

On “China Trade” 1760 – 1860 to “China Rise” 1979 – 2011

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Introduction

On 2-3 March this year, I attended as an observer the *Workshop on “China Trade”, Merchants and Artists (1760-1860): New Historical Cultural Perspectives* organized by the Macau Ricci Institute. It was a remarkable learning experience for me, a retired practitioner in banking and finance, with no expertise on the products traded, nor indeed in any knowledge in the area of that period of history.

As I listened to the lively discussions, a sense of *déjà vu* came to me. At the same time, I realised as well that “China Trade” of the 18th and 19th centuries actually provided useful lessons for the late 20th and early 21st century Chinese leadership, who had made good use of these lessons when they took steps to “modernize” China.

The purpose of this essay is to reflect on some of these “lessons” – in terms of their causes and effects, be they gleaned from the products traded, the methods for settlement of the accounts, the performance of the market, the imbalance in trade that developed, and events arising from the imbalance in this period in Chinese history that suggest to me, 119 years later, some explanations for “China Rise”, that seminal phenomenon of our time.

“China Rise” is viewed by the Chinese as a peaceful process that has had little to do with the outside world, which China had chosen to ignore (for 31 years) after the Communist Party took the seat of power in Beijing. One should bear in mind too that the normalisation of relationship between China and the United States was the consequence of the Americans taking the first step.

This Chinese view is, however, not shared by everybody else. Why? Can it be explained by a tendency in all of us, to perceive things unknown or with which we are unfamiliar according to our own perception, in our own mindset and expectation?

Ever since 1582 when the Italian Jesuit Mateo Ricci (1552-1610) arrived in Macau in order to go to Beijing 北京, where he remained for 27 years until his death (1610), China had been perceived by the outside world as being “different”, if not downright “mysterious”. This perception remains extant, varying only in degree.

Hopefully, readers of this essay will find it helpful to re-align their perceptions of China to be closer to those of the Chinese. On reflection, I hope that, in taking a historical perspective of China, I may be helpful to you in gaining a better understanding of the significance behind “China Rise” and its implications in the future.

In as much as my own background in terms of education and work experiences has been a combination of the East and the West, I shall

examine in this essay the linkages between “China Trade” and “China Rise” from a western perspective; and the implications of “China Rise” in an eastern perspective.

“China Trade”

In the age of sail, the policy to isolate, contain, and control foreign influence to Guangzhou (Canton) gave rise to designating a specific area in Guangzhou outside the city wall for trading with foreigners. And the trade wind pre-determined the seasonality for trading. The official decree that foreigners had to leave Guangzhou at the end of the trading season made Macau (viewed as a “domain” of the Portuguese) a convenient place of abode in the off-season for western traders, and in time their families as well.

Part and parcel of this policy had been the creation of a new class of people, the *hong* merchants who were franchised to engage the western traders in trade. Despite their much trumpeted financial difficulties, this special class of merchants became wealthy; they invested in China as well as overseas; they earned official recognition by being given official ranks which enabled them to deal with the officials and enhanced their social status in the community.

An example of how demands of foreign residents led to creation of trade items unique to this time and place, is the China Coast paintings – western-style paintings by foreign artists, in time Chinese artists too – depicting sceneries of the China coast and life-style of the Chinese people in their habitat and engaging in a variety of activities. Such paintings became an important product in “China Trade”; and brought about enduring markets for this genre of art outside China as well to this day.

A Chinese response to this market opportunity was to train and hire Chinese artists, deploy them into a line, with each painter specialising in executing a specific segment of a painting to produce many copies of virtually identical “original” paintings to fill a foreign order. This innovation of an assembly line of production found expression years later, in 1907/08, when a certain Mr. Henry Ford used the very same methodology to manufacture the “Model T” in the United States of America.

Principally because of the presence of foreign women in Macau, where the weather was hot and humid, the Chinese fan became a welcome accessory, and in time a product of evolving decorative and social value spread to shores beyond China. The Chinese folding fans were made with a variety of materials: paper, fabrics, even silk, held together with fragrant woods, bamboo, and ivory. The fans were decorated with beautiful Chinese brush calligraphy and paintings.

“China trade” first comprised principally tea, silk and porcelain, for which the American traders exchanged with fur skins and ginseng which originated in North America. It was before the Industrial Revolution, there was little else western traders had to offer that interested Chinese buyers, or were permitted to import by Chinese law. Therefore, foreign traders had to pay for their purchases with cash, at that time meant specie.

