ORGANIZATIONAL CAPABILITY, ENTREPRENEURSHIP, AND ENVIRONMENT: CHINESE MULTINATIONALS, 1912-1949

THESIS

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By

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ABSTRACT

Chinese multinationals were significant in Republican China between 1912 and 1949. A preliminary database, including forty-eight Chinese multinationals before 1949, is created. Chinese multinationals arose mainly in the late 1930s and the late 1940s. Their overseas branches were found chiefly in Southeast Asia and to a lesser extent in the United States, Japan, and Europe. Chinese multinationals clustered in light and service industries. The dynamic interaction of organizational capability, entrepreneurship and environment determined the rise and performance of Chinese multinationals. Chinese multinationals gained organizational capabilities between 1912 and 1937. Chinese entrepreneurs were ambitious in discovering opportunities in overseas markets. The key constraining factor was bad timing and environmental adversities. Chinese multinationals, when they just got started, met extremely adverse environments (WWII and the Chinese Civil War). If China’s and the world environment had been more favorable in the 1930s and the 1940s, Chinese multinationals should have been more developed.
To my parents and Chen Juan
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CHAPTER 1

INTRODUCTION

Contemporary Chinese multinationals have been a notable force in the world. The state-owned multinationals, such as China National Petroleum Company, China National Offshore Oil Corporation, BaoSteel (Shanghai-based steel mill), the Bank of China, and Industrial and Commerce Bank have undertaken their global outreach for energy, materials and finance. In the private sector, Lenovo (a leading personal computer manufacturer based in Beijing), TCL (a leading TV manufacturer based in Guangdong), Huawei (a leading networking and telecommunications equipment supplier based in Shenzhen), Haier (a whitegoods manufacturer based in Shandong), and Galanz (a home appliance manufacturer based in Guangdong) have all established overseas branches to exploit the opportunities in overseas markets. In 1996, Haier started to manufacture in Philippines, Indonesia, Malaysia and the United States. In 1999, Haier established a manufacturing factory in South Carolina.\(^1\) Huawei and Galanz have established R&D centers in Texas and Oregon respectively. The acquisition of French Thomson SA's television unit by TCL and the takeover of IBM's laptop computer line by Lenovo have

\(^1\) Haier American manufacturing factory is established mainly for avoiding long-range shipping cost, tariff and making use of local design and technological advantages. The American factory, quoted from Haier’s official website, symbolizes “the start of Haier’s policy to incorporate local resources of design, manufacture and distribution in foreign countries by the design institutes in Los Angeles, the manufacture plant in South Carolina and utilization of local finance and talents with an aim to develop Haier a world's recognizable brand.” See http://www.haier.com/AboutHaier/HaierWorldwide/introduction_usa.asp (accessed December 11, 2007).
been highly publicized joint ventures in the past several years.

However, Chinese multinationals are not a new phenomenon in the era of Chinese economic reform since the late 1970s. Regrettably, however, we know very little about the historical predecessors of contemporary Chinese multinationals.\(^2\) To fill this void, this thesis has traced Chinese multinationals\(^3\) in Republican China between 1912 and 1949. It includes a preliminary database of forty-eight Chinese multinationals prior to 1949, giving a general biography of Chinese historical multinationals. Moreover, this thesis describes in detail the development of four Chinese multinationals in the Republican era: Ming Sung Industrial Co. (民生實業股份有限公司 minsheng shiye gufen youxian gongsi, est. 1925), Chinese Egg Produce Company (茂昌蛋業股份有限公司 maochang danye gufen youxian gongsi, est. 1923), Mayar Silk Mills, Ltd. (美亞織綢廠股份有限公司 meiya zhichouchang gufen youxian gongsi, est. 1920) and Nanyang Brothers Tobacco Company (南洋兄弟煙草公司 nanyang xiongdi yancao gongsi, est. 1905).

The dynamic interaction of organizational capability, entrepreneurship and environment fundamentally determined the rise and performances of Chinese multinationals in the Republican era between 1912 and 1949. Chinese enterprises were entrepreneurial and organizationally capable for exploring overseas markets. However, the adverse external environment (largely resulting from historical factors such as World War II and the Chinese Civil War) in the 1930s and 1940s destroyed the international

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\(^2\) From a worldwide perspective, some scholars argue that the first multinationals can be traced back to the old Assyrian Kingdom shortly after 2000 BC. See Chapter 4 in Karl Moore and David Lewis, *Birth of the Multinational: 2000 Years of Ancient Business History-From Ashur to Augustus* (Copenhagen: Copenhagen Business School Press, 1999).

\(^3\) Chinese multinationals refer to China mainland-based and Chinese-controlled enterprises. Hence, Chinese enterprises based in Hong Kong or established by overseas Chinese in foreign countries are not the focus of this thesis.
operations of most Chinese multinationals.

The database and case studies of historical Chinese multinationals in the thesis are an important contribution to the literature of Chinese business history. This research, for the first time, reveals the outward internationalization of Chinese enterprises in terms of overseas organizational expansion and foreign direct investment in the Republican era. Moreover, this thesis underlines the international ambition of Chinese entrepreneurs in the Republican era which has not been clearly acknowledged by the existing literature.

The investigation of Chinese multinationals in the Republican era in this thesis reveals the dynamic interaction between transnational hierarchies, international markets and overseas networks, shedding a new light on the important interdisciplinary discussion about the relationship between hierarchies, markets and networks during the last several decades. Generally, the current scholarship (in economic sociology, in business history

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4 Ronald Coase was probably the first to investigate the dynamic relationship between hierarchies and markets. He argued that an entrepreneur may flexibly rely on internal direction (which formed the firm) or external markets through comparing internal governance costs and external market transaction costs. Since the 1970s, based on the pioneering work of Coase, Alfred Chandler emphasized the significance of hierarchies over markets in terms of the rise of modern industrial enterprises in America. In fact, the dichotomy of markets and hierarchies was challenged by a classic article by George Richardson on strategic management as early as the mid-1970s. Richardson argued that coordination could be realized through three ways: direction, co-operation and market transaction. The dichotomy of markets and hierarchies neglected inter-firm cooperation. In 1985, Mark Granovatter, a leading economic sociologist, further challenged the market/hierarchy dichotomy from a sociological perspective. He argued that economic activities between individuals or firms were fundamentally embedded in social networks. In the recent literature of American business history, Richard Langlois contrived to totally abandon Chandler’s hierarchy but rely solely on the market. However, Langlois is still in essence Chandlerian, since his theory is based on the comparison of the dynamic transaction cost of the market and the cost of acquiring the internal capability which is a central theme of Chandler. Naomi R. Lamoreaux, Daniel M. G. Raff and Peter Temin brought out a hybrid coordination mechanisms of firms, networks and markets. They correctly indicated that networks were the regular and common condition in the real world. But they went too far to argue that networks were real alternatives to the old-fashioned markets-versus-hierarchies framework. See the works of the above authors in Ronald H. Coase, “The Nature of the Firm,” *Economica*, New Series, Volume 4, Issue 16 (1937), 386-405; Alfred D. Chandler,Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Mass.: Belknap Press, 1977); G.B. Richardson, “The Organization of Industry,” *Economic Journal*, 82 (1972), 883-92; Mark Granovatter, “Economic Action and Social Structure: The Problem of Embeddedness,” *American Journal of Sociology*, Vol. 91, No. 3 (Nov., 1985), 481-510; Richard Langlois, “The Vanishing Hand: The Changing Dynamics of
and in economics) has emphasized the significance of networks which is an intermediate type between hierarchies and markets. In Chinese business history, scholars have found that hierarchies and networks are both indispensable approaches to define the characteristics of Chinese enterprises. In an important book in 2000, Sherman Cochran convincingly showed that hierarchies and social networks are not mutually independent but rather are in a long-term dynamic interaction in China. Businesses “depended periodically or even simultaneously on both corporate hierarchies and social networks.”

This important thesis has been echoed by the works of Kwan Man Bun, Elisabeth Köll, and Madeleine Zelin. However, all these works have focused on the interaction of hierarchies, markets and networks in Chinese domestic context. In international business, the network approach has been the dominating interpretation of international behaviors of Chinese enterprises.

This thesis focuses on transnational hierarchies, which is an important complement

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to the dominant network interpretation of international business of Chinese enterprises. Chinese entrepreneurs did not exclusively depend on overseas networks. When necessary networks did not exist, rather than simply rely on the intermediate market, they actively created and utilized transnational organizational hierarchy. Even when networks existed, they might still prefer transnational organizational hierarchy to gain direct control and reduce agency costs. Hence, this thesis argues that transnational hierarchies, international markets, and overseas networks were also in dynamic interaction in the international context. Use of hierarchies, markets or networks depended on actual condition and needs. Chinese multinationals in the Republican era had organizational capability and were flexible to employ any of them. Furthermore, this research provides a historical reference for understanding contemporary Chinese multinationals, which should also be interesting to specialists in international business, political science and economics.

This thesis will be structured as follows. Chapter 2 shows that Chinese multinationals have been missing within the current literature of Chinese business history. It also discusses the definition of multinational enterprises and defines multinationals in an eclectic sense for the purpose of this thesis. In addition, the early Chinese multinationals before 1912 are surveyed. A framework including organizational capability, entrepreneurship and environment, which accounted for the rise and the decline of Chinese multinationals in the Republican era, is advanced at the end of Chapter 2. Chapter 3 is a general discussion of the characteristics of Chinese multinationals between 1912 and 1949. Based on the framework introduced in Chapter 2 and the preliminary database (see Appendix A), the sections in Chapter 3 respectively examine the formation of organizational capability, the role of entrepreneurship, and the internationalization
process of Chinese multinationals in the Republican era. Chapter 4 includes four detailed cases in the shipping, egg-manufacturing and export, silk-weaving and cigarette-manufacturing industries. These cases show that Chinese enterprises in the Republican era were entrepreneurial and organizationally capable of exploring overseas markets. However, the crucial impediment to their internationalization was bad timing and the adverse environment. Chapter 5 is a conclusion. The Appendices introduce in detail the composite of the preliminary database. In addition, the Appendices include a piece of discussion about the available statistics of foreign direct investment undertaken by Chinese multinationals in the Republican era.
CHAPTER 2

CHINESE MULTINATIONALS: ORGANIZATIONAL CAPABILITY, ENTREPRENEURSHIP, AND ENVIRONMENT

Multinationals are generally missing in the existing literature of Chinese business history. The first section of this chapter reviews current research in Chinese business history with special reference to “six types” of Chinese enterprises which have been examined by scholars. It shows the Chinese multinational as an important organizational and institutional entity calls for more scholarly attention. The second section attributes the eclectic definition of multinationals used in this thesis. A multinational is defined as an enterprise which owns one or more overseas branches and exerts control over it (them). The third section describes pre-1912 Chinese multinationals as historical predecessors of Chinese multinationals in the Republican era (1912-1949). These early Chinese multinationals emerged since the middle nineteenth century. They mainly clustered in the trading industry and to a lesser extent in banking and shipping industries. The fourth section introduces the preliminary database created by the author and a framework including organizational capability, entrepreneurship, and environment. Chinese multinationals became a more notable phenomenon in a variety of modern industries in the Republican era. This framework shows that the dynamic interaction of organizational capability, entrepreneurship and environment fundamentally determined the rise and

2. 1 Multinational: A Missing Type of Enterprises in Chinese Business History

“Everything important (in the Republican era) had an international dimension.”

William C. Kirby correctly made this assertion in a perceptive article. He noted that internationalization was salient in Chinese political, cultural, social, military, and business realms in the Republican era. However, Kirby primarily analyzed inward internationalization since he focused on the entry and impact of foreign powers and Sino-foreign competition and cooperation in China. Outward internationalization is largely missing from Kirby’s argument.

The existing literature has generally focused on four subjects relating to outward internationalization in the Republican era. First, with the support of the Chinese government and local chambers of commerce, Chinese enterprises participated in various foreign commercial exhibitions and overseas business investigations. Secondly, Chinese enterprises actively imported technology, machines, technicians and capital from abroad. Thirdly, Chinese enterprises strived to boost exports in the Republican era.

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8 William Kirby, “The Internationalization of China: Foreign Relations at Home and Abroad in the Republican era,” China Quarterly, No. 150, Special Issue: Reappraising Republic China (June, 1997), 433-458.

