

Cover Page



Universiteit Leiden



The handle <http://hdl.handle.net/1887/20013> holds various files of this Leiden University dissertation.

**Author:** Frederic Delano Grant, Jr

**Title:** The Chinese cornerstone of modern banking : the Canton guaranty system and the origins of bank deposit insurance 1780-1933

Date: 2012-10-24

## **CHAPTER 4: THE FUND IS DRAINED, 1780-1799**

The hong merchant body had reason to be optimistic as of 1780. In July, the guild was recognized by imperial decree and was authorized to fix uniform prices. Revenues improved thereafter. A French observer estimated that higher prices were yielding the guild an additional 768,900 taels (\$1,067,917) annually by 1786.<sup>1</sup> The hong merchants had to pay 600,000 taels (\$833,333) in debts of Yngshaw and Kewshaw, but no interest was due and payments were spread out over ten years.<sup>2</sup> The Consoo Fund had been created and funded, had a cash balance, and the *hangyong* tax on foreign trade assured that money would come into the fund for years to come. The British EIC estimated *hangyong* tax collection at 300,000 taels (\$416,667) in the year 1781.<sup>3</sup>

Unfortunately, several hong merchant firms failed during the twenty year period 1780 to 1799. These resulted in substantial foreign creditor claims under the collective guaranty. Seunqua III failed at last in 1784, leaving a 166,000 tael (\$230,555) liability. The failures of Eequa (1790) and Gonqua (1794) generated foreign claims of 255,000 (\$354,167) and 600,000 taels (\$833,333) respectively. Despite the prohibition of foreign debt under the trade regulations, the foreign claims were allowed by the Canton officials. The hong merchants were ordered to pay these substantial debts over six years.<sup>4</sup> It is recorded that the cash balance of the Consoo Fund had been consumed by about 1790.<sup>5</sup> When one includes the 1780 failures of Yngshaw and Kewshaw (debts ordered to be paid over ten years), the hong merchant body was held liable for the massive sum of 1,621,000 taels (\$2,251,388) in debts of defaulted colleagues in the period 1780 to 1799. The problem then got worse. Over the years 1800 to 1842, an additional 6,225,000 taels (\$8,645,833) in debts were charged to the hong merchants.<sup>6</sup>

### **4A. The Hong Merchants, 1780-1799.**

Whether its members had reason to be optimistic or not or not in the year 1780, the outer seas guild had shrunk from its normal complement of about twelve members. After the spectacular failures of the "Chinese Debts" crisis, only six firms remained in business. Of the six survivors, only four had appreciable business -- Puankhequa I, Chowqua, Shy Kinqua and Munqua. While Puankhequa I seemed wealthy, he owed significant debt.<sup>7</sup> Chowqua alone had little debt but that was because his firm did little business. He died in 1789 and was succeeded by his son in whose hands the family hong failed in 1792.<sup>8</sup> Credit for the hong merchants was exceptionally tight after the Yngshaw and Kewshaw settlements of 1780.<sup>9</sup>

The Canton officials sought to replenish guild membership. The Hoppo licensed twenty hong merchants between 1780 and 1799. Yet no more than eleven were ever guild members at the same time. Five were appointed in 1782: Sinqua, Geowqua, Pinqua, Seequa and Lunshaw. As the incumbents refused to extend their collective debt guaranty to these five, the Hoppo made them guarantee each other. This contractual firewall did not last long. These five soon failed and the incumbents ended up having to contribute to Consoo Fund payment of their debts in the 1780s and 1790s. As Weng Eang Cheong dryly notes, "the Hoppo had his way after all on this point."<sup>10</sup>

While all of the merchants who were licensed between 1780 and 1799 had some background in the trade, they were all undercapitalized, “men of straw” per Cheong.<sup>11</sup> Each had failed by 1799, along with three of the four firms that had survived the debt crisis of 1780. Weng Eang Cheong calls this “a wholesale extinction of merchants recruited before 1790.” He rightly sees in this turnover the end of an era of “merchant bureaucrats” who mediated between the Canton authorities and the various European trading companies, and the advent of merchants adapted to the very different trading world of the nineteenth century.<sup>12</sup> The January 1798 failure of Geowqua (Wu Guozhao of the Yuanshun hong), himself “a trader of little importance,” had transitional significance. As a trader, he “was the last of a type and a generation of Hong merchants.”<sup>13</sup> Geowqua's nephew Puiqua, who later rebranded himself with a different trading name as the proprietor of the Yihe hong, went on to become a giant of the new era, the senior hong merchant Howqua II (Wu Bingjian).<sup>14</sup>

#### **4B. The Demands of Government, 1780-1799.**

Defaulted foreign debt was not the only government directed expense that came out of the Consoo Fund, or out of the tills of individual hong. Guild members were continually forced to pay other official fees and exactions. The government quickly recognized the Consoo Fund as a convenient source to tap for state needs. These soared in the difficult years of the 1790s and early 1800s. Public needs charged to the Consoo Fund included *hegong zhuan* (Yellow River works), *jigu zhuan* (drought and famine relief), *tanggong zhuan* (coastal defense maintenance), military supplementary taxes, flood relief, and other occasional needs.<sup>15</sup> In addition, the Canton officials required heavy payments from the hong merchants to support local public operations and for their personal use. The draw from the Consoo Fund and the hong merchants in these two directions was enormous, and grew as the years passed.

It was an objective of the Canton Guaranty System, as with most if not all modern bank guaranty programs, that the tax imposed on participants would be sufficient to cover all of the expenses of the guaranty fund. The intention as of 1780 had been that the three percent (or more) *hangyong* tax would cover all collective expenses, including the guaranty of defaulted foreign debt. Under the Canton scheme, in contrast to modern bank guaranty programs, there was never any systematic effort to predict future losses or other amounts that would need to be paid from the Consoo Fund or to adjust the tax according to anticipated draw on the fund. The enormous cash demands of the first twenty years emptied the fund and appear to have exceeded the ability of the tax to cover draw from the Consoo Fund on a current basis. To the extent the *hangyong* tax did not cover these expenses, they had to be taken from the resources of individual merchants. As individual hong merchants -- many of whom lived on the edge -- failed to make good by paying their respective obligations to the Consoo Fund on time and in full, the burden fell the more heavily on those who could pay.<sup>16</sup> This added cost of doing business necessarily meant higher prices, in order for the hong to survive. Contemporaries learned during the 1790s that debt payment under the collective guaranty had an immediate and possibly destabilizing effect on the marketplace. This recognition is explicit in the reluctance EIC officers expressed about commencing debt proceedings against hong merchants in the first decade of the 1800s.<sup>17</sup>