When settlement of trade called for payment in specie, which was gold or silver, trade imbalance in favour of the Chinese exerted enormous pressure on the western buyers of Chinese products. This pressure led to the British traders resorting to the sale of opium, which found ready markets in China, in order to balance their trade deficits. Whereas American traders purchased opium in Turkey and brought it to China, the British grew poppies in British India, processed it into opium, and smuggled it into China.

When China strengthened the already centuries-old anti-opium laws which forbade the importation of opium, smuggling became rampant, with confrontations that led inevitably to the First Opium War of 1842, and the Second Opium War of 1858.

The Treaty of Nanking in 江宁条约 1842 saw China ceding Hong Kong to Great Britain, China being forced to accept the western concept of extra-territoriality, to granting the British “most favoured nation” status, and to paying indemnity. The Treaty of Tientsin 1858 led to the opening of more Chinese ports to trade, the ceding of Kowloon Peninsula to the British, to the legalisation of opium importation and requiring reparation payments as well.

Important Lessons from History

The policy to isolate, contain and control foreigners and their activities to a specific location for some 200 years in “China Trade” had worked for China and the western traders. We see the application of these lessons learned to the creation of “special economic zones”, such as Shenzhen in 1979/1980; and to the use of the concept “one country, two system” to achieve the return in 1997 of Hong Kong, the former British colony, to Chinese sovereignty. To foreigners, the terms “one country two system” rang hollow, but to the Chinese, that has been the Chinese experience to operate certain parts of the vast empire on more than one system, and on a highly decentralized fashion.

Another experience had been that exports created wealth for the exporting country; that while trade imbalance brought negative and serious consequence to the Qing Empire, the imbalance in favour of the exporters remained, nevertheless, a good thing. We can see this lesson learned and applied as the engine for economic growth, once China made the decision to open to the outside world again.

In 1980, China had two types of currency in circulation: RMB (人民币 *renminbi*) for its own citizens and FEC (foreign exchange certificates 外汇卷 *waihuijuan*) for non-Chinese while visiting China. The FEC had been devised for foreigners to settle their hotel bills and to buy Chinese goods in China, albeit only goods available at the Friendship Stores. FEC could be exchanged back to foreign currency when foreigners left the country. But foreigners did not have the right to use, nor indeed the rights to own, the RMB. At that time there was also the food coupon (粮食卷 *liang shi juan*), for basic commodities such as rice and wheat, items that were rationed.

Chinese citizens could not buy food without these coupons, which today, in 2011, are traded on eBay to numismatists as collectables.

The Chinese leaders saw that reform was necessary to eliminate market aberrations. Reform of the agricultural commune system followed, through the introduction of production quota, which allowed the communes to keep surplus production. This policy, which was to become the *de facto* performance incentive, succeeded in eliminating food shortage. As a result, the food coupons were abandoned. This is another example that the Chinese had learned well from their forebears' experience two centuries before, from the markets created by China trade.

And implementation of the policy to encourage foreign investment by domestic/foreign joint ventures to produce items for export, and to export Chinese labour-added goods destined for re-export only, while restricting the sale of the same goods in the domestic market successfully filled the national treasury with foreign exchange, specifically, the U.S. dollar. That led to elimination of the FEC.

Foreigners then may use their own currencies to buy Chinese goods and to pay for services, while the State succeeded in controlling the inflow of foreign currencies as well as the exchange rates. These are more examples that the Chinese learned the lessons from China Trade of the earlier period very well indeed. In actuality, there has always been a tradition among the Chinese to learn from history and to apply experiences of the past as lessons that are worthy of learning.

What the Chinese of later generations did not lose sight of the period of "China Trade", from my point of view, was the reality that corruption, an empty imperial treasury, and an inferior defence, which stood out in sharp contrast to the superiority of foreign troops, however small in number, resulted in the virtual loss of sovereignty. That in turn sparked a revolution, not against the government but against a government that governed so inadequately that *guo jia* — 国 (country) as 家 (family), a term coined much later — was almost lost. Is it a sense of patriotism that brought on a revolution? If the age of chaos that followed the revolution were indicative, there was nothing to replace "anti-establishmentarianism" when a revolution succeeded; and there was nothing to replace the concept of the emperor. Dr. Sun Yat-sen and the republicans notwithstanding, the warlords who united to overthrow the Manchu dynasty now fought each other to be the next emperor.

I would like to recall here one of the most profound lessons I learned from my father. Somehow I found myself with him in a food market, not a place where he and I frequented. He asked me why people bought bones. I pondered a while before venturing a guess that they were buying the meat on the bones. I think I earned my father's approval for understanding that something is saleable because of its intrinsic value, as much as I learned to observe with my eyes and think with my head. The implication is that much of Chinese civilization is learned by one generation from an earlier generation, and not from books, nor from formal school (in the western sense).

