Global Economic Framework*, 214.

period, the Beiyang government, which had limited sources of revenue, could not repay those foreign debts and its credit was bad. The Nationalist government was established in 1927 and inherited the outstanding foreign debts and bad credit from the Beiyang government. It could not borrow from the international financial markets and suffered from the lack of a sound tax system. It could rely only on domestic debt as a primary source of revenue. In order to improve its credit, the Nanjing government established a Sinking Fund (江海關二五庫券基金會) and turned it over to bankers to be managed. At the same time, domestic industrial and commercial enterprises began to suffer from the problem of over-capacity of production after the First World War. The situation became aggravated especially by the Great Depression in 1929 and the domestic recession caused by the flood of the Yangtze River in 1931.¹⁹ As a result of these tough market conditions, the return on investing in enterprises was less than on government bonds (see Table 7). Therefore, it was a rational choice for the banking industry to invest in bonds. By the first half of 1934, “one-third or more of the banks’ income-earning ability was tied to the government.”²⁰

Challenged by this economic crisis, the enterprises sought control over domestic production capacity through centralization in order to restore their profits. However, restricted by the dilemma of collective action, most of the industries could not retain their relations of alliances and had to look for financial support. Nonetheless, the financial market invested too much in bonds and caused the crowding-out effect against the financial capacity of the enterprises, to such an extent that, “in early April 1935, the Shanghai Chamber of Commerce petitioned the Ministry of Industry to institute a policy of industrial control.”²¹

In the same year, affected by the silver crisis, a financial crisis occurred within the banking industry and the native banks. Like the companies, the financial industry also petitioned the government. The Nanjing government thus gained control of the banks through its subsidies of and investments in the banking industry. This ended the situation in which the private financial sector had dominated credit shares over the financial market for more than a quarter of a century. It is worth noting that, while the government decided to expand its stock holdings of both the financial and enterprise sectors, Nanjing officials also enlarged their

¹⁹ Parks M. Coble, *The Shanghai Capitalists and the Nationalist Government, 1927-1937* (Cambridge, Mass., 1986), 148.

²⁰ *Ibid.*, 167.

²¹ Wu Chengxi, *Zhongguo di Yinhang* (Banks in China) (Shanghai, 1935), 80-81; Qian Jiaju, ed., *Jiuzhongguo gongzhaishi ziliao* (Materials of government bonds in Modern China, 1894-1949) (Beijing, 1984); quotation from Coble, *The Shanghai Capitalists and the Nationalist Government*, 210.

Table 7
Comparing Returns on Public Bonds, Business Loans, Deposit
Interest, and Company Investment, 1928-1936

| Year | (1) Percentage return on public debt | (2) Percentage return on public debt | (3) Percentage return on loans (average in the period) | (4) Percentage cost of deposit interest for bank | (5) Percentage return for companies in 1934 | |
|------|---|---|--|---|---|----|
| 1928 | 17.3 | 22.51 | For the textile industry: 6-10% For the commercial industry: 10-20% | 8-9 | The Commercial Press (商務印書館) 7.5% Nanyang Brothers Tobacco Company (南洋兄弟煙草公司) 5% | |
| 1929 | 14.8 | 12.44 | | | | |
| 1930 | 17.7 | 18.66 | | | | |
| 1931 | 19.3 | 15.88 | | | (6) LiuHongsheng Business Group | |
| 1932 | 24.4 | 20.9 | | | | 6 |
| 1933 | 16.8 | | | | | 10 |
| 1934 | 12.4 | | | | | 6 |
| 1935 | 13.0 | | 3 | | | |
| 1936 | 11.6 | | 4 | | | |
| 1937 | | | 9 | | | |

Source: (1) in Arthur Young, *Zonggou caizheng jingji qingkuang, 1927-1937* (Chinese public finance, 1927-1937) [Chinese version] (Beijing, 1981); (2), (3), (4) in Parks M. Coble, *The Shanghai Capitalists and the Nationalist Government, 1927-1937* (Cambridge, Mass., 1986), 72, 168; (6) in Economic Institution of Shanghai Academy of Social Science, *LiuHongsheng qiye shiliao* (Materials of LiuHongsheng Business Group) (Shanghai, 1981), 29, 32.