There is no surviving comprehensive list of government exactions from the hong merchants, or of total annual draw from the Consoo Fund, but some highlights are known. Total draw from the Consoo Fund is recorded at 272,500 taels (\$378,472) in 1793 and 279,788 taels (\$388,594) in 1796. In each of these years, 100,000 taels (\$138,889) was for singsong gifts to the Court in Beijing, 55,000 taels (\$76,389) was “native tribute” to the Emperor, and 25,000 taels (\$34,722) was for military use in Sichuan. In 1793, 50,000 taels (\$69,444) went for military expenses in Fujian. Debt repayments were 42,500 taels (\$59,028) in 1793 (Eequa) and 99,788 taels (\$138,594) in 1796 (Gonqua).<sup>18</sup> As the domestic situation grew troubled in the 1790s, the hong merchants were hit with charges for military mobilization. The campaign in Taiwan (1787) cost 300,000 taels (\$416,667) (or possibly 400,000 taels -- \$555,555 -- sources disagree), the campaign against the Gurkhas (1792) cost 300,000 taels (\$416,667), the campaign in Huguang (1799) 120,000 taels (\$166,667), and the campaign in Sichuan and Shenxi (1800) another 120,000 taels (\$166,667).<sup>19</sup>

Weng Eang Cheong sees the increased trade and hong merchant profits of the decade of the 1780s as having given rise to official expectations which led in turn to a steep increase in official exactions.” As Cheong recognizes, the reasons for this increase were somewhat complicated. Among Qing officialdom, postings were sometimes spoken of in terms such as *feique* or *meique* (rich post), *zhongque* (medium post) or *jique* (lean post). Many officials took a rich posting as an opportunity to require fees or exactions to meet legitimate expenses of office, many of which were not officially provided for, and also to build up some private wealth. This was understood and expected within a certain tolerance,<sup>20</sup> but customary limits were pressed and exceeded by a national climate of venality that existed in the late 1700s and thereafter. During his six month term as Hoppo in 1795, Shuer is said to have exacted \$240,000 from the hong merchants for his own use.<sup>21</sup> Sun Shiyi and Fu Kangan arrived at Canton from Beijing in 1784 charged with investigating abuses in the trade and taxation; both left richer, one said to have received seventeen piculs of gold for clean reports on the local officials and merchants.<sup>22</sup> Sanyizhu, whom the hong merchants considered to have been a relatively mild Hoppo, managed in two years to exact more than \$600,000 from the hong merchant body for himself (as of 29 November 1803). Exact amounts of official exactions in subsequent years are unknown, but are estimated by Kuo-tung Ch'en to have been in the range of from 200,000 to 300,000 taels (\$277,778-\$416,667) annually.<sup>23</sup>

Officials used rich postings as opportunities to pay down their own debts to the state. The Imperial Household Department (*neiwufu*) repeatedly posted officials to Canton who owed large debts to it, anticipating beneficial results. As but one example, Li Zhiying was posted to Canton as Hoppo in 1781 after he had incurred a 256,000 tael (\$355,555) personal debt to the *neiwufu*. The appointment of five (5) new hong merchants in the year 1782, and other exactions of the period, are believed to have been motivated by his desire -- need -- to generate funds with which to pay this substantial debt.<sup>24</sup> The British EIC was doubly pleased with the quality of the 1782 appointees. Some were men of substance, and the EIC hoped that collectively the new merchants “will at least alleviate the [burden on] the other merchants & perhaps preserve some of them from ruin by contributing to the exorbitant demands of the Mandareens which are now become almost intolerable.”<sup>25</sup> The *neiwufu* practice of posting indebted officials to Canton continued for decades. All of the Hoppos posted to Canton between 1813 and 1828 arrived with customs deficiency

debt in baggage, in amounts ranging from 136,000 taels (\$188,889) to 324,000 taels (\$450,000). Xiangshao, who served as Hoppo from 1813 to 1818, had incurred tax collection arrearages in his prior service as salt censor of Changlu and Superintendent of the Huaian Customs, which he paid off during his service at Canton.<sup>26</sup>

Had these exactions been publicly exposed and criticized, one can imagine the officials noting in defense the opulent lifestyles and excesses of the hong merchants themselves. The foreign merchants certainly noted hong merchant high living with disapproval, especially when they were creditors holding unpaid bills. Perhaps these outward signs of prosperity inspired the Canton officials to ask the merchants to help the state and its servants just a bit more than they might otherwise.

#### **4C. Trading Conditions, 1780-1799.**

The trading world of Canton changed markedly during the twenty year period 1780 through 1799. The English share of trade soared, in part the result of enactment of the Commutation Act in 1784 and in part the result of a cycle of wars which began with the February 1793 declaration of war by France on Britain and the Netherlands.<sup>27</sup> This marked the end of the period of competition by continental European trading firms at Canton, and the substantial importations of silver into China with which they paid for much of their export cargoes.<sup>28</sup> The advent of United States trade with China, which began in 1784, proved well-timed as the American traders brought considerable bullion (specie) to buy their export cargoes. This period also saw the beginning of the rise of private country traders, who carried India goods to China with the blessing of the EIC. Toward the end of this period, pirate activity and social instability began to increase in South China. Demands by the Canton officials for payments from the hong merchants, both for military defense and for venal purposes, increased in turn. So it is that much at the same time as the British successfully stimulated both trade and the domestic demand for tea by slashing customs duties (the Commutation Act), the Qing marched off in the opposite direction, gradually increasing both the direct and indirect tax burdens on the hong merchants and the trade conducted within the Canton monopoly.