9 For a general review about the literature of Chinese participation into overseas exhibitions, see Xiehui, “Zhongguo jindai bolanhuishi yanjiu shuping” (on the history of expositions in modern China), in Zhongguo shehui jingji shi yanjiu (Journal of Chinese Social and Economic History), no.3 (2004), 97-104. There have been no specific statistics about the total number of international expositions in which Chinese enterprises participated in the Republican era. But some recorded famous expositions in which Chinese enterprises participated were no less than several dozens. Comparatively, this subject has received more attention in Chinese scholarship than in English.

Fourthly, Chinese enterprises mainly relied on and employed overseas Chinese networks in international business. Generally, the organizational (hierarchical) internationalization of Chinese enterprises in the Republican era is missing in the current scholarship.

The Chinese multinational\(^\dagger\) as an important organizational and institutional entity is neglected in Chinese business history of the Republican era. The existing literature of Chinese business history has covered the following six types of enterprises: 1) traditional Chinese enterprises;\(^\ddagger\) 2) “official-supervision, merchant-management” enterprises (官督 商辦 guandu shangban);\(^\ddagger\ddagger\) 3) state-owned enterprises;\(^\S\) 4) foreign multinationals in

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\(\ddagger\) In this thesis, Chinese multinational means China mainland-headquartered and Chinese-controlled multinationals. It does not include Chinese multinationals headquartered in such places as Hong Kong and Southeast Asia.


\(\ddagger\ddagger\ddagger\) Morris Bian has investigated the state enterprise system formed in the Sino-Japanese War from an institutional economics perspective. Bian called for further research on provincial enterprises in China. Morris Bian, *The Making of the State Enterprise System in Modern China: the Dynamics of Institutional Change* (Cambridge, Mass.: Harvard University Press, 2005).
China;\textsuperscript{16} 5) overseas Chinese enterprises;\textsuperscript{17} and 6) Chinese modern private enterprises.\textsuperscript{18}

The six types are not mutually exclusive. Generally, Chinese multinationals find no place in these generic types.

Moreover, few cases studies in Chinese business history have directly addressed the overseas organizational expansion and foreign direct investment of Chinese enterprises. Cochran’s classic \textit{Big Business in China} focused on the competition between Nanyang Brothers Tobacco Company and British American Tobacco Company (BAT) in the Chinese market, but did not mention the similar competition between Nanyang’s overseas branches and BAT in Southeast Asia.\textsuperscript{19} Ning Jennifer Chang’s article on Chinese

\begin{footnotesize}
\begin{itemize}
  \item \textsuperscript{18}This category has covered diverse industries with special reference to big businesses. In the cotton industry, Elisabeth Köll investigated the internal structure and management of Da Sheng Cotton Mills and its development within the local community. See Elisabeth Köll, \textit{From Cotton Mill to Business Empire}. In the match-manufacturing industry, Kai Yiu Chan has studied how Liu Hongsheng rose from a comprador and ambitiously diversified his businesses. See Kai Yiu Chan, \textit{Business Expansion and Structural Change in Pre-war China: Liu Hongsheng and his Enterprises, 1920-1937} (Hong Kong: Hong Kong University Press, 2006). In the printing industry, Christopher A. Reed has revealed the transition of Chinese printing industry from premodern publishing houses to modern publishing presses. See Christopher A. Reed, \textit{Gutenberg in Shanghai}. In terms of the chemical industry, Kwan Man Bun has researched the Jiuda Salt Company from a network perspective. See Kwan Man Bun, “Managing Market.” In modern banking, see Linsun Cheng, \textit{Entrepreneurs, Professional Managers, and the Development of Chinese Banks 1897-1937} (New York: Cambridge University Press, 2003) and Brett Sheehan, \textit{Trust in Troubled Times: Money, Banks, and State-Society Relations in Republican Tianjin} (Cambridge, Mass.: Harvard University Press, 2003).
  \item \textsuperscript{19}Cochran, \textit{Big Business in China}.
\end{itemize}
\end{footnotesize}
Egg Produce Company made a case study showing how Chinese enterprises succeeded in competing against foreign multinationals, but she focused on the domestic development of Chinese Egg Produce Company and neglected the multinationality of this company.²⁰

Although dating back to the 1950s,²¹ the studies of the history of multinational enterprises have achieved important accomplishments only during the last several decades.²² The extensive works of such leading business historians as Mira Wilkins and Geoffrey Jones have detailed the rise and characteristics of multinationals from the United States and Britain in the late nineteenth and twentieth centuries.²³ Japanese multinationals in the early twentieth century also have absorbed much attention.²⁴ Moreover, the multinationals established by overseas Chinese entrepreneurs in Southeast

Asia, which showed remarkable vitality in the early twentieth century, have attracted scholarly attention.25

The reasons for the absence of Chinese multinationals in the literature seem understandable. First, the notable rise of Chinese multinationals is a relatively new phenomenon occurring only since the outset of the economic reform in China in late 1970s. The current studies have focused exclusively on contemporary Chinese multinationals.26 Secondly, the availability of company records in China (many of them are accessible just recently) may impede related research. Thirdly, the common perception of the weakness of indigenous enterprises and the dominance of foreign multinationals in modern China may have hindered the exploration of Chinese multinationals. Although more and more scholarship has begun to explore the indigenous momentum within Chinese society and the particular advantages of Chinese firms, there is still much research left to do.27

This thesis aims to fill this void in Chinese business history by examining Chinese multinationals in the Republican era (1912-1949). It focuses on the mainland China-headquartered and Chinese-controlled multinationals. Hence, Chinese multinationals based in Hong Kong and abroad such as in Southeast Asia are omitted in this thesis.


27 This trend has been especially salient since Paul Cohen published its Discovering History in China. Cohen criticized the traditional one-sided Western-centered arguments but called for more attention to Chinese own perspective and initiative. See Paul Cohen, Discovering History in China: American Historical Writing on the Recent Chinese Past (New York: Columbia University Press, 1984).
Generally, this thesis shows how Chinese multinationals based in mainland China developed in modern China and expanded abroad.

2.2 The Meaning of Multinationals

A workable definition of multinationals is paramount in any studies about multinational enterprises (MNEs) since there is no determinate definition of multinationals. John Dunning, a leading scholar of MNEs, has argued that “MNEs are companies which undertake productive, i.e. value-adding, activities outside the country in which they are incorporated.”  

Richard Caves, a noted economist, has defined multinational enterprises in a strict manufacturing sense as “an enterprise that controls and manages production establishments—plants—located in at least two countries.” Mira Wilkins, in a wider sense, has argued that “a multinational enterprise is a business that has investments outside its home nation investments that are managed and controlled…A rudimentary multinational may have simply a sales branch abroad, a minor presence outside its home nation.” Geoffrey Jones defines a multinational as “a firm that controls operations or income-generating assets in more than one country.” Christopher Bartlett and Sumatra Ghoshal, two eminent business researchers and consultants, have distinguished four types of enterprises in the international market: multinational company, global company, international company and transnational company. They argue that

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31 Geoffrey Jones, Multinationals and Global Capitalism, 5.
multinational companies have the following characteristics: sensitive and responsive to
differences in national environments; decentralized and nationally self-sufficient; sensing
and exploiting local opportunities; knowledge developed and retained within each unit.\textsuperscript{32}
However diversified, all these definitions emphasize a key characteristic of
multinationals, that is, they own organizational facilities in more than one country.

Multinationals can grow from diversified industries. In the late nineteenth and early
twentieth centuries, giant industrial enterprises, from industrialized countries such as the
United States, Germany, and Britain, set out to seek global economies of scale and
scope.\textsuperscript{33} Their giant multinationals with huge fixed capital and advanced technologies
came frequently from heavy industries such as chemistry, manufacturing, and electricity.
In service industries like banking, shipping and trading, multinationals were and are
equally salient.\textsuperscript{34}

The internationalization of national enterprises is frequently a multistage process:
first establishing sales or marketing offices and then undertaking more overseas
investment such as in manufacturing.\textsuperscript{35} Hence, an enterprise can be a multinational by

\textsuperscript{32} In comparison, global companies have these characteristics: centralized and globally scaled;
implementing parent company strategies; knowledge developed and retained at the center.
International companies have characteristics: sources of core competences centralized, others
decentralized; adapting and leveraging parent company competencies; knowledge developed at the
center and transferred to overseas unites. Transnational companies have characteristics: dispersed,
interdependent, and specialized; differentiated contributions by national units to integrated worldwide
operations; knowledge developed jointly and shared worldwide. See Christopher Bartlett and
Sumantra Ghoshal, Managing across Borders: the Transnational Solution, 2nd edition, (Cambridge:
\textsuperscript{33} See Alfred Chandler, “Technological and Organizational Underpinnings of Modern Industrial
Multinational Enterprises: The Dynamics of Competitive Advantage,” in Alice Teichova, Maurice
\textsuperscript{34} See Geoffrey Jones, ed., The Multinational Traders ((London: Routledge, 1998) and Banks as
\textsuperscript{35} This process was described through the American case. See Mira Wilkins, The Maturing of
Multinational Enterprise, 414-22. Johanson and Vahlne brought out a general internationalization
model. See Jan Johanson and Jan-Erik Vahlne, “The Internationalization Process of the Firm-A Model
of Knowledge Development and Increasing Foreign Market Commitments,” Journal of International
establishing sales or marketing branches, service or R&D centers or manufacturing facilities abroad. The differences between overseas branches depend on the strategies, the industries and the internationalized level of the enterprises.

A multinational can have one or more overseas branches. The number of overseas branches frequently reflects the level of internationalization. In fact, it is common in international business studies to use the number of overseas branches as a measure of internationalization of multinationals. According to Bartlett and Ghoshal, the most internationalized enterprises have vast integrated networks and mobilize various resources and knowledge in a world-wide scope.

This thesis adopts an eclectic definition: a multinational is an enterprise which owns one or more overseas branches and exerts control over it (them). Hence, this definition emphasizes overseas organizational expansion as the essential difference between multinationals and regular domestic enterprises. It does not regard the number of overseas branches or the types of overseas branches (sales or manufacturing) as the critical defining feature of multinationals.

A multinational is closely associated with foreign direct investment. A national enterprise frequently becomes a multinational through foreign direct investment. Foreign direct investment (FDI) is defined as "investment made to acquire lasting interest in enterprises operating outside of the economy of the investor." The FDI must enable a

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Some scholars argued that a multinational should have certain overseas branches (say, five or more). See Raymond Vernon, Sovereignty at Bay: the Multinational Spread of U.S. Enterprises (New York: Basic Books, 1971), 15.

Christopher Bartlett and Sumantra Ghoshal, Managing across Borders, 83-131.

This definition is similar to the ones of Mira Wilkins and Geoffrey Jones.

national enterprise to gain control over its foreign affiliates.\textsuperscript{40} The types of FDI are mainly Greenfield Investment,\textsuperscript{41} acquisition & merger, or joint venture (with controlling shares).

2.3 Early Chinese Multinationals before 1912

This thesis is based on a preliminary database of pre-1949 Chinese multinationals created by the author (Appendix A). This database, constructed by surveying both Chinese and English sources, includes both privately-run and government-controlled multinationals. The database shows that some early Chinese multinationals had already emerged in the second half of the nineteenth century.

Willingly or unwillingly, China’s modern internationalization began after the Opium War in the 1840s, when the interaction of the China’s domestic markets and the world markets was greatly expanded. It is understandable that some early Chinese multinationals were not recorded until after the middle of the nineteen century.\textsuperscript{42} After Japan opened its trading ports in the late 1850s,\textsuperscript{43} Chinese merchants from Shanghai and Guangdong provinces began to establish branches in Japan. Cheng Ji Hao (成記號

\textsuperscript{40} This is the difference between FDI and foreign portfolio investment. Foreign portfolio investment does not require controlling shares but simply holds securities such as foreign stocks, bonds and other financial assets.

\textsuperscript{41} A Greenfield Investment is investment in a manufacturing, office, or other physical company-related structure or group of structures in an area where no previous facilities exist. See http://en.wikipedia.org/wiki/Greenfield_investment (accessed December 11, 2007).

\textsuperscript{42} Chinese nautical history has over two-thousand-year history. But it is unclear whether Chinese maritime businessmen ever established overseas business branches. The main studies about Chinese maritime business have covers two topics: 1) Chinese immigrants established businesses in such foreign lands as Southeast Asia and Japan; 2) Chinese businessmen traded Chinese goods to Southeast Asia and Japan by ship and took foreign goods back to China. They seemed not to stay in foreign lands or hire somebody since the business network was so efficient and there was no need to use hierarchical management.