personal holdings of the stocks of these banks and enterprises. According to Xu and Wu's calculations, in the final period of this phase, in 1936, the total enterprises under the control of the Nanjing government among the whole of the domestic enterprises amounted to 15.4 percent (see Table 8). The existing literature often labels the expansion of the financial investment in banks and enterprises as nationalization. However, as Coble has identified, stocks held by the government and those by officials had different effects. They should be evaluated separately. Thus, my research employed the *Zhonghuaminguo Tongji Tiyao* (Statistic Book of the Republic of China) and the archives of corporate registration (國民政府公司註冊檔案) to recalculate the ratio of the capital of each enterprise group. This research separated the enterprises whose stocks were controlled by

officials from those whose stocks were controlled by the government. The result of the calculation is that this official business group amounted to approximately 2 percent of domestic enterprises.²²

Table 8
Corporate Assets within China in 1936, Ownership by Percentage

| Owned by Local Government | Owned by Central Government | Owned by Private Business | Owned by Foreign Business |
|---------------------------|-----------------------------|---------------------------|---------------------------|
| 20.5 | 15.4 | 29.0 | 35.3 |

Source: Xu Dixin and Wu Chengmin, *Zhinggguo zibenzhuyi fazhanshi* (The Development History of Chinese Capitalism), 3 vols. (Beijing, 2003), 3: 763.

It can be argued that the financial market gradually became a government market as a result of the difficulty enterprises encountered in trying to access loans from the financial markets. By the end of this phase, they turned to the Nationalist government for financial support. They bartered for this support with their autonomy. But, generally speaking, the private enterprises still were the largest components among the whole of Chinese enterprises at this time (see Table 8). In addition to the coalition of the Nanjing government and the Shanghai enterprises, there were other local enterprise coalitions. The Nationalist government only nominally unified China. Other militarists still occupied many local areas and enjoyed their independence in tax systems, currency, and banks. Moreover, local governments benefited from a relatively more stable balance between political forces during this phase and actively fostered economic activities. Centered around banks, they coordinated the cash flow within provinces and set up coalitions of local enterprises. For example, in Guangxi, Shanxi, Yunnan, and Sichuan Provinces, the whole local enterprise capital amounted to 20.5 percent of the total national enterprise capital.²³

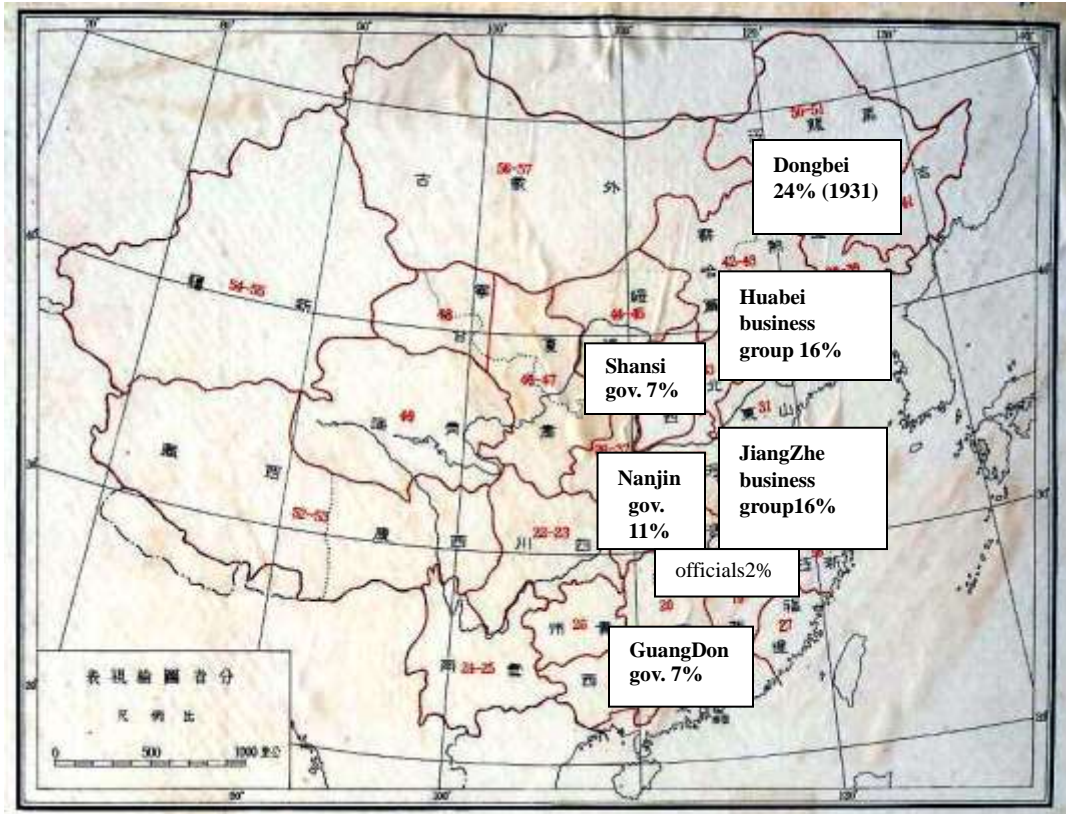
In order to provide a clearer understanding of the ratio of each business or government-business group and their geographical location, this research employed the *Zhonghuaminguo Tongji Tiyao*, the archives of corporate registration, and the data extracted from existing literature to generate the following map (Fig. 4). It can be argued with the help of the f