The most important changes in the maritime trade of Canton in this period concerned Great Britain. It had responded to the high debts and poor performance of the EIC by attempting the then radical remedy of cutting taxes on goods being brought into England in order to increase trade. Under the Commutation Act of 1784, import duties on goods coming into England and export duties on such goods leaving England were reduced from over 100 percent to 12.5 percent. Prices fell, consumer demand soared, and the formerly troubled EIC was able to undersell all competitors in its home market. British imports from China quadrupled in the following decade, with tea comprising ninety percent of the total. EIC scholar Earl Pritchard believes that it was this increase in demand that caused the great increase in tea prices noted in the mid-1780s, not the re-establishment of the Cohong in 1780 which the EIC blamed.<sup>29</sup> The sharp increase in EIC domestic tea sales meant commensurate losses for the continental firms which had long supplied British smugglers.<sup>30</sup>

The EIC was now directed by statute to sell British woolen goods in China, and those exports soared. Unlike cotton, for which substantial Chinese demand existed, woolens were not attractive to Chinese buyers. The EIC accordingly adopted a practice of directly tying the sale of its woolen imports to its export purchases of tea from the hong merchants (a practice called "truck"). The hong merchants adopted various strategies in turn for dealing with truck goods. Sometimes their own tea acquisitions might be tied to the sales of British woolens to inland tea merchant suppliers, after the EIC method, truck thus following truck. In general, the truck business was unfavorable for the hong merchants.<sup>31</sup>

In the decade after 1784, the EIC exported more than two thirds of the tea that came out of China. The hong merchants thus became more dependent than ever on this single dominant firm.<sup>32</sup> The rising force of the EIC is reflected in the respective debts between it and the hong merchants. Debtor in the 1780s, the EIC then became a massive creditor in the 1790s (itself a portent). In the 1780s, the EIC was indebted to the hong merchants in amounts ranging from 266,560 taels (\$370,222) in 1782 to 1,352,292 taels (\$1,878,183) in 1787. The EIC then swung into surplus, with guild members now owing money to it. Hong merchant debt to the EIC soared in the 1790s to a high of 1,606,669 taels (\$2,231,485) in 1793.<sup>33</sup>

The private country traders, who exported opium, cotton and other India goods to China with the approval of the British EIC, grew in importance during this period.<sup>34</sup> The massive exportations of Indian opium and cotton to China relieved the EIC of the need to bring in silver to fund its tea exports. In the words of trade historian Michael Greenberg, "the resources of India were utilized to finance the purchase of China tea for England."<sup>35</sup> The country traders bought opium from the EIC in Calcutta, and carried it to China under a license granted by the Company. As Greenberg notes,

"From 1816 there was a clause in that license declaring it to be void if any opium other than the Company's were carried. But in the sailing orders of every Company's Indiaman bound for China was embodied a strict prohibition against carrying opium, 'lest the Company be implicated' with the Chinese! By 1800, the East India Company had perfected the technique of growing opium in India and disowning it in China."<sup>36</sup>

Measured by value, raw cotton imported into China more than tripled during the years 1780-1785 and then tripled again during the years 1795-1815.<sup>37</sup> Trading in cotton and opium could be difficult and was subject to sharp price variation.<sup>38</sup> Bulky light cotton became known as the "white tiger" and dense compact opium as the "black tiger." Much money could be made or lost in these commodities and the country traders developed a reputation for sharp trading practices. There were big winners and big losers in this trade, such as the hong merchant Eequa, who was brought down in 1790 by unsuccessful cotton speculations.

The early United States voyages to China provided competition for Chinese export goods as well as liquid funds, both welcome in the Canton marketplace.<sup>39</sup> As the Americans lacked products for which there was much Chinese demand, they instead brought great amounts of specie (silver coins) with which to buy export goods. Where a European needed time to sell his woolens, cotton, spices, or other



Figure 5. The foreign factories at Canton in about 1780. Oil on glass painting by a Chinese artist. (Private collection. Photograph by courtesy of the Martyn Gregory Gallery, London.)

imports before he could buy Chinese export goods, the American, cash in hand, was by contrast often ready to buy immediately on arrival. The Americans experimented with ginseng and fur imports for the Chinese markets as alternatives to shipping silver coins. United States ginseng was considered low grade, and the New England forest supply was quickly depleted.<sup>40</sup> The rush to supply furs for the Chinese market wreaked ecological havoc on the Pacific Northwest coast where vast numbers of sea otters were slaughtered. The resulting oversupply at Canton, where top quality pelts were no longer a rarity, caused prices to plummet.<sup>41</sup> Until the development of opium as a profitable import cargo in the early 19th century, Americans brought silver coins to China as a matter of commercial necessity. This association of United States traders with hard cash seems to have made the Americans especially inviting candidates for credit when they wanted more goods than they had coins to pay for at the time of sale.

The Chinese economy experienced difficulties toward the end of the twenty year period 1780-1799. Devastating flooding along the Yellow River sharply suppressed Chinese consumer demand for woolens in the period 1794-95.<sup>42</sup> Pirate activity became a serious problem along the coast of Guangdong Province in the 1790s.<sup>43</sup> The Canton officials accordingly pressed the hong merchants to fund government works ranging from flood control and relief, to military preparedness, to pirate control. The state saw the Consoo fund as a convenient liquid source for the immediate payment of pressing needs. Such demands on the fund and individual merchants only increased, as, for example, the problem of coastal piracy grew worse in the years that followed.

Starting with the *hangyong* levy of 1780, and then through frequent exactions or supplements, the Qing gradually increased the tax burden on trade conducted through the hong merchant monopoly. The natural result of tax increases was that legitimate goods -- those sold by the licensed monopoly traders -- became more expensive. The Americans and a small but growing number of English private traders were increasingly attracted to Chinese merchants who were not guild members. These "outside shopmen" undercut the foreign trade monopoly, selling tea and other export goods at prices perhaps 10 to 15 percent less than hong merchants.