\textsuperscript{43} In 1859, Yokohama, Hakodate, and Nagasaki were opened. In 1867, Kobe was opened. In 1869, Osaka and Niigata were opened.
**chengji hao**, n.d.), headquartered in Shanghai, first established branches in Nagasaki, Hyogo and finally in Hakodate in 1867. Cheng Ji Hao specialized in seafood exports and its Hakodate branch exported kelp up to 5,520 tons in 1872. Many Chinese merchants from Jilin and Shandong provinces also established branches in Vladivostok, Russia. Ji Xiang Hao (紀祥號 jixiang hao, n.d.), headquartered in Harbin, Helongjiang province, handled flour exports and owned branches across the Far East of Russia in the late Qing period. It finally withdrew from Russia due to the Russian revolution in the early twentieth century.

Some traditional banks, so-called piaohao (票號), were also early multinationals in the late nineteenth century. In a perceptive article, Hamashita Takeshi revealed the transnational activities of a Shanxi bank, He Sheng Yuan (合盛元 heshengyuan, est. 1837). In 1883, the Qing government established trade offices in Seoul and other port cities in Korea. Following the governmental initiative, Chinese merchants from Guangdong and Shandong quickly entered Korea. The rise of Chinese business in Korea called for financial services. Takeshi writes that,

China-based merchants and financiers had not previously ventured abroad. Overseas Chinese merchants and exchange brokers had established themselves in immigrant communities; their networks were among Chinese from the same prefectures and line of business. When trade restriction was removed, Chinese merchants built networks among the open ports in East Asia. Unlike the business activities of overseas Chinese, which was between private parties, the bid to establish branches abroad required approval from both Qing and Meiji government. Bank branches functioned as an oversea network. Yet government involvement argues for regarding the initiative as an extension of Qing

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financial business.⁴⁶

He Sheng Yuan was established in 1837 and headquartered in Qi county, Shanxi province. Before entering Korea and Japan, He Sheng Yuan had already established a trans-regional multilateral network with over thirty branches in China. In 1907, He Sheng Yuan announced that it got the permission from the Japanese government to operate in Tokyo, Yokohama, Kobe, and Osaka. He Sheng Yuan also owned a branch in Inchon, Korea. He Sheng Yuan offered to Chinese merchants the services of silver exchange and fund transfer between China, Korea and Japan. The capital of its Kobe branch was 500,000 Chinese dollars.⁴⁷

In addition to He Sheng Yuan, several other traditional banks established branches in Singapore, Russia and India. Yuan Feng Yun (源豐潤 yuanfengyun, est. 1883) headquartered in Shanghai, and Tai Gu Zhuang Hao (太古莊號 taiguzhuang hao, est. 1899) headquartered in Shantou, both established branches in Hong Kong and Singapore.⁴⁸ Du Shen Yu (獨慎玉 dushenyu, est. 1906), headquartered in Shanxi, owned a branch in Moscow. This branch was closed in 1914 due to World War I.⁴⁹ In their heyday, these traditional banks owned five branches in Japan, two branches in Korea and two branches in India.⁵⁰ They played a role similar to modern banks of exchange. They

⁴⁸ Ibid., 364, 664.
⁴⁹ Ibid., 667. It is recorded that many other Shanxi trade businesses established branches in main cities in Moscow in the late Qing. See Lu Lvren, “Waimengu jianwen jilue” (my experiences in Outer Mongolia), in Wenshi ziliao xuanji Hedingben (general compilation of selected works of cultural and historical records), vol. 22 (Beijing: Zhongguo wenshi chubanshe, 1999), 66.
⁵⁰ See the map No. 18, in Wang Shangyi, Jinshang shangmao huodong de lishi dili yanjiu (studies on the historical geography of business activities of Shanxi merchants) (Beijing: kexue chubanshe, 2004). I have not found the exact names of the two Indian branches.
established branches in main commercial ports in Northeast Asia and Southeast Asia to undertake exchange transactions and settle debts and credits between different subjects.51

From the early 1860s, the Qing government initiated the “self-strengthening” movement to modernize Chinese military forces and industries. Under the system of “official-supervision, merchant-management,” China Merchants Steam Navigation Co. (輪船招商局 luchuan zhaoshangju, est. 1873) was another multinational of the late nineteenth century. From the 1840s, the Chinese oceanic steamship industry had been exclusively dominated by foreign powers; Western steamships became a symbol of imperialism. However, Western shipping companies in China not only introduced innovative technologies but also set a model for advanced managerial systems and organizational structures for modern Chinese shipping companies.52

Established in 1873, the China Merchants Steam Navigation Co. (CMSNC) represented the first modern steamship company owned and run by Chinese. From the outset, the CMSNC took responsibility to regain nautical rights both in China’s inland rivers and in the ocean. Unfortunately, the CMSNC was heavily constrained by the struggle between private commercial operation and official interference.53 However, the CMSNC was a pioneer of overseas exploration among Chinese shipping companies. To serve overseas Chinese in Southeast Asia, the CMSNC established its Singapore branch and Siam branch in 1879. In 1882, the CMSNC signed a ten-year contract with the Vietnam government. The CMSNC established two branches and invested 100,000 taels

51 For the detailed processes, see Hamshita Takeshi, “Overseas Chinese Financial Networks and Korea.”
52 See this theme in Kwang-Ching Liu, Anglo-American Steamship Rivalry in China, 1862-1874.
53 The principle of CMSNC was that the ownership and operational rights belonged to private merchants but the government had the right to supervise it. This complex quality of CMSNC increased the operational cost and reduced its competitive edge.
to construct two warehouses in Vietnam.

The nationalism of the self-strengthening movement and the availability of Chinese-owned steamships stimulated Chinese merchants’ ambition to explore Western markets. The first step was to establish a Chinese trading company for direct exports.\(^{54}\) While the CMSNC opened oceanic routes to Southeast Asia, Japan, Europe and America, in 1876, Tang Jingxing (唐景星 1832-1892), a prime manager of CMSNC, proposed to establish the Wang Yuen Trading Company (宏遠公司 hongyuan gongsi) to undertake direct exports of Chinese goods. Its headquarters would be in Shanghai and its operation center would be in London. The proposal called for private capital of 300,000 taels, one half of which would be sent to the London branch and the other half of which would be left in China to buy exporting tea and silks.\(^{55}\) However, Wang Yuen Trading Company was finally abolished since it proved impossible to collect this huge initial capital.

Instead, Li Zhaotang (黎兆棠 1827-1894), Minister of Steamships of the Qing government, established the Zhao Xing Trading Company (肇興公司 zhaoxing gongsi). The initial capital of around 200,000 taels was successfully collected from private Chinese merchants by 1881. The headquarters, headed by Liang Yunhan (梁雲漢 n.d.), was in Canton, while Liu Shaozong (劉紹宗 n.d.)\(^{56}\) and Liang Shaogang (梁紹剛 n.d.) were in charge of its London business. In 1882, Zhao Xing established a London branch.

To support the new enterprise, the Qing government applied the same taxation on the goods of Zhao Xing as those of foreign trading companies, and also asked the Chinese


\(^{55}\) Nie Baozhang, ed., *Zhongguo Hangyunshi Ziliao* (historical materials of modern Chinese steamship and shipping industries) (Shanghai: Shanghai renmin chubanshe, 1983), Vol. 1, the second part, 1097.

\(^{56}\) Liu was a previous comprador to Augustine Heard & Co. at Hankou in the 1860s. See Yen-p’ing Hao, *Commercial Revolution*, 172.
ambassador in Britain to oversee the company.\textsuperscript{57} The Zhao Xing London branch failed just within three years, however, for two reasons. First, Zhao Xing lacked business experience in Britain. Zhao Xing did not have a staff that was good at doing business in London. Second, British merchants purposely handicapped Zhao Xing. The attempt by Zhao Xing to directly export goods to Britain violated the interests of British trading companies.\textsuperscript{58} Generally, pre-1912 Chinese multinationals mainly clustered in the trading industry and to a lesser extent in traditional banking and modern shipping industries. Many of them directly or indirectly got sponsored by the Qing government.

2.4 Organizational Capability, Entrepreneurship and Environment

Chinese multinationals became a more notable phenomenon in a variety of industries (e.g. trading, banking, shipping and manufacturing) in the Republican era between 1912 and 1949. The database includes forty-eight cases, of which approximate forty were found in the Republican era (see Appendix A for the details). So, why and how did Chinese multinational arise intensively in the Republican era? This thesis proposes an interpretation combining three key factors: organizational capability, entrepreneurship and environment. This thesis argues that the dynamic interaction of organizational capability, entrepreneurship and environment fundamentally determined the rise and performance of Chinese multinationals in the Republican era between 1912 and 1949.

The \textit{first} factor is organizational capability. Organizational capability is the distinguishing feature of different performances of enterprises. There are two most influential definitions of organizational capability. In a path-breaking book, Richard

\textsuperscript{57} Nie Baozhang, ed., \textit{Zhongguo Hangyunshi Ziliao}, 1102.
\textsuperscript{58} Ibid., 1106.
Nelson and Sidney G. Winter defined organizational capability as “routines.” Routines are all regular and predictable behavior patterns of firms like technical routines for producing things, procedures for hiring and firing personnel, ordering new inventory, and advertising. These routines bring out a system of rules to control the organization, and offer a platform to carry on further innovation quickly and efficiently. Routines are extremely important since they protect businesses from unwanted or sudden changes and serve a template for replication in new ventures.

In addition, Alfred Chandler argued that organizational capabilities are the collective physical facilities and human skills as they are organized within the enterprise. These facilities and skills have to be integrated and coordinated into a unified operating entity if the enterprise is to compete effectively on a national and international scale. From Chandler’s perspective, the core of organizational capability is “hierarchy” or organizational structure. He wrote, “It is the existence of this hierarchy that makes the activities and operations of the whole enterprise more than the sum of its operation units.” Chandler argued that organizational capability originates from three-pronged investment and is honed by constant organizational learning.

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59 See Richard Nelson and Sidney G. Winter, An Evolutionary Theory of Economic Change (Cambridge: Harvard University Press, 1982), 14. The concept of routine is key in organizational learning literature. Based on the work of Nelson and Winter, scholars tend to define routine in a more stylized way. For example, in an influential article, Levitt and March distinguish formal routine and informal routine. They argue that “the generic term ‘routine’ includes the forms, rules, procedures, conventions, strategies, and technologies around which organizations are constructed and through which they operate. It also includes the structure of beliefs, frameworks, paradigms, codes, cultures and knowledge that buttress, elaborate, and contradict the formal routines.” See Barbara Levitt and James G. March, “Organizational Learning,” Annals Review of Sociology, 14 (1988), 319-40.
62 The three-pronged investments were in production (to get economies of scale and scope), in marketing (to establish a national and international marketing and distributing network) and in management (to recruit and train middle managers to administer the enlarged production and
Hierarchy-based and the routine-based organizational capabilities are not totally competing. Rather, they are complementary. Richard Nelson deftly molded them into a whole by considering the two theories functioning in different levels (general and practical). The structure, Nelson argued, defined the organization and governance of a firm in a general way, but not the details. In terms of the practical factors to determine organizational capability, he referred to “a hierarchy of practical organizational routines, which define lower order organizational skills, and how these are coordinated, and higher order decision procedures for choosing what is to be done at lower level. At any time the practiced routines that are built into an organization define a set of things the organization is capable of doing confidently.”

However stimulating their arguments, Chandler, and Nelson and Winter have neglected the external source of organizational capability. In the case of Britain businesses (multinationals) before the Second World War, Geoffrey Jones convincingly argued that Chandler’s thesis that the loss of competitiveness edge of Britain business was due to their inability to develop organizational capabilities similar to those of German or American businesses should be justified in terms of national culture and public policies. He argued that the concept of organizational capability should incorporate not only corporate structures but also value systems derived from national distribution). The three-pronged investments constitute the organizational capability. Moreover, constant organizational learning further enhanced organizational capability through time, which was solving problems related to “scaling up the production process; acquiring knowledge of customer’s needs and altering products and process to service them; getting to know the sources of supplies and the reliability of suppliers; and becoming knowledgeable in the ways of recruiting training, and motivating workers and managers.” See Chandler, *Scale and Scope*, 1-50 and Alfred Chandler and Takashi Hikino, “The Large Industrial Enterprise and the Dynamics of Modern Economic Growth,” Chap. In *Big Business and the Wealth of Nations* (New York: Cambridge University Press, 1997), 34.

specific cultures.\textsuperscript{64}

Organizational capability is defined in this thesis as the ability to mobilize internal resources, including physical resources, human resources, organizational resources and environmental resources, to implement organizational strategy and obtain organizational development. This definition is based on the resource-based view (RBV) from strategic management literature which considers a firm as a bundle of resources.\textsuperscript{65} It is noteworthy that organizational structure and routines are both essential parts of organizational resources. While the RBV mainly focuses on the internal resources of a firm, a logical extension of RBV is that the external environment (relative to an organization) could also be regarded as a bundle of resources. This definition adds environmental resources to the resource configuration of a firm, which is a useful development of RBV. Organizational capability hence incorporates environmental resources which are crucial for the development of a firm.