²² This newly formed official business group attached to the Nationalist government was normally called the Group of Kong and Soon (孔宋集團). In order to calculate the scale of this coalition, this research utilizes the list of enterprise coalitions found in studies by Coble and other scholars.

²³ Xu Dixin and Wu Chengmin, *Zhinggguo zibenzhuyi fazhanshi* (The Development History of Chinese Capitalism), 3 vols. (Beijing, 2003), 3: 763.

map that, under circumstances of financial decentralization and most of the time when the financial market served the private sector, a tripartite arrangement of private enterprise coalitions, the central government-enterprise coalition, and local enterprise coalitions emerged.

Figure 4. Map of Business/Government-Business Groups in China, 1936



National Business-Government Corporate Group, 1937-1949

The characteristics of the next phase are fiscal centralization and the nationalization of financial markets. As discussed earlier, in the silver crisis of 1934, the government strengthened its control over financial institutions as a result of the bankers' request for government assistance. Consequently, it was mainly banks that were nationalized or placed under the government's control. After that, the financial markets were dominated by this nationalized bank group, which consisted of the Central Bank, Bank of China, Bank of Communication, and Farmer's Bank of China. The trend toward such centralization was even more enhanced after the second Sino-Japanese War in 1937. In 1943, of the total capital held by banks of 578.258 million yuan at Chongqing, national banks held around 48.4 percent, the local banks 6.9 percent, commercial banks 37.2 percent,

and the native banks 7.5 percent. The impacts of the nationalization of the financial market were twofold.

First, the government could request loans from the banks directly. That meant that the government did not need to compete for capital with companies in the financial market by raising the interest rate on government bonds. It decreased a lot of financing costs for the government. Second, the distribution of credit in the financial market was controlled by the government. Any enterprise that needed credit had to cooperate with the government first.

In the case of the financial system, because there was a crisis occurring within the local financial system by the end of the last phase and because the central government had sufficient money to support local finance after its acquisition of control over the financial market in Shanghai, the local governments' financial autonomy was weakened, for example in Sichuan and Guangdong Provinces.²⁴ However, because of the complex political forces in local areas, the central government did not opt to take over local public finance directly. The central government instead chose to permeate the local finance network institutions through the nationalized commercial banking system.

Under such a financial system, nationalized banks were the hinges of the incorporation of business groups. Those private enterprise groups that had sought cooperation with the Nanjing government at the end of the last phase further deepened their cooperation with the central government during this time. They formed business-government corporate groups through joint ventures and holding stocks. Examples include Liu Hongsheng Business Group and Rong Business Group. Furthermore, the local governments established provincial holding companies in an attempt to obstruct the central government's endeavors toward financial centralization. Provincial holding companies became the informal revenue channels for the local governments. It is worth noting that part of the capital for setting up these provincial holding companies originated from nationalized banks, even though the companies were formed to avoid financial control by the political center. With capital support from national banks, these companies became targets for local enterprises, which sought financial cooperation, such as joint ventures or loans. Then the provincial holding company became the hub of stock controlling within the provincial enterprise groups. However, it bears mentioning that part of their capital came from the nationalized banks (nationalized banks invested around 35 percent, local governments 53.6 percent, and the