Outside shopmen often traded under the cover of an inadequately capitalized hong merchant through the use of the hong's seal or chop. Sometimes they engaged in smuggling, occasionally paying money to low level customs officers to make sure they looked the other way.<sup>44</sup> Outside goods were quality goods, as the American trader Samuel Russell pointed out in a March 1821 letter to Edward Carrington:

"outside men . . . take particular pains to select the best and choicest teas, and they are all of them so situated that they can ship off their teas at Hong duties and will actually sell lower than the Hong merchants, as they buy for cash and sell for the same. They are all of them very tenacious of their reputation, and will not put their names on teas that are not good. We should like to do more business with these people than we have it in our power to do."<sup>45</sup>

Despite periodic official attempts to defend the foreign trade monopoly, such as an 1817 crackdown in which over 200 outside shops were shut down and their goods



confiscated, the hong merchants continued to lose significant amounts of business to outside shopmen competitors.<sup>46</sup>

#### **4D. The Collective Guaranty of Debt, 1780-1799.**

There were numerous hong firm failures during the period 1780-1799, only a few of which resulted in calls on the collective guaranty. The 1784 failure of Cai Zhaofu (Seunqua III), successor head of the Yifeng hong, was simply the terminus of a slow motion train wreck that began ten years earlier. In 1775 Sy Anqua (Seunqua II) had been directed to continue trading for the benefit of creditors and to pay \$266,692 in foreign claims over ten years. Only one installment was paid. When foreign creditors complained, the officials noted that they had failed to either acknowledge or accept the payment plan, and expressed hope that when the young Cai Zhaofu (Seunqua III) "grows up and gains money by his business, he shall pay his father's debts."<sup>47</sup> The young man was not successful. He had lost the right to secure foreign vessels by 1781, then sold the Dutch Hong (his last property) to Pinqua to raise money to pay duties, and was finally stripped of his hong license in 1783. The hong merchant body was ordered to pay the foreign debts of the Yifeng hong, 166,000 taels (\$230,555) in total, over ten years. As he had not personally incurred the debts ordered to be paid by the hong merchant guild, Seunqua III was not punished as a debtor.<sup>48</sup>

The 1790 failure of Eequa (Wu Zhaoping) was the result of speculative cotton trading. Eequa was successor head of the Fengtai hong his father Sinqua had founded in 1782. He had played the system hard and was unpopular within the guild. As of early 1790 he owed over \$400,000 to country traders (largely Bombay Parsis) and could not raise the funds. The Parsis petitioned the Hoppo in person, with the result that Eequa was jailed, stripped of his purchased degree, and his case reported to the Emperor. The auction of Eequa's properties yielded enough to pay customs duties of 38,520 taels (\$53,000) but left the bulk of his 289,100 tael (\$401,600) foreign debt unsatisfied. In January 1791 the Hoppo directed repayment of 255,000 taels (\$354,167) in six annual installments, and reported the case to the Emperor. The decree of the Qianlong Emperor, issued on 31 May 1791, instead ordered that the foreign debt should be immediately paid from customs funds, to be repaid by the hong merchants over six years. Immediate payment from the provincial treasury was ordered because the Emperor thought that installment payments were not sufficiently favorable to foreign creditors. The Emperor harshly criticized lax supervision by the officials and directed reporting improvements in order to more effectively monitor the work of the Canton customs. Effective as of 1790, double blind submission of confidential financial reports was required from the officials who supervised the Canton customs.<sup>49</sup>

The position of senior or head merchant of the outer seas guild fell open in 1788 upon the death of Puankhequa I. His son Puankhequa II refused to succeed his father. The Hoppo ordered Munqua (Cai Shiwen of the Wanhe hong) to take the position -- with its burdens -- as he was second in seniority among the hong merchants.<sup>50</sup> Munqua's hong was not strong. It had narrowly escaped foreign creditor insolvency proceedings in 1780 through agreement to pay creditors over time. Shortly after Munqua was made head merchant, the marginal hong of the early Howqua (Lin Shimao)<sup>51</sup> failed in December 1788 during a bungled transaction with Americans.<sup>52</sup> Munqua was required to lead the guild in paying substantial

customs duty arrears and in arranging settlements of foreign creditor claims against that failed hong in 1789.<sup>53</sup> These and other expenses pressed on Munqua as head merchant were worsened by business difficulties his firm experienced in the 1790s. Munqua then became ill. In 1795 he let his brother Seequa come in to manage his firm's affairs, which deteriorated further. Munqua tried to commit suicide and failed. Pressed for payment by tea suppliers, he committed suicide by swallowing opium and died on 10 April 1796. "Everything in his hong was left in confusion."<sup>54</sup> Seequa was authorized to carry on the hong, with a license "free of every expense," but the firm failed when more customs debt, previously unknown, came to light in the summer of 1797. The Hoppo directed Mowqua I (Lu Guanheng of the Guangli hong) to take responsibility for settlement of the hong's affairs. The justification was that Mowqua I had traded on his own account, but under Munqua's hong license, before becoming a hong merchant in 1792. Mowqua I carried out the Hoppo's order, but negotiation and compromise were required to make debt assumption work. The hong merchants agreed that the *hangyong* levy would not be charged against new contracts made by Mowqua I in order for him to generate profits to recoup his Munqua expenses.<sup>55</sup>

The 1795 collapse of Gonqua's hong was triggered by a request for extension of the 18 September 1794 deadline for paying customs taxes to the government. Gonqua (Shi Zhonghe) (also known as Shy Kinqua II), successor head of the Eryi hong founded in 1788 by his father Shy Kinqua I (Shi Mengjing), had enjoyed exceptionally trusting relations with the British EIC. In October 1794, he admitted having dipped into 94 sealed chests of EIC funds (containing \$470,000) that had been entrusted to his care. He was also in arrears to his tea suppliers. The EIC nevertheless decided to work with Gonqua and to complete his tea contracts, to mitigate the loss. About three weeks earlier, Gonqua had petitioned Hoppo Shuxi for an extension of the customs tax payment deadline. The Hoppo asked for and received a statement of financial condition from Gonqua, which listed the following Eryi hong assets and their values:

<b>Asset</b>	<b>Value</b>
<b>House and paddy grounds</b>	<b>608,856 taels</b>
<b>New and old unsold teas</b>	<b>229,428 taels</b>
<b>Unsold goods in warehouse</b>	<b>130,075 taels</b>
<b>Collection of watches and clocks (singsongs)</b>	<b>222,650 taels</b>
<b>Debts owed by Europeans</b>	<b>118,160 taels</b>
<b>Debts owed by shopkeepers</b>	<b>50,000 taels</b>
<b>Debts owed by Chinese</b>	<b>9,388 taels</b>
<b>Credit from the Consoo Fund</b>	<b>70,000 taels</b>
<b>Share of Loqua's property</b>	<b>40,000 taels</b>

Few hong merchant statements of financial condition have come to light. Gonqua's is known because its contents were leaked from the Hoppo's *yamen* (office compound), sending Chinese creditors into a panic and accelerating the collapse of the Eryi hong.<sup>56</sup>