The second factor in determining the development and performance of Republican Chinese multinationals, entrepreneurship, is one of the most elusively defined concepts in social science studies.\textsuperscript{66} However, some core qualities of entrepreneurship are commonly


\textsuperscript{65} The resource-based view of the firm has been acknowledged as one of the key developments in strategic management and international business research in the past two decades. See Mike W. Peng, “The Resource-based View and International Business,” Journal of Management 27(2000). 803-829. This definition partly refers to the generalization of Jay Barney. Jay Barney, a leading scholar of RBV, generalized internal resources into three categories: physical resources, human resources and organizational resources. Physical resources include technology, equipment, geographical location, etc. Human resources include experience, intelligence, insights of individuals in an enterprise. Organizational resources include formal reporting structure, its formal and informal planning controlling and coordinating system, as well as informal relationships among groups within a firm and between a firm and those in the environment. See Jay Barney, “Firm Resources and Sustained Competitive Advantage,” Journal of Management, Vol. 17, No. 1 (1991), 99-120.

\textsuperscript{66} From the economic perspective, a complete survey once recognized twelve distinct definitions about the role of entrepreneurs: the person who assumes risk, who supplies financial capital, who is an
acknowledged: innovation, proactive behavior and risk-seeking action. It is noteworthy that entrepreneurship is both a mentality and a behavior or action. Entrepreneurs must be not only willing to take but actually take bold and innovative action to pursue opportunities.

Among various approaches, entrepreneurship as innovation, forcibly argued by Joseph A. Schumpeter, is probably most influential in entrepreneurship studies. Schumpeter characterized entrepreneurship as innovation and defined the entrepreneur as the person who carries out “new combination.” Schumpeter further argued that there are five patterns of new combinations. As Schumpeter wrote,

This concept (new combination) covers the following five cases: (1) The introduction of a new good— that is one with which consumers are not yet familiar—or of a new quality of a good. (2) The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially. (3) The opening of a new market, that is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before. (4) The conquest of a new source of supply of raw materials or half-manufactured goods, again irrespective of whether this source already exists or whether it has first to be created. (5) The carrying out of the new organization of any industry, like the creation of a monopoly position (for example through trustification) or the breaking up of a monopoly position.

innovator, who is a decision maker, who is an industrial leader, who is a manager, who is an organizer of economic resources, who is the owner of an enterprise, who is an employer of factors of production, who is a contractor, who is an arbitrageur, and finally who is an allocator of resources among alternative uses. See Robert Hebert and Albert Link, The entrepreneur: Mainstream Views and Radical Critiques (New York: Praeger, 1988), 152. Two economic interpretations are particularly influential. First, Joseph Schumpeter characterized entrepreneurship as innovation and defined the entrepreneur as the person who carried out “new combination.” See Joseph A Schumpeter, The History of Economic Development (Cambridge: Harvard University Press, 1934). Secondly, Ludwig von Mises and Israel Kirzner argued that entrepreneurship means alertness towards external profit opportunities. See Israel Kirzner, “Entrepreneurial Discovery and the Competitive Market Process: An Australian Approach,” Journal of Economic Journal, 35(1997), 60-85. From non-economics social sciences, sociologists and anthropologist emphasized the effect of social structure and culture on entrepreneurship. For example, Ronald Burt argued that entrepreneurship can be conceptualized as a way of connecting multiple networks. See Ronald Burt, “The Network Entrepreneur” and the articles of other authors, in Entrepreneurship: The Social Science View, eds. Richard Swedberg (Oxford: Oxford University, 2000).


Joseph Schumpeter, “Entrepreneurship as Innovation,” in Entrepreneurship: The Social Science...
The influence of Schumpeter’s interpretation of entrepreneurship is so overwhelming that the subsequent studies are either expanding his ideas or contrasting with them.\(^69\) However, it is noteworthy that the types of new combinations above are not exclusive since such innovations in finance, organizational structure and even network all should be credited.

Entrepreneurship is defined in this thesis as a combination of innovative, proactive and risk-taking willingness and actions to pursue opportunities or resources for the development of the whole organization. This definition is a working synthesis of the key characteristics of entrepreneurs. When a national enterprise initiates internationalization, the entrepreneur must combine innovative, proactive and risk-taking willingness and actions to pursue overseas opportunities and resources. Some scholars have advanced the concept of “international entrepreneurship.”\(^70\) But since it is frequently difficult to divide domestic entrepreneurship and international entrepreneurship, this thesis considers international orientation as an important element of entrepreneurship but does not independently define “international entrepreneurship.”

In addition, this thesis recognizes an entrepreneur as a person rather than an organization.\(^71\) Organizational entrepreneurship must eventually rest on individual

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\(^{70}\) For example, Patricia Philips McDougall and Benjamin M. Oviatt defined international entrepreneurship as “a combination of innovative, proactive and risk-taking that crosses national borders and is intended to create value in organization.” See Patricia Philips McDougall and Benjamin M. Oviatt, “International Entrepreneurship: The Intersection of Two Research Paths.” *Academy of Management Journal* 43, No. 5 (2000), 902-906.

\(^{71}\) The entrepreneurship studies in recent decades have distinguished individual entrepreneurship from organizational entrepreneurship. Individual entrepreneurship approach frequently defines an entrepreneur as the founder or the general manager and investigates why the entrepreneur acts, how he/she acts and what happens. Organizational entrepreneurship treats entrepreneurship as a firm
entrepreneurship. However, this thesis argues that relevant entrepreneurs should not be limited to the single top executive (i.e. general manager) but should also include middle managers or others. The role of middle managers was underestimated by Chandler who argued that middle managers just operated under the routines by using the resources already allocated. Chandler underestimated the initiatives or innovation activity of the middle managers. In terms of multinationals, once an overseas subsidiary is established, the subsidiary’s entrepreneurship becomes extremely important. The overseas branches are expected by their headquarters to create value for the whole organization. Due to their geographical distance, the overseas subsidiaries frequently enjoy quite a lot of autonomy. The entrepreneurship of the middle managers of overseas subsidiaries plays a crucial role in determining the performance of the overseas expansion of the enterprise as a whole.

The third factor to be considered in this study of Republican Chinese multinationals is environment. The home country and host country environment play a moderating role in the development of multinational enterprises. Contextual factors in the home country such as social climate, public policies, national culture or historical accidents may either benefit or impede the international operation of a national enterprise. The risks in the


Stephen Hymer talked about the role of historical accident (timing) in developing international operations. The historical accidents could be such external factors as the beginning of some favorable policies of the home or host governments or the wartime situation. The historical accidents may benefit or impede the international operation of a national firm. See Stephen Hymer, The International Operations of National Firms, 72.
host country result from, in brief, the liability of foreignness. The liability of foreignness is defined as “the costs of doing business abroad that result in a competitive disadvantage for an MNE subunit.” It involves costs associated spatial distance, unfamiliarity with host country environment, and the threats of the policies of the host country government.76

Simply put, the internationalization of Chinese multinationals was a result of dynamic interaction of organizational capabilities, entrepreneurship and environment. Organizational capability guarantees the possibility of mobilizing various resources to boost and support entrepreneurship in international expansion. Entrepreneurship is a fundamental motivation to overcome risks and pursue opportunities in foreign markets. Environment may either facilitate or hinder the internationalization process. Entrepreneurs may deftly make use of the favorable environmental elements to expedite their internationalization. For Chinese multinationals, the favorable elements in the external environment (such as a favorable public policy or Chinese nationalism) were employed by entrepreneurs (which were environment resources) and eventually became a part of organizational capability of the firm when Chinese multinationals entered international markets. In addition, Chinese entrepreneurs strived to reduce external adversities (such as defective public policy or wartime chaos) through mobilizing organizational capabilities. However, when the organizational capabilities of Chinese multinationals were not strong enough or they lacked good fortune, the international operation of Chinese multinationals were greatly endangered or even suspended.

This thesis argues that Chinese multinationals gained their organizational capability between 1912 and 1937. Before Chinese enterprises undertook internationalization, they

were frequently the leading enterprises in respective industries. Their honed organizational capability laid a solid foundation for the international operation of Chinese enterprises.

In addition, this thesis will show that Chinese entrepreneurs exhibited extraordinary international vision and ambition. They were aggressive in seeking opportunities in foreign markets and establishing overseas branches. These entrepreneurs attempted to mobilize various resources and develop organizational capability to overcome political, social and operational risks involved in their internationalization. They carried on Schumpeterian “new combinations” in international markets: they developed new products to meet particular demands in international markets; they were good at updating technology to serve their international operation; they exploited new international sources of raw materials; they even initiated international alliances with foreign multinationals. Moreover, the overseas subsidiaries of Chinese multinationals frequently played an active and important role in investigating foreign markets, marketing products, importing technologies and consulting. Hence, the dual entrepreneurshipships improved the competitiveness of Chinese multinationals in overseas markets.

Two basic stages can be identified in the internationalization of Chinese multinationals. Before the overseas subsidiaries were established, the organizational capability of the Chinese enterprises had been gradually honed by the augmentation of financial capital, the increasing operational experiences of entrepreneurs, and the routinization of activities through time. The top executives (entrepreneurs) perceived and began to commit organizational and external resources to explore opportunities of directly investing in a specific overseas market. While entrepreneurship initiates the goal
of direct investment, organizational capability justifies the organizational support to make the proposal real.

Once the overseas subsidiaries were established, the managers of overseas subsidiaries were ready to play their entrepreneurial role in foreign lands. The interaction of dual entrepreneurships of both domestic and overseas managers incessantly upgraded the international operation of national firms. The capability of the overseas subsidiaries was honed through accumulated experiences. The communication between the headquarters and overseas subsidiaries further fostered collective learning through transferring information and skills within the organization. Organizational capability of the whole multinational enterprise was hence upgraded.

However, the international operation of Chinese multinationals was greatly affected by the circumstances in China and in the world in the first half of the twentieth century. When Chinese enterprises initiated their overseas expansion mainly in the 1930s and the late 1940s, a series of adverse external factors arose. Due to the outbreak of WWII, the public policies of host countries, especially in Southeast Asia where Chinese multinationals clustered, imposed stricter regulations on foreign multinationals in terms of difficult registration, limited import quotas and heavy taxation. The Pacific War from late 1941 suspended the oceanic routes and closed vast overseas markets (particularly the Southeast Asian market). After 1945, when Chinese enterprises resumed their internationalization, the quick outbreak of the Chinese Civil War, the following economic chaos and the strict governmental regulation of foreign trade made international operation extremely difficult. By 1949, when the People’s Republic China was founded, except for such industries as egg and bristle exports, which had been sponsored by the Nationalist
government, Chinese multinationals generally lacked a stable external environments and good chances for internationalization.

On the basis of the framework of organizational capability, entrepreneurship and environment, Chapter 3 will give a general picture of how Chinese enterprises gained organizational capabilities, the role of entrepreneurship and the environmental constraints on their internationalization; Chapter 4 will offer four case studies of how Chinese multinationals arose and developed.
Based on the database created by the author, the four sections in this chapter will respectively discuss the formation of organizational capability, the role of entrepreneurship, and the characteristics of and impediments to the internationalization of Chinese enterprises between 1912 and 1949. The general survey in this chapter shows that organizational capability and entrepreneurship boosted the rise of Chinese multinationals while the external environment affected their performance. Chinese multinationals in the database formed their organizational capability between 1912 and 1937 due to internal entrepreneurial management and external environmental inducement. The organizational capability laid the foundation for the internationalization of Chinese enterprises in the database. In addition, entrepreneurship played a key role in seeking market opportunities, raw materials, efficiency and strategic assets in overseas markets. The database further shows that the high tide of Chinese multinationals was in the late 1930s, before the start of the Pacific War in 1941 and in the late 1940s, after the Second World War concluded. Chinese multinationals primarily invested in Southeast Asia and to a lesser extent in the United States and other parts of the world. Chinese multinationals in the Republican era clustered in the light and service industries. They were frequently the leading enterprises in their respective industries. However, the external adverse environment constituted the most serious challenge among many impediments to the
internationalization of Chinese enterprises.