²⁴ Regarding the case of Sichuan, please refer to the Japanese scholar Koji Hayashi's work, *近代中国と銀行の誕生: 金融恐慌、日中戦争、そして社会主義へ* (The Birth of modern banking in China: Financial Crisis, Sino-Japanese War and Socialism) (Tokyo, 2009).

private sector 11.4 percent), even though simply from the view of the stockownership structure, the provincial governments with 53.6 percent seemed to have autonomy from the national government.²⁵ Nevertheless, if we observe the investment network of these provincial holding companies carefully, it shows that their network was no longer limited to provincial jurisdiction but extended beyond the provincial boundary by attaching themselves to national banks' investment network. For instance, Table 9 shows that the board of the Chinese Match Materials Corporation (中國火柴原料公司), a company founded in Chongqing, consisted of officials from the Yunnan Provincial Government, Guizhou Provincial Government, national banks, and the central government. Hence, this study considers that even though provincial governments still had some autonomy as private business groups, through the investment and joint ventures of national banks, they were incorporated into the national business-government group already.

Table 9
The Board of Directors of Chinese Match Materials Corporation and
Chinese Woolen Textile Corporation

| Chinese Match Materials Corporation | Chinese Woolen Textile Corporation |
|--|---|
| Board Chairman, Song Ziliang (Bank of Domestic Goods) | Board Chairman Soong Tzu-Liang (Bank of Domestic Goods) |
| Director, Weng Wenhao (Minster of Economic Affairs) | Director, Qian Xinzhi (Bank of Communication) |
| Director Liu Hongsheng | Director Ye Zhuotang (NiNcpo Commercial & Savings Bank 四明銀行) |
| Director Lu Zian (Director of Fiscal Bureau, Yunnan Provincial Government) | Director Xu Kan (Director, State Administration of Grain) |
| Director Wang Zhenfang (Kunming Branch, Bank of China) | Director Tu Yuesheng |
| Director Peng Hu (Executive head, Guizhou Provincial Holding Company) | Director Fu Rulin |
| | Director, Ministry of Economics |
| | Director and serve in executive head, Liu Hongsheng |

Source: Economic institution of Shanghai Academy of Social Science, *Liuhongsheng qiye shiliao* (Materials of Liuhongsheng Business Group) (Shanghai, 1981), 180, 185.

²⁵ Zhang Zhingmin, *Jiannan di bianqian*, 199.

The following research uses the end of the Second World War in 1945 as the watershed to discuss the differences between the first and second halves of this period in detail. The War of Resistance began in 1937, and by 1939 the central government had resettled in Chongqing. The financial market and large enterprise groups, which had been centered around Shanghai, also moved to Chongqing with the central government. As mentioned earlier, the financial market, in which more than half of the capital was controlled by nationalized commercial banks, became an important financial instrument of the government. However, for the mobilization of war resources, those banks also provided loans to private enterprises such as Rong Business Group and Liuhongsheng Business Group and helped them to move to the interior provinces. During this phase, the nationalized banks supported these private enterprises through loans with low interest rates and investment. The portion of loans to the private enterprises provided by the nationalized banks was 75.3 percent in 1943, 65.5 percent in 1944, and 60.7 percent in 1945.²⁶ These cheap loans enabled the enterprises to obtain high profits and to expand their business, even under circumstances of war and a controlled financial market.²⁷

If one evaluates the stockownership structure in these interior enterprises, one can find that the normal configuration of incorporation was private enterprise owners, nationalized commercial banks, central government officials, local governments, and local government officials. For those enterprise owners, such a configuration could guarantee the acquisition of loans with the lowest interest rate, administrative convenience, and benefits from relevant policies. For the central government, this kind of configuration was beneficial for the mobilization of military materials and also profitability. For the local governments and officials, this configuration was a pathway to rent-seeking. Such a configuration can be observed from the list of the members of the boards of the Chinese Match Materials Corporation and the Chinese Woolen Textile Corporation (中國毛紡織廠) established by the Liuhongsheng Business Group. Examining the profits of these two companies (see Table 10), it is clear that this type of configuration was a rational, profitable choice for enterprises at that time.