The Hoppo responded to these disclosures and the alarm of the hong's Chinese creditors by directing the five principal hong merchants (Munqua, Puankhequa II, Geowqua, Mowqua and Puiqua) to manage and liquidate its affairs "without having recourse to the Emperor" if possible. According to the English supercargoes, the Hoppo was "very anxious that the business should not reach the Emperor's ears."<sup>57</sup> In entrusting Gonqua's hong to liquidating agents or trustees, the Hoppo replicated the process that had been initiated two years earlier in response to the 1792 failure of the Yuanchuan hong of Loqua (Chowqua II). The four trustees appointed in the prior case had operated that hong, sold assets including Loqua's famous Honan gardens, and fully completed creditor settlements by 1797.<sup>58</sup> Gonqua's debts however were far larger. He owed almost 200,000 taels (\$277,778) in customs duties alone. The EIC estimated total foreign debt at 1,735,465 taels (\$2,410,368): 1,000,000 taels (\$1,388,889) to it; 310,465 taels (\$431,201) to American and country ships; and 425,000 taels (\$590,278) in promissory notes (time obligations). There is no surviving estimate of Gonqua's tea merchant and other domestic debts, but they were certainly large as well. Some recoveries were made for the benefit of creditors, notably teas and nankeen cloth valued at more than 600,000 taels (\$833,333) which were delivered to the EIC by Wyequa (Shi Huailian), Gonqua's brother and advisor.<sup>59</sup> The five trustees for the Eryi hong (three of whom were also trustees for the Yuanchuan hong) did what they could, but could not harmoniously resolve the affairs of the Eryi hong.

Gonqua demolished the prospects for any further foreign business on 10 April 1795 when, to the outrage of his foreign creditors, he gave his tea merchant creditors the title deeds to his houses and estates, in near proportion to the debts owed to each of them. The title deeds were later redeemed from the tea merchants upon the payment of over 100,000 taels (\$138,889), chiefly in gold, delivered on behalf of Gonqua by Wyequa in May 1795.<sup>60</sup> The EIC and other private creditors responded by petitioning the Hoppo, complaining of the unpaid debts of Gonqua's Eryi hong.

Gonqua's failure, the second largest in the history of the trade, was reported to the Emperor late in July 1795. After payment of customs debt from the liquidated assets of the hong, 600,000 taels (\$833,333) remained due to foreign creditors. The hong merchants were ordered to pay this sum in six annual 100,000 tael (\$138,889) payments.<sup>61</sup> The amount due to the EIC each year (28,532 taels) (\$39,628) was actually paid by book entry, not in cash; "it was agreed that in each season the supercargoes should debit each merchant's account with the sum payable by each to the Company. This was acceptable to both sides."<sup>62</sup>

Gonqua and Wyequa were arrested by the Nanhai magistrate soon after the debt petition was filed. They were allowed to stay in a rented house, under guard, for a fee.<sup>63</sup> On 23 June 1795, at his request, Gonqua was brought to Macao by the Magistrate, where he begged to speak with President Henry Browne of the EIC's Select Committee. Browne at first refused, but relented, and went to the Magistrate's office. He spoke for a few minutes with the Nanhai Magistrate, and then Gonqua was brought in. As noted by the EIC in its records, Gonqua

"immediately prostrated himself and repeatedly hit the Ground with his forehead, with all the appearance of that abject Humiliation which Criminals in this Country are obliged to submit to, till ordered by the Mandarin to rise, who with all his Attendants and the other two Merchants [Munqua and

Puankhequa] immediately left the room. He then again attempted to prostrate himself, to entreat the Compassion of [Browne], who prevented him. . . . This Prisoner was habited in a coarse Jacket & drawers, with white [mourning] Shoes, but no Stockings, his Hair was grown to a considerable length [instead of being shaven clean] a Chain round his Neck and on both his wrists, and his whole appearance squalid, and suited to the part he was intended to act, though it is impossible not to feel for a Man under such a Reversal of Fortune, and such Sensations would be more particularly excited in those who have lived with him in Habits of Friendship, and confidential intercourse, [Browne] could not help remarking an appearance of Art & Studied distress, which greatly diminished their force."<sup>64</sup>

Creditors believed that Gonqua and Wyequa had hidden funds, and that the Hoppo and Governor-General could recover the money. These were fatal beliefs. Gonqua was held in prison at Canton, where he died on 27 February 1796, as the result of repeated beating by the Hoppo's agents, forcefully "pressing" him as demanded by angry tea merchant creditors. Gonqua "had suffered the Bastinado three times, the last of which was on the Face, & so severe as to cause a violent inflammation in consequence of which all his teeth dropped out: this was succeeded by the fever which after a duration of two days put an end to [his] existence . . ." His brother Wyequa was banished to Ili on 22 January 1796, and appears to have survived in exile.<sup>65</sup>

The Gonqua case has been reviewed in detail because records of this case are unusually complete. The cause of his failure remains unclear. Unlike Eequa (who failed in 1790), Gonqua seems to have been well liked and highly trusted. His failure may be no more than the result of business losses built up over time. Gonqua could mask losses easily as he was thought to be solid, and doubtless he yearned for better days ahead. When the crisis broke, the foreigners were relatively relaxed. They had always liked the man, and had the benefit of the collective guaranty to pay his debts. Gonqua's uninsured domestic creditors were furious, and all the more so for the breach of the high confidence that had long existed. Historians have picked up some of this antidebtor fury, as well as the absolute belief as of 1795 that Gonqua and Wyequa had hidden a "considerable fortune."<sup>66</sup> The evidence however equally supports an opposite view of the circumstances.