Fast-forwarding history past the 1911 Republican Revolution that ended the 268 year rule of the Qing Dynasty (1644-1912), the ensuing Sino-Japanese hostilities (1931-1945), World War Two (1939-1945), the Civil War in China, then we come to the victory of the Communist Party in 1949 in establishing the seat of power in Beijing. From that time onwards China was closed to the outside world until 1979/1980, when the village of Shenzhen just north of the border of Hong Kong, was designated as a “special economic zone”, more or less just as the “foreign factories” on the bank of the Pearl River was designated the area of foreign traders under the Canton system of the “China Trade” period. The resumption of Guangzhou trade fair continued to carry on the tradition of seasonality, which one would recall was dictated once upon a time by the trade wind.

“China Rise”

The tradition in Chinese civilization and culture — to learn from history — was exemplified by the fact that one of the first undertakings of an emperor on acceding to the throne was to write the history of the previous dynasty. While one may speculate and interpret this tradition according to one’s own predilection, I happen to think that this was also “a form of accountability” of an Emperor to his subjects that he had “learned” already from the experience of the emperor he succeeded.

What Henry Kissinger has written in his book *On China*, (Penguin, 2011) suggests that he knew something about the role of Chinese tradition before he embarked on his secret mission to China in 1971 that led to the normalization of relationship between the United States and China.

Societies and nations tend to think of themselves as eternal. They also cherish a tale of their origin. A special feature of Chinese civilization is that it seems to have no beginning. It appears in history less as a conventional nation-state than as a permanent natural phenomenon. In the tale of the Yellow Emperor, revered by many Chinese as the legendary founding ruler, China seems already to exist.

The Yellow Emperor has gone down in history as a founding hero; yet in the founding myth, he is re-establishing, not creating, an empire. China predated him; it strides into the historical consciousness as an established state requiring only restoration, not creation.

In general, Chinese statesmanship exhibits a tendency to view the entire strategic landscape as part of a single whole: good and evil, near and far, strength and weakness, past and future all interrelated. In contrast to the Western approach of treating history as a process of modernity achieving a series of absolute victories over evil and backwardness, the traditional Chinese view of history emphasized a cyclical process of decay and rectification, in which nature and the world could be understood but not completely mastered.

For China's classical sages, the world could never be conquered; wise rulers could hope only to harmonize with its trends. There was no New World to populate, no redemption awaiting mankind on distant shores. The “promised land” was China, and the Chinese were already there. The blessings of the Middle Kingdom's culture might theoretically be extended, by China's superior example, to the foreigners on the empire's periphery. But there was

no glory to be found in venturing across the seas to convert "heathens" to Chinese ways; the customs of the Celestial Dynasty were plainly beyond the attainment of the far barbarians.

Now, to continue with my own reflections, what laid the pre-conditions for "China Rise" would be policy or policies, leadership, and the five-year plan, as an example, one succeeding the other, which provide continuity and adjustments (when called for). But what brought about "China Rise" would be the Chinese people, their response to policies and their performance, individual and collective, which brought out the results.

I would surmise that government leadership and policies have the effects of the "hardware", with each five-year plan benchmarking a new generation of hardware, and that the Chinese people — how they function in their environment, how the environment is changed by them, and how they themselves are transformed by their own experience, have the effects of the "software" that enables computers to perform with ever greater efficacy.

To understand this line of inquiry, I would like to think, is the start of "unwrapping the packaging" of a phenomenon, for which two words were coined, but which describe inadequately: "China Rise".

Now, is it the rise of China, the nation? The two Chinese-character *guo jia*, "nation" in the western sense, literally means "nation family" in Chinese. Putting "nation" together with "family" suggests a nation as a natural outgrowth of a multitude of families. Putting that idea in a different way: so long as families exist, a nation exists; and government is the "patriarch" of the multitude of "families", just as "natural an order" since time immemorial of the patriarch as the head of a family. Does it follow, then, that "China Rise" refers to the "Chinese People Rise", the rise of the Chinese people?

So what about the Chinese people? What binds this people, preponderantly Han, to a common identity? I would venture the view that it is the very long and very strong culture! Two thousand years ago, the Han Dynasty gave the people a sense of identity – descendants of the Han people. The comparable situation in the West would be the **Holy** Roman Empire. Whereas the **Holy** Roman Empire had disintegrated into many smaller-sized "nation states", the Chinese empire managed to hold together. It would be a misnomer to think of China today as a "nation state", although an empire it certainly is no longer. The notion of the culture that binds the people to a sense of being "Chinese" begins to find validity when one considers the Chinese Diaspora; with overseas of Chinese in the millions, having been "indigenized" for several generations at many foreign nation states, a majority of whom having little or no exposure to the Chinese culture, nor knowing any longer how to read or write the Chinese language, and yet their sense of identity as Chinese does not diminish at all.