3.1 Formation of Organizational Capability

An enterprise must gain a certain organizational capability before becoming a multinational.77 Chinese multinationals gained their organizational capability between 1912 and 1937, which, in the view of Marie-Claire Bergère, was “the golden age” for modern Chinese enterprises.78 To my knowledge, the concept of organizational capability has not been applied to study of Chinese enterprises.79 However, the Chandlerian paradigm80 centering on organizational structure has been widely transplanted in interpreting Chinese businesses.81 Nevertheless, the meaning of organizational capability

77 An exception may be the so-called “free-standing” enterprises of Britain, which were registered in Britain but all their activities were abroad. However, these special multinationals still called for collective capital and managerial capability. See Geoffrey Jones, “Great Britain.” This type of multinationals did not exist in modern China.
80 Alfred Chandler argued that American business history was characterized by a transition from premodern personal capitalism to modern managerial capitalism in the late nineteenth century. The technological breakthrough in transportation and communication stimulated the transformation in the patterns of economic organizations. The modern enterprises practiced a strategy of investing in both physical facilities and marketing and human resources. To support their strategy, they further developed specific structure with two key characteristics: multilevel managerial structure and dominance of middle-level managers. The competitive strategy and structure of these modern enterprises enabled them to dominate the national and even the international market. See Alfred D. Chandler, Jr., The Visible Hand: The Managerial Revolution in American Business (Cambridge: Harvard University Press, 1977).
81 As early as 1980, Sherman Cochran was probably the first to cite Chandler in Chinese business literature. He referred to the discussion about British American Tobacco Company in Chandler’s The Visible Hand. See Cochran, Big Business in China, 13. Wellington Chan in a 1982 article probably was the first to apply Chandler’s paradigm to analyze Chinese enterprises. He compared the
(as addressed in Chapter 2) includes that of organizational structure but goes well beyond it. This thesis argues that both external environmental inducements and internal managerial initiatives fostered the formation and development of organizational capability of Chinese multinationals in the Republican era.

The domestic and international environments between 1912 and 1937 were not completely favorable. Incessant military chaos, unstable political conditions, unjust privileges of foreign multinationals in China, and the shirking international market during the Great Depression all constituted serious challenges for the development of modern Chinese enterprises. Nevertheless, scholars have shown that Chinese modern enterprises not only emerged but also to some extent developed against all these environmental adversities before the Second Sino-Japanese War in 1937.82 John K. Chang argued that “a firm economic, social, and political foundation for modern economic transformation was being built during the prewar decade ending in 1937.”83

As a historical opportunity, the decline of imports and foreign competition from the
First World War until the early 1920s was a magnificent opportunity for the great rise of such Chinese import substitution industries as textile, cotton, and flour milling. Chinese governments between 1912 and 1937 set out to establish a system of modern economic institutions. Governmental initiatives induced the development of Chinese modern enterprises. For example, the 1914 Ordinance Concerning Commercial Association (公司條例 gongsi tiaoli) addressed in detail the organization and regulation of modern joint-stock companies. The weakening of the government between 1916 and 1927 granted more autonomy for the spontaneous development of Chinese new modern enterprises in industries such as banking, shipping, chemistry, and pharmaceutics.

The role of the Nationalist government between 1927 and 1937 was complex. Parks Cobles, Jr. convincingly showed that the Nationalist government mainly concerned with collecting tax revenues for supporting its military expenses rather than have a complete blueprint of developing China’s modern economy. In contrast, Thomas Rawski argued that the negative effects of military chaos and governmental exploitation on modern Chinese enterprises between 1912 and 1937 were modest. He brought out a more positive picture of market economy par excellence (in which private sector rather than public sector dominated). He argued that “China’s economic momentum was strong enough to produce a substantial growth spurt even in the face of impotent government, internal disorder, and external threats.”

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84 Marie-Claire Bergère, *Golden Age*, 64-83.
85 In fact, the late Qing state already initiated some modern institution in the early twentieth century such as the notable 1904 Company Law which was the first one in Chinese history.
government after 1927 in fact undertook a process of state-building of which the regulation of private enterprises was one part. Business-related codification was quickened: Law of Insurance (1929), Maritime Law (1929), Negotiable Instruments Law (1929), Trademark Law (1930), and a new Company Law (1929). Kirby indicated that the codification of these basic laws did not fundamentally improve the business environments. However, the number of modern Chinese enterprises indeed increased. By 1931, 17.53 percent of Shanghai’s industrial enterprises adopted joint-stock forms. By 1942, 28 percent of China’s industrial firms employed corporate forms. The leading enterprises in most industries adopted this modern governance structure.

Some initiatives of the Nationalist government directly boosted the internationalization of Chinese enterprises. As a tool used both to collect revenue and to protect Chinese industries, the tariff reform undertaken by the Nationalist government from 1929 to 1934 achieved tariff autonomy for China for the first time since 1860s and established protective tariffs for Chinese industries. Through imposing high import duties on light industrial products and relatively low import duties on heavy industrial products, Chinese import-substitution, particularly in light industry, advanced. In addition, the

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89 Ibid., 51.
90 Ibid., 52. The reasons for this small portion of modern corporate structure were complex. This was due to the vast number of small sole-proprietorial firms or partnership firms in China. In addition, the traditional social culture and institutions made Chinese investors prefer relying family control and familiar networks based on lineage or native place rather than investing in strangers. The third possible reason was the limited supply of modern managerial and technical personnel. Many incorporated enterprises were headed by the persons who had Western business knowledge such as compradors, overseas Chinese and foreign-educated students. See Xu Dingxin, *Zhongguo jindai qiye de keji liliang yu keji xiaoying* (Technological Power and Effect in Chinese Modern Enterprises) (Shanghai: Shanghai Academy of Social Science, 1995), 5-35. In addition to private enterprises, it is also worth noting that state enterprises in the Nationalist era basically adopted the joint-stock form.
91 Kubo specifically analyzed the changes of tariff on different industries. He found that tariff reform benefited such industries as the cement industry, the rayon textile industry, the cotton cloth processing industry, the woolen-spinning industry and the modern sugar industry. For the cotton-spinning and the
Bureau of Foreign Trade, established by Ministry of Industry in 1932, specialized in foreign trade investigation and statistics compilation. The Ministry of Industry further established a system of overseas commercial officers in 1936. These commercial officers were placed in Chinese overseas embassies and other important commercial ports with responsibility for reporting on the commercial situation of the host country with special reference to local demand for Chinese products.92

Equally important for international business, China began to have its own bank of foreign exchange. In 1928, the Bank of China (中國銀行 zhongguo yinhang) was changed to specialize in the business of international exchange.93 To keep up with leading banks from developed countries, it established overseas branches widely around the world. The overseas branches mainly dealt with foreign exchange for import and export, investment, and the remittances of overseas Chinese. By 1941, the Bank of China had seventeen overseas branches in such crucial commercial ports as London, New York and Osaka.94 The new function and organizational layout of the Bank of China benefited the international activities of Chinese business. For example, on August 31, 1946, the Nanyang Finance & Development Corporation (南洋企業公司 nanyang qiye gongsi, est.1940) asked the Bank of China to obtain information about four American companies,
including their financial standing, business integrity and mode of doing business. The New York office of the Bank of China forwarded the requested information to Nanyang on October 14, 1946.\textsuperscript{95}

Moreover, the frequency of boycott movements and national products movements in China and abroad (especially in Southeast Asia) were important external stimuli for the development of Chinese enterprises and were deftly employed by Chinese entrepreneurs.\textsuperscript{96} The Nanyang Brothers Cigarettes Company was famous for its ability to employ Chinese nationalism to undertake domestic and overseas expansion.\textsuperscript{97} Heaven’s Kitchen Factory (天廚味精廠 tianchu weijing chang, est. 1923) grew into the largest Chinese monosodium glutamate manufacturer by combining commercial activity and national rejuvenation.\textsuperscript{98}

Within a complex environment, Chinese multinationals honed their organizational capability between 1912 and 1937. Enterprises in light industry, such as Chinese Egg Produce Co., New Asiatic Pharmaceutical Co. (新亞制藥股份有限公司 xinya zhiyao gufen youxian gongsi, est. 1923), Mayar Silk Mills, China Can Co., Ltd. (康元制罐廠 kangyuan zhiguan chang, est.1922) and Nanyang Brothers Tobacco Co., imported advanced technology and machines and frequently adopted scientific management

\textsuperscript{95} Nanyang’s letter to Bank of China on August 31, 1946 and Bank of China to Nanyang on October 14, 1946, Shanghai Municipal Archives (SMA hereafter), Q373-1-291, pp. 10, 25.

\textsuperscript{96} Between 1908 and 1933, there were nine big boycott movements in China. See C.F. Remer, \textit{A Study of Chinese Boycotts: with Special Reference to Their Economic Effectiveness} (Baltimore: the John Hopkins Press, 1933). The national products movements were paralleling to the boycott movements. These two movements frequently interacted with each other and together embodied a strong nationalism atmosphere in the Republican era.

\textsuperscript{97} See Chapter 3 in Sherman Cochran, \textit{Big Business in China} for details about this company.

\textsuperscript{98} Karl Gerth, \textit{China Made: Consumer Culture and the Creation of the Nation} (Cambridge: Harvard University Press, 2003), 333.
methods. They undertook Chandlerian three-pronged investment in physical resources, marketing, and human resources. Enterprises in service and transportation industries such as the Kinchong Banking Corporation (金城银行 jincheng yinhang, est. 1917), the Shanghai Commercial & Savings Bank, Ltd. (上海银行 Shanghai yinhang, est. 1915) and Ming Sung Industrial Co., also borrowed Western management methods and changed their business methods, improving their competitiveness. Through constant vertical integration, modern Chinese enterprises gradually formed hierarchical organizational structure with the rise of professional middle managers. Generally, Chinese industry achieved an annual rate of growth of 13.8 percent between 1912 and 1920, while the overall rate between 1912 and 1936 amounted to 9.2 percent. By the mid-1930s, many of these modern enterprises had grown into big business groups enjoying economies of scale and scope.

Two issues about the formation of organizational capability of Chinese enterprises should be noted. First, Chinese enterprises frequently combined modern organizational structures/institutions and traditional Chinese business/social habits. Hence, family influence (i.e. paternalism) and native place relationships (such as in the recruitment of personnel and in the collection of capital) were often embodied in modern Chinese enterprises (such as Nanyang Brothers Tobacco Co. and Shenxin Cotton Co. in the database). Contemporary scholarly studies have come to stress the positive effect of this

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99 For a general discussion about the adoption of scientific management by Chinese enterprises in the Republican era, see Xu Dingxin, Zhongguo jindai qiye, 44-59.
100 For the banking industry, see Linsun Cheng, Banking in Modern China, 136-200.
101 For the role of professional managers in banking, see Ibid.
102 Bergère, Golden Age, 70.
103 See Zhongguo qiye shi (Chinese Business History), modern volume (Beijing: qiye guanli chubanshe, 2004), 528-41.
104 See the case in Chapter 4.
hybrid combination which strengthened trust and reduced transaction cost. This embedded organizational capability (in the Chinese context) constituted “organizational capability with Chinese characteristics.”

Secondly, foreign competition in China was a touchstone for Chinese multinationals. The presence of foreign multinationals had double effects. On the one hand, foreign competition hindered the development of Chinese enterprises. On the other hand, the pressure of foreign multinationals stimulated Chinese substitution industries. Wilkins has forcibly argued that domestic experiences laid a foundation for foreign investment of American multinationals. As a latecomer in industrialization, the Chinese market was internationalized only after the 1840s. Chinese enterprises were disadvantaged from the very beginning in terms of capital, technology, and management, and faced more fierce competition from foreign multinationals. Many Chinese enterprises failed, but many of them gradually learned how to improve their organizational capability in competition against foreign multinationals. Chinese multinationals were the enterprises that succeeded in competing against foreign multinationals in the Chinese domestic market.