Gonqua died in prison, under the horrific circumstances related above. Wyequa was banished to Ili in distant Xinjiang, itself a miserable venue. It is true that payments for the benefit of creditors came in from these debtors or their relatives, but the amounts of the payments decreased sharply over time. First, 600,000 taels (\$833,333) was paid -- in teas and nankeen cloth. This would seem to have been trade merchandise. Next, 100,000 taels (\$138,889) was paid -- largely in gold. Might this have been family savings? Finally, 1,680 taels (\$2,333) was paid almost a decade later by Wyequa's mother Madame Cai -- trying to end her son's banishment. Might these funds have been her own? It is quite possible that each of these payments were outside funds, paid by family members or others who cared for Gonqua or Wyequa and hoped to halt or forestall the judicial beatings to which they were subjected. If the debtors actually had funds in "secret storage," those funds appear either to have been tapped out quite early or to have been so effectively secured that the debtors themselves could not get at them in their hour of need. One would

expect the debtors to have done everything they could to save themselves by bringing in cash from every possible source. Indeed, the purpose of the judicial beatings was to motivate them to do just that. It is hard to conceive of Gonqua choosing death over emptying his private savings account. It may therefore be more constructive to think of these three payments as a mirror of the process of equity contribution into the Eryi hong business -- but thrown into reverse operation. First back in were current trading assets (goods). Next back in were accumulated profits from prior trading, held as savings (largely in gold). Last back in was the original family money that started the hong, a small amount assuredly, but representing the seed from which the large tree had grown that fell in 1795.

As hong merchant firms continued to fail, the Consoo Fund came under pressure in the 1780s and 1790s. This reflects business pressures on the guild, including the end of the era of competing European state trading corporations at Canton, also increased piracy, and the old problem of inadequate capitalization. More fundamentally, the reduced state of the Consoo Fund reflects the frailty of the guaranty system that was adopted in 1780. Neither the Consoo Fund nor the *hangyong* tax that supported it had any independent existence or protection. While the fund and the tax were closely monitored by the hong merchants and by the state, each supervisor had a severe conflict of interest. The interests of foreign creditor beneficiaries of the fund, whether existing or potential, was a first concern of neither. Government officials often dipped into the Consoo Fund for their own needs, and the monitoring function helped them to know when best to draw. Payments to the state were among the original list of purposes of the fund. State needs soared during these years, reflecting civil disorder and a climate of venality that existed in the late years of the Qianlong reign. For their part, the hong merchants had no motivation to keep the fund at a maximum level. As with certain modern private pension schemes, they paid in the minimum that was required. The hong merchants were under stress, and doubtless felt it wise to hold onto their funds and invest the money for return rather than to simply deposit cash that would then sit idle in Consoo Fund chests. The *hangyong* tax was duly collected from the trade and paid into the fund but it was consumed by current expenses. There was no surplus, and the chests of the Consoo Fund were empty by the end of the 1700s.

As reviewed immediately above, foreign creditors made substantial claims against the fund during the period 1780-1799. These claims were largely allowed by the Canton officials and were directed to be paid by the hong merchants despite their origin in loans that were illegal under Chinese law. Even with these benefits, foreign creditors began to understand, during the 1790s, that nothing came free under the guaranty scheme of 1780. Foreign traders, and their customers, paid the costs of the Canton Guaranty System. They paid the general tax on the trade, the *hangyong*, and were also subject to indirect price increases which tended to follow foreign demands for collective guaranty payments from the empty Consoo Fund chest. This understanding drove the foreign response to the hong merchant insolvencies of the early years of the 1800s, when trading conditions grew even more difficult.

- 
- 1 Cheong, Hong Merchants, p. 228.
  - 2 Ch'en, Insolvency, pp. 14 (Table 1.1), 96 (Table 2.7) and 206-7.
  - 3 Ch'en, Insolvency, p. 91.
  - 4 Ch'en, Insolvency, p. 96 (Table 2.7).
  - 5 Ch'en, Insolvency, pp. 89 and 91.
  - 6 Ch'en, Insolvency, pp. 95-6 and Table 2.7.
  - 7 Cheong, Hong Merchants, pp. 88 (Puankhequa I “was apparently wealthy although this is debatable”) and 257 (Puankhequa I “had large but manageable current debts”). When the “Chinese Debts” crisis broke in 1780, British creditors complained that Puankhequa I owed them \$75,672. He promptly paid this debt, on 28 February 1780. Ch'en, Insolvency, p. 199.
  - 8 Cheong, Hong Merchants, pp. 88 and 264.
  - 9 Cheong, Hong Merchants, pp. 115 and 116.
  - 10 Morse, Chronicles, Vol. II, p. 82; Cheong, Hong Merchants, p. 273 (quotation); Pritchard, “Crucial Years,” pp. 210-1.
  - 11 Cheong, Hong Merchants, pp. 88-9 (Table 9) and 263.
  - 12 Cheong, Hong Merchants, p. 79.
  - 13 Ch'en, Insolvency, pp. 216-7, 311-2 and 414 n.129; Cheong, Hong Merchants, pp. 18 and 115 n.122; Morse, Chronicles, Vol. II, p. 299.
  - 14 More than a little confusion exists concerning the personal trading name Howqua (Houqua) and its association with members of the Wu (伍) family who made the name famous. The name Howqua (in variant forms) had been used by a number of different persons before the Wu family gave it renown. “The identity of [the] Houqua [who worked for the hong merchant Chetqua as a writer in the 1760s] is not known, and there were several other men with similar names. One of Tsia Hunqua’s sons was called Hauqua, the chief writer in Tiauqua’s house was Hoyqua/Huiqua, both Poankeequa and Monqua had writers in the 1770s with names of Hanqua and Houqua (respectively), and a man who later became a Hong merchant was called Howqua (Lin Shimao 林時懋).” Paul A. Van Dyke, “Tan Suqua and Family: Merchants of Canton 1716-1778,” ARI [Asia Research Institute, National University of Singapore] Working Paper, No. 50, Sept. 2005, available at: [http://www.ari.nus.edu.sg/docs/wps/wps05\\_050.pdf](http://www.ari.nus.edu.sg/docs/wps/wps05_050.pdf), p. 21 n.49 (italics added). See Van Dyke, Merchants of Canton and Macao, p. 457 n. 66. The first “Howqua” to be admitted as a member of the outer seas guild, a disreputable type who bore the surname Lin (林), became a hong merchant in 1784 but failed and fled Canton in 1788. Ch'en, Insolvency, pp. 14, 20 and 279-83. Not being a member of the family (Wu) that made the trading name famous this prior hong merchant has no proper place in the numerical sequence by which Wu family members trading as Howqua are known. That order begins with the first Wu, father and progenitor Wu Guoying (1731-1810) (“Howqua I”), who founded the Yihe hong in 1783. His second son, Wu Bingjun (1777-1799), was admitted as a hong merchant in 1792 and did business under the name “Puiqua” until his death. The third son, Wu Bingjian (Wu Dunyuan) (1769-1843) (“Howqua II”) succeeded his brother as proprietor of the Yihe hong in 1801, trading initially as “Puiqua.” He gradually rebranded himself as “Howqua” -- the famous Howqua II. Two sons of Wu Bingjian (Howqua II) then