At the local level, as discussed earlier, since the previous phase, there had been local government-business coalitions centered around local banks. During this later phase, affected by the war, it was more difficult for

²⁶ Li Yixian, *Relationship between Banks and Enterprises in China, 1897-1945*, 104.

²⁷ Economic institution of Shanghai Academy of Social Science, 1962, *Rongjia qiye shiliao*, 2: 213-19; Economic Institution of Shanghai Academy of Social Science, *Liuhongsheng qiye shiliao* (Materials of Liuhongsheng Business Group) (Shanghai, 1981).

Table 10
The Profits of Chinese Match Materials Corporation and Chinese Woolen Textile Corporation

| | Chinese Match Materials Corporation (in yuan) | Chinese Woolen Textile Corporation (in yuan) |
|------|---|--|
| 1942 | 1,399,832 | 717,643 |
| 1943 | 9,522,079 | 52,412,479 |
| 1944 | 66,269,915 | 111,495,312 |
| 1945 | 109,896,640 | 226,363,162 |

Source: Economic institution of Shanghai Academy of Social Science, *Liuhongsheng qiye shiliao* (Materials of Liuhongsheng Business Group) (Shanghai, 1981), 183, 200.

private companies to secure financing. This situation further promoted and fostered the local government-business coalitions under the requirement of provincial economic control. By 1941, in order to resist the central government's attempts at fiscal centralization, the local governments established holding companies in an effort to continue their control over local government-business groups. However, because of the limited financial capabilities of provincial governments, the nationalized banks, with their abundance of credit, invested in the stocks of these holding companies. This allowed the central government to penetrate into local areas. Similar to the joint ventures between private businesses and national banks mentioned earlier, these provincial holding companies, which enjoyed abundant loans, administrative convenience, and benefits from relevant policies, generated considerable profits (see Table 11).

After the end of the Second World War, the central government returned to Nanjing, and the financial markets and enterprises returned to Shanghai and the coastal areas as well. However, the structure of the financial market, the pattern of nationalized banks and financial centralization, did not change. Nevertheless, as the central government took over its enemy's enterprises after the war, the nationalized enterprises expanded rapidly. Meanwhile, those private enterprise groups that had built up close connections with the government beginning in the last phase also benefited from the process of the postwar recovery of assets. Although these enterprise groups did not have the same autonomy as they had before the war and depended on the government for loans, their business was still lucrative. This resulted from cooperation with the government through joint ventures and stock holdings in new companies that had been taken over from the Japanese military—the activities, for

Table 11
Percentage Returns of Provincial Holding Companies

| Company/Year | Percentage Returns |
|---------------------------------|--------------------|
| Chuanhangxingye Gongsi (川康興業公司) | |
| 1943 | 19.1 |
| Xibei Shiye Gongsi (西北實業公司) | |
| 1942 | 14.0 |
| Jiangsigxingye Gongsi (江西興業公司) | |
| 1945 | 49.2 |
| 1946 | 378.3 |
| 1947 | 49.7 |
| GuizhouqiyeGongsi (貴州企業公司) | |
| 1941 | 25.2 |
| 1945 | 23.3 |

Source: Chen Zhen, ed., *Zongguo jindai gongyeshi ziliao* (Materials of modern Chinese industry) (Beijing, 1961), 1401-05.

example, of the Liuhongsheng Business Group and the Rong Business Group.²⁸ In addition to the expansion of these private enterprise groups, which were reliant on the nationalized enterprises, expansion could also be observed in the central government's official business group, which was also connected to the nationalized enterprises. Officials invested in minor shares but gained the controlling rights in those enterprises, which were reclaimed by the government, and expanded the scale of their groups in the process of the postwar recovery.²⁹

To sum up, private entrepreneurs and official enterprises were attached to the expansion of the nationalized enterprises and formed national business-government corporate groups with high levels of centralization. But, in contrast with the expansion of the central government-business group, the provincial enterprise groups, which had prospered during wartime, did not make much profit in the postwar period because of the change in location of the economic center.