105 For a general discussion, see Bergère, *Golden Age*, 140-152. For the banking industry, see Cheng, *Banking in Modern China*, 200-240. For the cotton industry, see the case of Dasheng Cotton Mills, Elisabeth Köll, *From Cotton Mill to Business Empire*. In terms of the hybrid institution, Köll called for more attention to hierarchical and institutional aspects of Chinese firms then the cultural aspects. See Köll, *Cotton Mill to Business Empire*, 283.

106 This view was upheld by most Marxian historians such as Wu Chengming. See Tim Wright, ed., *The Chinese Economy in the Early Twentieth Century: Recent Chinese Studies* (New York, N.Y.: St. Martin's Press, 1992). Scholars have reconsidered the function of the transfer of technology and management of foreign multinationals. The Sino-foreign competition was one of the main themes in Chinese business history. See Cochran, *Big Business in China*.

107 Wilkins argued that the American market was an experimental field for American multinationals. She especially emphasized the highest per capita income, sizable population and a big geographical area and the heterogeneity of American market, capital importing status, geographical location and public policy toward agreements in restraints of trade. American enterprises learned how to deal with complex business situations before they went abroad. See Mira Wilkins, “The History of European Multinationals: A New Look,” *Journal of European Economic History*, 15 (1986), 483-510.
Generally, Chinese multinationals, with special reference to the leading enterprises in each industry, gained and refined their organizational capability between 1912 and 1937. They gradually became familiar with the overseas markets that they would enter in the future. Their organizational capability and expanding international vision prepared them to undertake internationalization.

3.2 Entrepreneurship

Contemporary Chinese business historians have recognized that entrepreneurship played an important role in the rise of modern Chinese enterprises. However, few studies have examined the role of entrepreneurship in the international expansion of Chinese enterprises in the Republican era. Without in-depth empirical investigation,

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108 Early scholars focused on entrepreneurial failure of Chinese businesses. Marion J. Levy argued that traditional kinship or familism impeded Chinese entrepreneurship. See particularly the first essay in Marion Levy, The Rise of the Modern Chinese Business Class: Two Introductory Essays (New York: International Secretariat, Institute of Pacific Relations, 1949). Albert Feuerwerker argued that Chinese businessmen lacked adequate motivation. See Albert Feuerwerker, China's Early Industrialization. The theme of entrepreneurial failure has been challenged since the 1970s. During the 1970s and 1980s, historians have found extensive cases in different industries which show that China did not lack entrepreneurs. Yanping Hao argued that compradors, as middlemen between foreign and Chinese businesses since 1840s, were in fact entrepreneurs. They were suppliers of funds, competent managers, risk-takers as well as innovators. Yanping Hao, “Entrepreneurship and the West in East Asian Economic and Business History,” Business History Review 56, No.2 (1982), 149-154. Thomas G. Rawski found that the entrepreneurial spirit also existed in the producer industry. Taking Da Lung Machinery Works as an example, he detailed how the engineering entrepreneurs, who had mostly studied abroad, successfully overcame technological, financial and market difficulties, and operated Da Lung as a leading machinery factory in Shanghai. See Thomas G. Rawski, “The Growth of Producer Industries, 1900-1971,” in China’s Modern Economy in Historical Perspective, ed., Dwight H. Perkins (Stanford: Stanford University Press, 1975), 207-211. In the cigarette industry, Sherman Cochran argued that Jian Zhaonan, the founder and chief manager of Nanyang Brothers Tobacco Company, embodied Schumpeter’s entrepreneurial ideal since he fit all the five criteria of Schumpeter’s categories of entrepreneurship. Sherman Cochran, Big Business in China, 214.

109 Some scholars did examine the entrepreneurship of overseas Chinese businessman when they invested in mainland China. For example, Wellington Chan discussed how Chinese entrepreneurs from Australia established such department stores as the Sincere and Wing On Companies. See Wellington Chan, “Personal Styles, Cultural Values and Management: The Sincere and Wing On Companies in Shanghai and Hong Kong, 1900-1941,” Business History Review 70, No.2 (1996), 141-166. With a case of Zhangyu Wine Company and its founder Zhang Bishi, Michael Godley investigated how a Chinese businessman from Southeast Asia found a new market for the grape wine
some studies have simply concluded that Chinese enterprises lacked the ambition of overseas expansion in the Republican era. In fact, existing studies have underestimated the initiative and ambition of Chinese entrepreneurs to pursue opportunities in overseas markets.

For example, China’s modern foreign trade was long controlled by foreign trading companies. Many factors impeded direct exports of Chinese enterprises: the small capital of the Chinese exporters, the lack of strong Chinese insurance and oceanic shipping companies, unfamiliarity with foreign markets, the lack of credibility of Chinese enterprises. However, Chinese entrepreneurs never ceased to pursue direct exports. In fact, establishing overseas branches for direct exports had been an important motivation for Chinese multinationals since the late nineteenth century. Zheng Yuanxing (鄭源興 1891-1955), President of Chinese Egg Produce Company, once boldly argued that “The foreigners can build refrigerating plants in China and collect eggs. Why can’t we Chinese establish a plant and sell the egg products abroad?” In the National Industrial and Commercial meeting hosted by the Ministry of Industry in 1930, Chinese entrepreneurs submitted various proposals to develop direct exports.


110 Pan Junxiang, Jindai Zhongguo guohuo yanjiu (studies on National Products Movement in modern China) (Shanghai: Shanghai Academy of Social Science, 1998), 258-259. Also see Chen Qianping and Jiang liangqin, “Jindai yingguo zai hua zhijie touzi pingxi” (Studies on British direct investment in modern China), in Jindai zhongguo de jingji yu shehui (Economy and Society of Modern China), Zhu Yingui and Dai Angang, eds. (Shanghai: Fudan University Press, 2006), 240.

111 Shanghai shangye chuxu yinhang shiliao (historical records of The Shanghai Commercial & Saving Bank, Ltd.) (Shanghai: shanghai renmin chubanshe, 1990), 203.

112 See the Zhao Xing Trading Company case in 2.3.

113 Ning Jennifer Chang, “Vertical Integration.”

114 These plans included establishing Chinese oceanic shipping industry and strengthening collaboration between exporters. Quanguo gongshang huiyi huibian (the compilation of national industrial and commercial meeting), Vol.1, (Nanjing: wenhai chubanshe, 1931), 113, 116, 133, 143.
The foreign experiences of many entrepreneurs behind Chinese multinationals may have helped constitute international entrepreneurship and expedited international operation.\(^\text{115}\) For example, in the database, Xue Shouxuan (薛壽萱 1900-1972), the general manager of Yang Tai Co., was a graduate of the University of Illinois economics department.\(^\text{116}\) Cai Shengbai (蔡聲白 1894-1977), president of Mayar Silk Mills, graduated from Leigh University in Pennsylvania.\(^\text{117}\) Zhang Jia’ao (張嘉敖 1889-1979), president of the Bank of China, and Zhou Zuomin (周作民 1884-1955), president of Kinchong Banking Corporation, were educated in Japan.\(^\text{118}\) Chen Guangfu (陳光甫 1881-1976), president of The Shanghai Commercial & Savings Bank, Ltd, graduated from the Wharton School, University of Pennsylvania.\(^\text{119}\) Gu Gengyu (古耕虞 1905-2000), president of Sichuan Animal Byproduct Trading Co., Ltd. (四川畜產公司 Sichuan chuchang gongsi, est. 1937), graduated from Shanghai’s Saint John's University.\(^\text{120}\) Gu spoke fluent English and was familiar with international trade. The biculturality of these entrepreneurs gave them some advantages. Thanks to their familiarity with foreign

\(^{115}\) Scholars have noted that approximately one-third of the entrepreneurs of the major Chinese modern enterprises were either foreign-educated students or overseas Chinese. See Toru Kubo, “Zhongguo qiye jingying shishang de huaqiao he liuxuesheng” (Overseas Chinese and Foreign-educated Students in Chinese Business History), in Qiye fazhang zhong de zhidu bianqian (Institutional Change in Chinese Business History), Zhang Zhongmin and Lu Xulong, eds. (Shanghai: Shanghai Academy of Social Science, 2003), 82-94.

\(^{116}\) See Wanghai, “Wei fazhan zhongguo siye er fendou” (Struggling for developing Chinese silk-reeling industry), in Jiangsu wenshi ziliao (The Cultural and Historical Records in Jiangsu), no. 34 (1989), 180-193.


\(^{118}\) Zhang Jia’ao studied finance and economics in Keio University in Tokyo. Zhou Zuomin studied law at Kyoto Imperial University in Japan. See Linxun Cheng, Banking in Modern China, 51, 56.

\(^{119}\) About Chen Guangfu, see the introduction in Linxun Cheng, Banking in Modern China, 47-8.

\(^{120}\) See “Gu Gengyu,” in Kongling Ren and Li Dezheng, eds., Zhongguo jindai qiye kaituozhe, 110-20. Saint John's University was established in 1879 by Samuel Isaac Joseph Schereschewsky, Bishop of Shanghai, through combining two pre-existing Anglican colleges in Shanghai. It was one of the most famous universities in China before 1949.
markets and business organizations and methods, the biculturality reduced perceived risks of internationalization.\textsuperscript{121}

In addition, other entrepreneurs of Chinese multinationals, who were not foreign-educated, frequently had broad real-world experiences dealing with international business. Zheng Yuanxing once worked for foreign trading companies. Jian Zhaonan (簡照南 1870-1927), president of Nanyang Brothers Tobacco Company, had considerable overseas business experience in Southeast Asia.\textsuperscript{122} These experiences enabled these entrepreneurs to gain an international vision, adopt advanced technologies and make use of potential overseas networks.

The forces that fundamentally motivated entrepreneurs to internationalize their enterprises might have been “the dream and the will to found a private kingdom,” “the will to conquer” and “the joy of creating” as suggested by Schumpeter.\textsuperscript{123} Xu Guanquan (許冠群 1899-1972), president of New Asiatic Chemical Co. (NACC), had little foreign experience.\textsuperscript{124} His entrepreneurial ambition and acumen allowed him to dream of establishing an empire of Western medicine in China and Southeast Asia.\textsuperscript{125} Under his leadership, NACC collected new stock shares several times in the 1930s to finance its overseas expansion. After 1939, NACC expanded its marketing network to Southeast Asia. It established sales offices in Singapore, Malaysia, Bangkok, Vietnam and Burma.

\textsuperscript{122} Sherman Cochran, \textit{Big Business in China}, 55-7.
\textsuperscript{123} Joseph A. Schumpeter, “Entrepreneurship as Innovation,” 60.
\textsuperscript{124} Xu Guanqu was an accountant in a silk reeling factory in Shanghai before he founded NACC. See “Xu Guanqu,” in Kongling Ren and Li Dezheng, eds., \textit{Zhongguo jindai qiye kaituozhe}, 560-67. Sherman Cochran described the domestic development of NACC. However, he did not talk about the overseas activities of NACC. See Sherman Cochran, \textit{Chinese Medicine Men}, 89-116.
\textsuperscript{125} Xu Chao, “Xinya yaochang 30 nian de huigu” (my memory of New Asiatic’s thirty years), in \textit{Shanghai wenshi ziliao cungao huibian} (Collection of Shanghai existing historical and cultural Resources) (Shanghai: Shanghai guji chubanshe, 2001), vol. 6, p. 321. Xu Guanqu and Xu Chao were the same person.
In the Philippines, NACC established Manila Trading Company.\textsuperscript{126}

Entrepreneurship represents a combination of the acumen to discover opportunities and the courage to pursue them. Once opportunities emerged in the international market, Chinese entrepreneurs frequently committed resources to pursuing them. The specific goals of multinationals to invest in overseas countries are diverse. Generally, the four main types of entrepreneurship in international business are marketing-seeking, resource-seeking, efficiency-seeking and strategic-assets-seeking.\textsuperscript{127}

Most Chinese multinationals were market-seeking. About forty Chinese multinationals in the database established overseas branches for direct exports from the late nineteenth century to the late 1940s. Just take a few industries as examples. In the trading industry, to explore the European and American markets, Chinese Tea Corporation (中國茶公司 Zhongguo cha gongsi, est. 1938) established an office in London in 1937 and offices in New York, San Francisco and Chicago in 1939. Due to its official background, its overseas expansion was greatly assisted by Chinese consuls.\textsuperscript{128} To explore the Southeast Asian markets, the Nanyang Development & Finance Corporation

\textsuperscript{126} Xu Chao, “Xinya yaochang.”