The first wave of foreign investors in Mainland China had been the overseas Chinese, who moved their factories outside of China back to China to take advantage of cheap labour. They probably felt a sense of patriotism,

while filling their pockets with export earnings, but little did they realise that two centuries ago, the Chinese had already innovated the concept of production line in order to produce original paintings by the dozens. The overseas Chinese investors would have also felt a sense of home-coming too; and with it, a sense of safety with protection of the mother land, something they did not have in whichever overseas location they happened to have settled.

There are many traditions in the Chinese civilization. A pervasive one among the people has been the notion — that human beings live in harmony with nature, and with their fellow human beings, — and harmony is a matter of give and take. In commerce, be they shop keepers or traders accept the tradition of haggling over price, a form of giving and taking.

One important primary tradition is to learn from history. This leads to another tradition of self-learning. Education starts with individual inquiry, an active process of learning from the elders, through which knowledge and traditions are passed from one generation to another. Education had not been a passive process that involved going to schools (an institution that came very much later in the history of China). The Chinese who have had no learning would refer to themselves as “without culture” (没有文化 *mei you wen hua*). But they would want their children to learn to read and write. It is “hardwired” into their “*id*” that they have a responsibility to learn and to improve upon their circumstances for the next generation. It is too simplistic to refer to the Chinese having a strong sense of family. To them life is an active process of living and learning. Perhaps the strongest evidence in terms of anthropology is the ability of the Chinese people, regardless of what education they have attained, are quite equipped to and capable of solving their own problems. The poor will endure incredible hardship to overcome. The western notion of hard work does not completely explain this progressive mind set that transcend generations.

The Chinese language is more than a tool of communication. It is an educational process in itself. Through the usage of the Chinese characters, logic exists as one word is added to another word to give rise to a different meaning. To cite one simple example: the word “ask” is “问 *wen*”; and the word “learn” is “学 *xue*”. Both characters are verbs. However, when one learns to ask, one gains “学问 *xue wen*”, meaning “knowledge”. Two verbs used together become a noun, “learnt from asking”.

To have “文化 *wen hua*”, meaning culture, meaning education, one expresses “*wen hua*” by knowing “good manner”, which define the relationship between man and God, between man and woman, between seniors and others younger in age. The Chinese dine together at a round table; yet there is the seat for the patriarch, which seat determines the equivalent in the western manners of those sitting above and others sitting below the salt. The innate organization and structure in the Chinese civilization can be seen to provide a foundation that endures from generations to generations.

What a foreign observer might overlook is the reality that the overseas Chinese joint venture party has been selling its products before relocating its factory into China. The purpose of the joint venture is to capitalize on lower labor costs in order to increase gross margins. The practice of transfer pricing has the effect of leaving lower profit margins in the joint venture. Be that as it may, “China Rise” is grounded on this small profit margin. So, money and the working of money (or capitalism) is the familiar under pinning to “China Rise”.

CONCLUDING REMARKS

It is beyond the scope of this essay to examine the implications behind “China Rise”; but suffice to observe here that this is not something that burst on the scene, capable of instant analysis and instant solution. There is no apparent trajectory to what will happen to the world.

I am grateful to **Fr Yves Camus** for the invitation to write this article for *The Chinese Cross Currents*; and, on further reflection, for this reason also: in spite of sustained economic growths and continuing reforms that are taking place in China, there is too little understanding among the world community of nations (nor among the Chinese themselves, on the mainland and overseas) of what “China Rise” really means.

To accommodate “China Rise” is a foregone conclusion. How to work with the forces behind “China Rise” in the fashioning of an emerging world order remains a puzzle. However, if this essay should succeed in stimulating readers to think more deeply about “China Rise”, to understand more its causes and effects, I think the essay will have accomplished more than I dare to hope.

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He was drafted into the US Army and served two years (1952–1954) in Korea. His last posting was the United Nations Command, Military Armistice Commission, at Panmunjom, the Republic of Korea.

Mr. Liu’s career has been in the field of banking and finance with 17 years on Wall Street before returning to Hong Kong in 1974. Except for assignments to Taiwan and to the Sultanate of Oman, he maintains his residence and office in Hong Kong.