Conclusion

Having analyzed the incorporation process of business-government corporate groups phase by phase, now let us examine whether this analysis may answer the research questions initially proposed.

²⁸ Please refer to *Liuhongsheng qiye shiliao*, vol. 3, and *Rongjia qiye shiliao*, vol. 2.

²⁹ Zhang Zhingmin, *Jiannan di bianqian*.

First, how did business-government corporate groups incorporate in modern China? By tracing the history, this research suggests that, because of the lack of capital in modern China, both government and businesses sought to incorporate business-government corporate groups in order to monopolize the market and the tax base. And the mode of business-government corporate groups was subject to the situation of public/corporate finance. Precisely, as shown in Table 12, it can be stated that war and economic crises did compel the government and businesses to rearrange their financing approach. Then transformations of the financing

Table 12
The Incorporation of China's Corporate Groups, 1860-1949

| Period | Transition | Financial market | Fiscal system | Main incorporation pattern |
|-------------------------------|---|---|------------------|---|
| First mode, 1860-1913 | | | | |
| I. 1860-1894 | Taiping Rebellion | Native bank Gov.'s market | decentralized | <i>Provincial business-government corporate group</i> |
| II. 1895-1913 | First Sino-Japanese War | Financial market (bank notes, public bonds) Gov.'s market | decentralized | |
| Second mode, 1914-1936 | | | | |
| I. 1914-1927 | WWI | Market for business loan | quasi-autonomous | <i>Private corporate group & Provincial business-government corporate group</i> |
| II. 1928-1936 | Northern Expedition | Market for public debt | quasi-autonomous | |
| Third mode, 1937-1949 | | | | |
| III. 1937-1945 | Silver crisis, second Sino-Japanese War | Nationalized bank industry, Gov.'s market | centralized | <i>national business-government corporate group</i> |
| IV. 1946-1949 | WWII | Market for Gov.'s market | centralized | |

approach promoted the reconfiguration of the incorporation of business-government corporate groups. On the other hand, war and economic crises also affected the power of fiscal distribution between the central and local governments. And this fiscal distribution in turn influenced the cooperation strategies of businesses, whether incorporated with the central or local governments. Moreover, according to the archives of corporate registrations and corporate financial reports, businesses and governments usually used stocks, debt, and boards of directors to form

institutional interlocking. These institutional measures could incorporate all businesses and governments into one entity in which common interests were shared among its members.

Second, how did business-government corporate groups cause the repression of corporate development? These business-government corporate groups monopolized the markets and led to the repression of corporate development in two dimensions: industrial monopoly and financial monopoly.

Industrial monopoly: For businesses, they preferred the monopoly of markets in order to control prices and maximize profits. For governments, a monopolized market made levying taxes easier and enlarged the fiscal base.³⁰ During late Qing dynasty and Republic era, the central government barely collected taxes from specific areas that were governed by local forces. For this reason, businesses and governments usually worked together. Governments gave the right of monopoly to specific businesses, which then became the tax agent for the government. On the other hand, this exchange coalition repressed emerging companies and encouraged existing companies to accept mergers.

Financial monopoly: Both businesses and governments benefited from the nationalized banking industry. A conventional view suggests that businesses suffered under the financial monopoly. However, the corporate and banking financial reports reveal that the nationalization of banks not only benefited public finance, but also benefited specific businesses that were incorporated in the business-government group. These businesses could get cheap capital from the national bank more easily than they could from private banks before. Nevertheless, those companies outside the group received little financial support from national banks. Eventually, through the industrial monopoly and financial monopolies, business-government corporate groups caused corporate repression in modern China.

Finally, I would like to underscore that this research does not undermine the findings of previous research, but rather highlights and supplements the existing literature with points that have been obscured by single theoretical perspectives. This new work can help us grasp deep causal factors of corporate development in modern China.

³⁰ When businesses suffered from over-competition in the 1930s, Liu Honsheng, the entrepreneur of a match corporation, lobbied the central government to help him monopolize the match industry. He pointed out that if the industry were concentrated under his control, the government could levy a stamp tax more easily and could even extend the tax base to those areas controlled by local forces, such as Shandong, through the industrially united corporation; see Shanghai Academy of Social Science, *Liuhongsheng qiye shiliao*.