used the personal trading name Howqua in turn, sometimes at the same time as their renowned father. The sons were Wu Yuanhua (Wu Shouchang) ("Howqua III") and Wu Chongyue (Wu Shaoyong) ("Howqua IV"). Basu, "Asian Merchants and Western Trade," pp. 356-8; Ch'en, *Insolvency*, pp. 15-18 and 20; Wolfram Eberhard, *Social Mobility in Traditional China* (Leiden: E.J. Brill, 1962), pp. 83-4; David Faure, *Emperor and Ancestor: State and Lineage in South China* (Stanford: Stanford Univ. Press, 2007), p. 235; Hummel, *Eminent Chinese*; Sung, "Study of the Thirteen Hongs," p. 4; White, "Hong Merchants," pp. viii, 95-6 and 187-91.

15 Cheong, *Hong Merchants*, pp. 224-25.

16 It is difficult to give great weight to the fact that a 70,000 tael (\$97,222) credit balance with the Consoo Fund appears on the statement of Eryi hong assets that Gonqua presented to the Hoppo in September 1794. Ch'en, *Insolvency*, p. 302; Cheong, *Hong Merchants*, p. 229 (citing the credit balance as evidence that the fund showed a profit). This entry may be evidence that the book entries in the Consoo Fund ledgers balanced on their face as of that date. It might be evidence of a substantial payment made into the Consoo Fund by Gonqua, on time or possibly even in advance of its due date. Yet it tells us nothing of the reality behind the entries on the Consoo Fund's ledgers, a crucial matter as its cash is said to have been exhausted by about 1790. Were all the individual hong debtors able to fully and timely pay their respective obligations to the Consoo Fund? Is the 70,000 tael Gonqua credit a correct statement of sums actually paid in, or an optimistic guess by a struggling debtor who has given himself the benefit of unstated offsets and credits in a desperate effort to avoid this liability? As the obligation of a hong merchant to pay into the Consoo Fund itself had no priority over other debts, and is not known to have been enforced by criminal or other magistrate process, it is difficult to conceive of why Gonqua's cash poor Eryi hong would choose to prepay this obligation. It is reasonable to assume that the obligation to pay into the Consoo Fund was often deferred by weak hong merchants.

17 Morse, *Chronicles*, Vol. III, p. 111.

18 Morse, *Chronicles*, Vol. III, p. 62.

19 Ch'en, *Insolvency*, p. 93 (Table 2.6); Van Dyke, *Merchants of Canton and Macao*, p. 194.

20 Cheong, *Hong Merchants*, pp. 228-9; Zhao, "Shaping the Asian Trade Network," pp. 249-50 ("Criticisms have tended to gloss over the basic problem faced by Chinese officials: they received only a miniscule salary and were expected to supplement this pittance with squeeze. In other words, without collecting a certain amount of additional fees, the maritime customs office of the four coastal provinces would have ceased to operate.").

21 Cheong, *Hong Merchants*, pp. 223-4 ("he was said to have been the most avaricious for a long time."); Morse, *Chronicles*, Vol. II, p. 264; Pritchard, "Crucial Years," p. 369.

22 Cheong, *Hong Merchants*, pp. 223-4 (citing several other examples in this period). A picul has the weight of 133.33 pounds, and a tael the average weight of 1.333 pounds. In other words, a picul was equivalent to 100 taels. Morse, *Chronicles*, Vol. I, p. xxii; Cuthbert Collingwood, *Rambles of a Naturalist on the Shores and Waters of the China Sea* (London: John Murray, 1868), p. 225. By weight, seventeen piculs (gold) equaled 1,700 taels (gold). The conversion rate between gold

and silver varied through the period of this study; in 1782, one pound of gold was equivalent in value to twenty pounds of silver. Yang, *Money and Credit in China*, pp. 47-48. Seventeen piculs of gold would therefore be equivalent in value to 34,000 silver taels (\$47,222).

23 Ch'en, *Insolvency*, pp. 131 and 136.

24 Ch'en, *Insolvency*, pp. 133-7 (and Table 3.3); Cheong, *Hong Merchants*, p. 211.

25 Ch'en, *Insolvency*, p. 135.

26 Ch'en, *Insolvency*, pp. 99 (Xiangshao), 133, 135, 136 (quotation) and 137 (Table 3.3) (debts incurred variously in the Huaian, Jiujiang and Hushu Customs and the Changlu Salt Administration).

27 James R. Fichter, *So Great a Proffit: How the East Indies Trade Transformed Anglo-American Capitalism* (Cambridge: Harvard Univ. Press, 2010), pp. 56-72.

28 Cheong, *Hong Merchants*, pp. 283-4.

29 Pritchard, "Crucial Years," pp. 165-6 and 212; Greenberg, *British Trade*, p. 64.

30 Ch'en, *Insolvency*, pp. 44 and 46; Cheong, *Hong Merchants*, pp. 112 and 216-7 ("but by 1819 [British duties] had risen back up to 100 per cent of the landing price"); Fichter, *So Great a Proffit*, p. 29; Greenberg, *British Trade*, p. 3; Pritchard, "Crucial Years," pp. 165-6 and 212.

31 Ch'en, *Insolvency*, pp. 53-61; Cheong, *Hong Merchants*, pp. 112, 114 and 278; Greenberg, *British Trade*, pp. 7-8 and 59; Van Dyke, *Merchants of Canton and Macao*, pp. 22-3. See David Graeber, *Debt: The First 5,000 Years* (Brooklyn, N.Y.: Melville House Publishing, 2011), pp. 34 and 291 (noting that in the century or two before the time of Adam Smith (1723-1790) "the English words 'truck and barter,' like their equivalents in French, Spanish, German, Dutch, and Portuguese, literally meant 'to trick, bamboozle or rip off.'").

32 Ch'en, *Insolvency*, pp. 29-30 and 45 (Table 2.2); Cheong, *Hong Merchants*, pp. 112 and 283.

33 Cheong, *Hong Merchants*, pp. 114-115.

34 Ch'en, *Insolvency*, pp. 32-3 and 69-82; Cheong, *Hong Merchants*, pp. 112-3; Greenberg, *British Trade*, pp. 9-13 and 20.