\textsuperscript{127} Market-seeking aims to satisfy a particular foreign market. Resource-seeking aims to gain access to natural resources. Efficiency-seeking aims to promote a more efficient division of labor or specialization of an existing portfolio of foreign and domestic assets by MNEs, which is often followed by the previous two activities. Strategic-asset-seeking aims to protect or augment the existing ownership advantage of the MNE as a whole. See John H. Dunning, “The eclectic paradigm as an envelope for economic and business theories of MNE activities,” *International Business Review* 9 (2000), 163-190.

\textsuperscript{128} After 1937, the Chinese Tea Corporation sponsored by Trade Adjustment Committee monopolized Chinese tea export. Chinese tea was first bought and then exported by the Chinese Tea Corporation. The Trade Adjustment Committee (貿易調整委員會) was established in October 1926 which was directed by Ministry of Finance. The original goal of the government was to encourage export and gain foreign exchange. At the very beginning, the government encouraged the exports of 24 items. The merchants first guaranteed to submit foreign exchange to the state and get the letter of credit from national bank. Up to 1939, the Trade Committee began to nationalize the trade of minerals, teas and bristles and tung oil. All the export of these four items was regulated by the committee. See “Zhongguo chagongsi sheli niuyue jiujinshan ji zhijia ge jingli chu” (Chinese Tea Company established offices in New York, San Francisco and Chicago), The Second Historical Archives of China, 4-26353.
established trading branches in Vietnam, Siam, British Malaya and the Philippines in 1940 and 1941.\textsuperscript{129} To fully exploit the opportunity of overseas Chinese nationalism stimulated by Sino-Japanese warfare,\textsuperscript{130} National Products Union Co. (中國國貨聯營公司 Zhongguo guohuo lianying gongsi, est. 1937) founded the Singapore National Products Company (新加坡國貨公司 xinjiapo guohuo gongsi, est. 1939) in the hope of forming a Malaysian national products network centering on Singapore.\textsuperscript{131} In the silk industry, the United States had been the most important raw silk consumer and silk-weaving center since late nineteenth century.\textsuperscript{132} Nantong Silk Product Company (南通

\textsuperscript{129} The Nanyang Development & Finance Corporation was established in Shanghai by Chinese entrepreneurs wishing to specialize in the Southeast Asian trade in 1939. This company was invested by Chinese banks (particularly Kinchong Banking Corporation) and overseas Chinese with 5 million Chinese dollars. It planned to establish branches in Singapore, Thailand, the Philippines, Malaya, Burma, and the Dutch East Indies. For each branch, Nanyang Development & Finance Corporation and overseas Chinese respectively invested a half of capital. In each branch, the Chairman must be President of local overseas Chinese Chamber of Commerce and the managers should be appointed by Nanyang Development & Finance Corporation. In 1940, Thailand Nanyang was first established with a capital of 500,000 Thailand dollars. See Jincheng yinhang shiliao (The Historical Records of Kinchong Banking Corporation) (Shanghai: Shanghai renmin chubanshe, 1983), 610-612.

\textsuperscript{130} Karl Gerth’s China Made is the most comprehensive study of the national products movement in the Republican era in English. However, he sheds very little light on National Products Union Co.. To echo the boycott movement and market national goods, Chinese banks (represented by the Bank of China under the leadership of Zhang Jia’ao) and Chinese entrepreneurs organized Chinese National Products Manufacturers and Distributors Cooperative Association (中華國貨產銷協會) in August 1932 in Shanghai. In February 1933, Shanghai National Products Company (中國國貨公司) was first established and more than ten National Products Company were established by 1936. In this cooperative system, Chinese factories supplied various products, Chinese banks offered financial support, and various National Products Companies were in charge of marketing and sale. To consolidate these National Products Company as a whole, Nation Products Union Company (中國國貨聯營公司) was established in 1937 in Shanghai.

\textsuperscript{131} National Products Union Co. was established in 1937 with a capital of 2 million Chinese dollars. The Nationalist government invested one-third and national factories invested the rest. This company effectively coordinated various resources among factories, banks and National Products Companies., The Singapore company aimed to collect 200,000 Singapore dollars, one-fourth of which was invested by National Products Union Co. and the rest of which was to be collected from local Chinese. However, due to the outbreak of WWII in Europe, the colonial government strictly regulated the registration of joint-stock company. Singapore National Products Company was eventually registered as a sole-propriety company. See Zhongguo guohuo lianhe yingye gongsi shizhounian jinian kan (The Tenth Anniversary Pamphlet of Nation Products Union Company) (Tong Wen yinshushe, 1947), 161-2.

紡品公司 Nantong xiupin gongsi, est. 1920）established a sales office in New York in 1926. In 1935, the Yang Tai Silk Company （永泰絲廠 yontai si chang, est. 1927）established the Yang Tai Co., Inc. in New York for direct exports. Mayar Silk Mills established sales offices in Singapore in 1939, in New York in 1946, and in Thailand in 1947. In the pharmaceutical industry, the New Asiatic Chemical Company and Sine Laboratories & Co., Ltd (信誼制藥公司 xinyi zhiyao gongsi, est. 1925) established overseas sales offices to explore Southeast Asian markets directly.

Some Chinese multinationals in the database were resource-seeking. However, very few Chinese multinationals established overseas branches for exploiting local raw materials. In the database, New Asiatic Chemical Co. employed its Southeast Asian branches to import some key raw materials to produce certain medicines. In early 1941, NACC sent Zheng Xitao (n.d.), an employee of NACC, to establish an office in Batavia, the Dutch East Indies. The task of Zheng Xitao was both to market products of NACC and to procure a particular bark and sugar residue. Since no such materials were imported into China, these raw materials were to be used for medicine production and to gain a monopoly advantage in the market. The Nanyang Brothers Tobacco Company also initiated a joint venture in the United States to procure tobacco leaves in 1918. In order to obtain various commodities, grocery stores such as Dong Lin Store (東林店

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133 Zhongguo qiye shi (Chinese Business History), modern volume (Beijing: qiye guanli chubanshe, 2004), 551.
134 Yang Tai Silk Company was a leading silk-reeling company established by Xue Nanneng in 1896 in Wuxi, Jiangsu province. See Yan Xuexi, “Shengsi waimao yu zhongguo siye dawang Xue Shouxuan” (The Foreign Trade of Raw Materials and The King of Chinese Silk Industry Xue Shouxuan), Mingao dang’an (Archives in the Republican era), no. 1(1988), 87.
135 Shanghai Jindai xiyao hangye shi (The Western Pharmaceutical Industry in Modern Shanghai) (Shanghai: Shanghai shehui kexueyuan chubanshe, 1988), 265.
136 Xu Chao, “Xinya yaochang,” 326.
137 For the details, see the Nanyang case in Chapter 4.
Tong Feng Yuan (同豐源 tongfengyuan, est. 1913) and Tong Ji Department Store (同記百貨 tongji baihuo, est. 1903) established procurement branches in Osaka in the mid-1910s.138

Very few Chinese multinationals were efficiency-seeking. There were very little Chinese direct investment in overseas manufacturing in the Republican era. The Nanyang Brothers Tobacco Company is the only case of overseas manufacturing in the database. In 1919, Nanyang established a sales office in Surabaya in the Dutch East Indies. To further integrate production and sales in Southeast Asia and to avoid the high import duties in the Dutch East Indies, Nanyang established a manufacturing factory in the Dutch East Indies in 1930.139

A few Chinese multinationals in the database might be strategic-assets-seeking. This type clustered in banking. Major Chinese private banks, represented by Kinchong Banking Corporation and The Shanghai Commercial & Saving Bank, Ltd. (SCSB), frequently undertook overseas investment in large industries (except banking) in order to exploit fully their financial advantages and obtain a high return on their investment.140

Kinchong established Tong Cheng Co. (通成公司 tongcheng gongsì) in New York in 1948 with capital of USD 100,000. New York Tong Cheng, with a manager, a vice-manager and an accountant, aimed to do international trade, but had closed by 1949 when

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139 For the details of this overseas factory, see the Nanyang case in Chapter 4.

business proved to be insufficient. In 1945, SCSB established its New York Respondent Office. Between 1945 and 1947, SCSB also undertook several joint ventures in the United States with a total investment of several million US dollars. For example, SCSB and Zhejiang Industrial Bank (浙江實業銀行 Zhejiang shiye yinhang, est. 1915) respectively invested one million US dollars to establish the China Industrial Co. (中國投資公司 Zhongguo touzi gongsi) in 1945, with the aim of absorbing American capital for investment in postwar Chinese construction.

Of course, not all foreign direct investment resulted from pure entrepreneurship. Some direct investment was a mix of entrepreneurship and self-protective capital escape. The capital escape was particularly notable in the late 1930s and 1948 and 1949. Kinchong Banking Corporation established Youlian Investment Company (友聯投資公司 youlian touzi gongsi) in the Philippines in 1940 to avoid Japanese regulation of foreign exchange. In the late 1940s, some textile factories began to invest in foreign countries such as Thailand and Brazil. The joint venture undertaken by Shenxin Textile Company with the Thai government in early 1949 was also an example of this type.

3.3 Internationalization

The database, created by surveying both Chinese and English resources, reveals approximately forty Chinese enterprises which undertook organizational

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141 Jincheng yinhang shiliao, 852-853.
142 Chenguangfu yu Shanghai yinhang (Chen Guangfu and Shanghai Commercial & Savings Bank) (Shanghai: zhongguo wenshi chubanshe, 1991), 40-41.
143 SMA, Q275-1-278, April 16th, p. 35.
144 Jincheng yinhang shiliao, 579.
internationalization in the Republican era. This is certainly not a complete list but it is enough to show the trend of Chinese multinationals in the Republican era. As the previous two sections reveal, most of these Chinese multinationals formed their organizational capability between 1912 and 1937. They were entrepreneurial enough to explore overseas markets. The combination of organizational capability and entrepreneurship eventually constituted the development of Chinese multinationals in the Republican era. This section will discuss the timing, geographical distribution, industrial distribution and patterns of Chinese multinationals in the Republican era.

As indicated by the database, Chinese multinationals emerged throughout the Republican era. However, 1938 to 1941 and 1945 to 1947 seem to have been the two main periods for the rise of Chinese multinationals. By the late 1930s, Chinese multinationals had developed their organizational capability. In addition, the outbreak of the Sino-Japanese war not only blocked domestic transportation but also greatly reduced the demand from the Chinese domestic market. Hence, many Chinese enterprises set out to explore Southeast Asian markets. Mayar Silk Mills, New Asiatic Chemical Co., Ltd., Chinese Product Union Co., and Nanyang Development & Financial Co. all established branches in Southeast Asia at this time. However, the outbreak of the Pacific War in late 1941 suspended most of these international operations. After 1945, foreign multinationals (except the American companies) in China were greatly weakened. With the glories of the victory of WWII, Chinese entrepreneurs commonly held optimistic attitudes toward international business with special reference to Sino-U.S trade. China Travel Service, Ming Sung Industrial Co., Sichuan Animal Byproduct Trading Co., Ltd, and Mayar Silk Mills, Ltd all established branches in the U.S. in the years from 1945 to 1947.
Geographically, China had close economic relationships mainly with four overseas markets during the Republican era: Europe (represented by Britain), the United States, Japan and Southeast Asia. European countries, the United States and Japan were established or newly industrialized countries. Comparatively, they had advantages in manufacturing while China had simply advantages in labor cost and raw materials. The database shows that most Chinese multinationals invested in Southeast Asia in the late 1930s. After 1945, however, Chinese investment in Western countries became a notable trend.

Chinese multinationals concentrated mostly in Southeast Asia. On the same (or even lower in some industries) level of development as China, Southeast Asia was a valuable product and raw material market for Chinese enterprises. In addition, geographical closeness (compared to other overseas markets) and sizable overseas Chinese communities made the marketing selling Chinese goods both spatially and psychologically convenient. In 1936, the Surabaya Chinese Chamber of Commerce proposed to the Nationalist government that it establish overseas national goods agents to design and export Chinese goods to Southeast Asia on a larger scale. In the mid-1930s, the exploration of Southeast Asian markets became a major objective of Chinese enterprises. In 1935, a Chinese business delegation, organized by leading Chinese industrial enterprises, directly marketed thirty-five Chinese products in Southeast Asia.