35 Greenberg, *British Trade*, p. 11.

36 Greenberg, *British Trade*, pp. 109-10.

37 Marks, *Tigers, Rice, Silk, and Silt*, p. 178 and Figure 5.3.

38 White, "Hong Merchants," p. 85.

39 Jacques M. Downs, "American Merchants and the China Opium Trade, 1800-1840," *Business History Review*, Vol. 42, pp. 418-442 (1968), pp. 419 and 421; Greenberg, *British Trade*, p. 68; White, "Hong Merchants," p. 96.

40 James R. Gibson, *Otter Skins, Boston Ships, and China Goods: The Maritime Fur Trade of the Northwest Coast, 1785-1841* (Seattle: Univ. of Washington Press, 1992), pp. 100-1.

41 Gibson, *Otter Skins*, pp. 28, 30-9, 54-61, 101 and 200-3; Greenberg, *British Trade*, p. 88.

42 Ch'en, *Insolvency*, pp. 83-4.

43 Ch'en, *Insolvency*, p. 86; Leonard, *Wei Yuan*, pp. 80-3; Murray, *Pirates of the South China Coast*.



44 Cheong, Hong Merchants, p. 284; Greenberg, British Trade, pp. 53 and 60; White, "Hong Merchants," p. 112.

45 White, "Hong Merchants," pp. 109-110.

46 Greenberg, British Trade, pp. 55 and 69; White, "Hong Merchants," p. 111.

47 Ch'en, Insolvency, pp. 21, 264-5, 409 n.68 and 422 n.30; Cheong, Hong Merchants, pp. 85, 88, 257 and 260; Morse, Chronicles, Vol. II, p. 55; Van Dyke, Merchants of Canton and Macao, pp. 131-5 and Plate 10.12 (between pp. 78-9) (communication to the VOC dated 22 August 1776, in Dutch, from Chowqua (Tan Tsjouqua), Monqua (Munqua), Geowqua (Kiouqua) and Pinqua, stating that these men would stand security for each other and that all of the goods they supplied to the VOC in the current season would be applied as credits against the debt they owed, remaining from the insolvency of the Yifeng hong).

48 Ch'en, Insolvency, pp. 96 (Table 2.7), 267-8 and 411 n.93; Cheong, Hong Merchants, p. 264; Van Dyke, Merchants of Canton and Macao, p. 134 and Plate 07.07 (between pp. 78-9).

49 Ch'en, Insolvency, pp. 96 (Table 2.7), 209, 283-91 and 411 n.94; Cheong, Hong Merchants, pp. 91, 115 n.120, 197 ("in 1793 with the Hoppo being required to submit a report and justify the revenue collection which was then compared with the secret monthly reports of the Viceroy and the Governor."), 211 and 264; Fairbank, Trade and Diplomacy, Vol. I, p. 49; Morse, Chronicles, Vol. II, p. 181; Fu, Documentary Chronicle, pp. 317-8.

50 Ch'en, Insolvency, pp. 22 and 308.

51 This Howqua (surname "Lin") had no family or other connections with the better-known, and reputable, members of the "Wu" family who traded as Howqua. Ch'en, Insolvency, pp. 279-80; Van Dyke, "Tan Suqua and Family," p. 21 n.49.

52 The episode was described by Samuel Shaw in his journal. "He delayed performing his contract, -- absented himself almost continually from his hoang, -- smoked opium, -- absconded on the 24th of December, -- was declared bankrupt, and his effects were seized." Quincy, Journal of Samuel Shaw, p. 301.

53 Ch'en, Insolvency, pp. 214 and 283; Cheong, Hong Merchants, p. 115.

54 Ch'en, Insolvency, pp. 215 and 308-9; Cheong, Hong Merchants, pp. 170 and 172.

55 Ch'en, Insolvency, pp. 20, 51-2, 215-6, 309 and 311; Cheong, Hong Merchants, pp. 170 and 172-3; Morse, Chronicles, Vol. II, pp. 300-1.

56 Ch'en, Insolvency, pp. 275-6 and 297-302; Morse, Chronicles, Vol. II, pp. 255 and 261-2.

57 Ch'en, Insolvency, p. 303.

58 Ch'en, Insolvency, p. 295.

59 Ch'en, Insolvency, pp. 301-3; Cheong, Hong Merchants, pp. 127 n.120, n.122 and n.123 (Cheong states that Gonqua owed 934,000 taels to the EIC and 586,922 taels to country traders); Morse, Chronicles, Vol. II, p. 262.

60 Ch'en, Insolvency, pp. 299-301 and 304-5; Morse, Chronicles, Vol. II, pp. 261-3.

61 Ch'en, Insolvency, pp. 305 and 96 (Table 2.7); Cheong, Hong Merchants, p. 212; Morse, Chronicles, Vol. II, pp. 271, 284 and 298.

62 Morse, Chronicles, Vol. II, p. 272. The second Gonqua dividend, which was paid on 12 May 1797, was 28,532 taels (\$39,628) to the EIC, and 69,300 (\$96,250) to

---

private Europeans -- 97,832 taels (\$135,878) total. Morse, Chronicles, Vol. II, p. 284. The third Gonqua dividend, in 1798, was in the same amounts. Morse, Chronicles, Vol. II, p. 298.

63 Ch'en, Insolvency, p. 304.

64 Morse, Chronicles, Vol. II, pp. 270-1.

65 Ch'en, Insolvency, pp. 305-6; Morse, Chronicles, Vol. II, pp. 271-2.

66 Ch'en, Insolvency, pp. 303 ("out of their hidden property"), 305 ("took out from their secret storage") and 307 ("it is manifest that he was still in possession of a considerable fortune"). The surviving records of hong merchant debt cases were most often kept by creditors, and as such these accounts, as in the foregoing examples, present only the victorious creditor's view of the subject events. Historical accounts have picked up, probably inadvertently, an antidebtor bias that runs through this primary source material. See, for example, Ch'en, Insolvency, pp. 306 (Wyequa's "deserved punishment" in 1796) and 350-1 (quoting an EIC reference to the 1828 departure of Manhop II for banishment "in a style better suited to the station of a wealthy mandarin than that of a degraded bankrupt merchant about to undergo his punishment."). The hong merchants deserve more neutral reporting.