146 Fan Weiguo, “Jindai waimao leixing fenx jiqi dui zhongguo gongye hua de yingxiang” (The Patterns of Modern Foreign Trade and Their influences on Chinese Industrialization 1900-1937), in Shijie tizhi xia de minguo shiqi jingji (The Economy in the Republican era in the World System), Zhang Donggang, ed. (Beijing: zhongguo caijing chubanshe, 2005).
147 Jan Johanson and Jan-Erik Vahlne emphasized that multinationals first invested in places of geographical or cultural closeness. See Jan Johanson and Jan-Erik Vahlne “The Internationalization Process of the Firm.”
They found that Chinese products were much welcome and they got orders worth 1, 600,000 Chinese dollars. This trip greatly stimulated the direct participation of Chinese enterprises in the Southeast Asian market.149

Places such as Hong Kong, Taiwan or Macao were Chinese territory but occupied as colonies by foreign powers during the Republican era. Hong Kong in particularly was an important target of investment from mainland China. This thesis will not treat Chinese enterprises that had branches in Hong Kong as multinationals (which would greatly increase the number of Chinese multinationals). But it is necessary to emphasize the significance of Hong Kong in the internationalization process of Chinese multinationals.

The reasons that Chinese enterprises invested in Hong Kong are a complex mix of the pursuit of business opportunities and capital escape. Hong Kong was a duty-free and international finance and transportation port.150 Hong Kong was frequently the first station for the internationalization of Chinese enterprises.151 By the second half of 1940, approximately 432 mainland-based factories moved to Hong Kong. Shanghai industrial enterprises invested dozens of millions of Chinese dollars in Hong Kong.152 After the outbreak of the Sino-Japanese War in 1937, domestic production and transportation were

150 The Hong Kong government was also hospitable to immigrant entrepreneurs. Comparatively, the Southeast Asian countries gradually imposed restriction on the entry of Chinese people since the late 1930s. Before the collapse of the Nationalist government in China, they closed their doors to Chinese immigrants. The United States also granted a very small number of visas to Chinese with only 105 annually after 1943. See Wong Siulun, Emigrant Entrepreneurs: Shanghai Industrialists in Hong Kong (Hong Kong: Oxford University Press, 1988), 20-21.
151 There are no comprehensive statistics to distinguish Chinese enterprises headquartered in Hong Kong and Hong Kong branches of mainland-headquartered enterprise. Stephanie Po-yin Chung has a list of major Chinese business registered in Hong Kong, 1880-1933. She has not distinguished these two kinds of enterprises. See Stephanie Po-yin Chung, Chinese Business Groups in Hong Kong and Political Change in South China, 1900-1925 (New York: St. Martin's Press, 1998), 171.
152 Zhang Li, “1937-1941 xianggang huazi gongye fe fazhan” (The Development of Chinese Industries in Hong Kong 1937-1941), Modern China Research Forum, see http://jds.cass.cn/Article/20050916131416.asp (accessed December 18, 2007).
hindered. Many Chinese enterprises began to invest in Hong Kong and attempted to develop Southeast Asian markets. In October 1938, NACC established Hong Kong New Asiatic Chemical Works, Ltd with a capital of 80,000 Hong Kong dollars. The Hong Kong branch focused on three businesses: pharmaceutical, printing and foreign trade. NACC published an English pamphlet called *Modern Therapeutics* and printed five thousand copies in Hong Kong for advertising in its Singapore office in 1939.

In the late 1940s, the domestic chaos of the Chinese Civil War further boosted Chinese capital outflow to Hong Kong and Taiwan. To avoid the depreciation of assets due to domestic inflation, Chinese enterprises attempted to change their assets into stable Hong Kong dollars through investing in Hong Kong. In addition, the import regulation of the Nationalist government in the late 1940s constrained the availability of foreign exchange and imposed strict import quotas. Hong Kong was considered a liberal trade port and a platform to explore Southeast Asian markets. For example, many machines ordered by Chinese textile factories could not be imported into China due to the foreign exchange and import quota constraints. By April 1948, Shanghai textile factories established five new factories in Hong Kong with a total investment of over eighty-three million Hong Kong dollars. Additionally, many Chinese banks such as the Kinchong Banking Corporation and the Zhejiang Industrial Bank established branches in Hong Kong.

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153 See “No. 58 Board Meeting Record of New Asiatic Chemical Co.,” April 25, 1938, SMA, Q38-40-22, p. 44.
155 Direct investment was just one pattern of capital escape. Many Chinese businesses invested into foreign securities.
156 “Kangzhanhou shanghai zijin liuxiang xianggang shiliao yize” (One Historical Record about the Outflow of Shanghai capital to Hong Kong after WWII), *Archives and History*, no. 4(1988), 48-50.
157 Wang Ju, *Shanghai minfangchiye de zuihou huihuang*, 199.
158 The investors were Da Tong (大同), Shexin No. 1 and No.9 (申新), Zhongfang (中纺) and Qingfeng (慶豐). In September 1948, Shexin No. 6 Factory invested in Taiwan. Ibid., 200.
Chinese multinationals tended to concentrate in service industries and light industries rather than heavy industries with its complicated technology and huge fixed capital. During the formation period of organizational capability between 1912 and 1937, light industries such as textiles, flour-milling, cigarette manufacturing, and match-making were more developed than heavy industries which produced machinery and equipment.\(^{159}\) It was easier to develop organizational capability in light industry than in heavy industry. The database shows that those light industries in which Chinese multinationals emerged included cigarette manufacturing, silk-weaving and steeling, chemicals, bristle manufacturing, egg manufacturing industries, and can manufacturing. Additionally, the service and transportation industries in which Chinese multinationals clustered included banking, shipping, and trading industries.

Chinese multinationals seemed the leading companies in each industry.\(^{160}\) The Mayar Silk Mills, The Chinese Egg Produce Company, The Ming Sung Industrial Co., The New Asiatic Chemical Co., Ltd., The Yang Tai Silk Company, The Nanyang Brothers Cigarette Co., The Sichuan Animal Byproduct Trading Co., The China Can Co., Ltd. were the biggest private Chinese enterprises (in terms of scale and assets) in their respective industries in the Republican era. The Shanghai Commercial & Savings Bank, Ltd., the Kinchong Banking Corporation, and the China United Assurance Society, Ltd. (華安保險公司 Hua’an baoxian gongsi, est. 1912) were leading private enterprises in

\(^{159}\) Bergère argued that the predominance of light industry was due to delayed industrialization. See Bergère, *Golden Age*, 76. Rawski highly credited the rise of Chinese producer industry (fuels, power, metals, and metal products, machinery, chemicals, and building materials) between 1900 and 1945. However, the producer industry was characterized by low levels of capitalization and technology and labor productivity. See Thomas Rawski, “The Growth of Producer Industry, 1900-1971,” in *Chinese Economy in Historical Perspective*, Dwight H. Perkins, ed., 203, 211

\(^{160}\) This argument should be qualified for trading industry in which many small-scale firms were also multinationals.
modern banking and insurance industries. The leading companies had the strongest organizational capability, which made them the most capable and obvious candidates for Chinese multinationals.

The foreign direct investment (FDI) of Chinese multinationals was done by Greenfield Investment or joint venture. Most Chinese multinationals undertook Greenfield investment. For example, the Chinese Egg Produce Company invested 10,000 pounds sterling to establish Overseas Egg Produce Company (海昌公司 haichang gongsi, est. 1927) in London. Mayar Silk Mills invested US$10,000 to found Mayar Silk Mills, Inc in New York.

Joint venture was another method to carry out direct investment abroad. The Sichuan Animal Byproduct Trading Co., Ltd (SABT) was a typical case. SABT originated from Sichuan province and specialized in bristle-manufacturing and trade. The “Tiger” Brand of SABT was famous in the American market, which was the biggest import market for Chinese bristles (proximately 50 percent of Chinese bristle exports in the mid 1930s). After WWII, to expand bristle exports, SABT and the Universal Trading Company proposed a joint venture of US$ 250,000 to establish an Oceanic Company in New York. SABT invested US$240,000 while the University Trade Company invested US$10,000. The Oceanic Company could get a Letter of Credit of

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161 Bristle could be made up of various brushes for industrial use or daily use. Sichuan was the biggest bristle producing era which amounted for 14 percent of Chinese total bristle products before 1937. The forerunner of SABT was Koo Chen Kee & Sons (古青記 guqingji) which was a family business. In 1935, it became a joint venture company. To avoid the confusion by foreign clients, SABT still adopted the name of Koo Chin Kee in foreign trade.

162 Zhuzhong chanxiao (The Production and Sale of Bristle) (Nanjing: xingzhengyuan xinwenju, 1947), 27.

four months Document against Acceptance and the 0.3 percent low interest from 
prestigious American banks. With the Letters of Credit from Oceanic Company, SABT 
could easily get packing loans from Chinese banks (mainly the Bank of China) and 
adjust selling time according the changes of prices in the international bristle market.

From 1946 to 1948, the annual sale revenue of SABT was averaged at US$10 million.

Another joint venture case was between Shenxin Cotton Co. and the Thai 
government in 1949. Gu Dechang (n.d.), the son of Gu Weijun (Chinese Ambassador in 
the U.S.), helped Shenxin contact with the Thai government. Shenxin promised to 
 lease a weaving factory at WATSOITHONG (near Bangkok) including buildings, spinning 
machines of about 8,000 spindles and other physical facilities. Shenxin promised to take 
over all the current employees and invest not fewer than 10,000 spindles. The Thai 
government agreed that 200 technicians of Shenxin could enter Thailand without 
restriction. In the proposed joint venture, Shenxin and the Thai government respectively 
controlled 40 percent shares; the other 20 percent would be sold to the public and 
employees. Shenxin had the right to appoint the manager and the Thai government would 
name the chairman. The contract was intended to last for twenty-five years, after which

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164 Gu Gengyu, “Wo jingying zhuzong ershi yunian de huigu” (My Twenty Years of Experiences of 
Bristle Export), in Wenshi ziliao cungao huibian (The Selected Compilation of Cultural and Historical 
Records), Economics, vol.2., 15.
165 A packing loan was a special loan offered by local banks to exporters who have received qualified 
letter of credit, to be used under items of procurement, production and shipment, so as to support the 
exporter to implement the contract and effect delivery as scheduled. A packing loan is a pre-loading 
short-term financing, which enables the exporter to purchase, prepare the material, produce and trade 
without difficulty even when the self-owned capital is not sufficient.
166 SABT in 1953 withdrew from international trade and nationalized. See Wang Huizhang, Zhuzong 
dawang gufengyu (The King of Bristle Gu Gengyu) (Beijing: Zhongguo wenshi chubanshe, 1991), 
144-50.
168 See Rongjia qiye shiliao (The Historical Records of Rong Family) (Shanghai: Shanghai renmin 
chubanshe, 1980), vol.2, 662. See a biography of Gu Weijun, whose English name was Wellington 
Koo, see H. L. Boorman and R. C. Howard, eds., Biographical Dictionary of Republican China (New 
Shenxin had to sell its shares to the Thai government.\textsuperscript{169}

Three types of overseas branches can be identified. First, many overseas branches of Republican Chinese multinationals were marketing and sales branches. This was a main type for Chinese multinationals in light industry. They developed direct exports of their products. Secondly, many overseas branches were service branches. This was a main pattern in service industries such as banking, insurance, shipping and trading. Thirdly, manufacturing branches was quite rare in the Republican era. In the present database, only two Chinese enterprises ever invested in overseas manufacturing (except in Hong Kong). One was Nanyang Brothers Tobacco Company, which established a cigarette factory in Siam in 1930.\textsuperscript{170} Another was the joint venture of Shenxin Cotton Co. and the Thai government in 1949.

Since Chinese FDI was generally quite small, the scale of their foreign branches was small on average.\textsuperscript{171} For example, after Yang Tai established its office in New York in 1935, the manager and vice manager were respectively Xue Shouxuan and Xue Zukang (n.d.). The New York office had three regular staff, including two Chinese technicians and one American secretary.\textsuperscript{172} The regular overseas employees of the New Asiatic Chemical Co. numbered about eight. These overseas employees were either local overseas Chinese or staff from the parent company or previous agents of other companies.

\textsuperscript{169} See “Shanghai shenxin shachang yu jiluo zhengfu heban fangzhichang” (The Joint Venture between Shanghai Shenxin Textile Company and Siamese government), The Second Historical Archives of China, 4-38704. The factory was established with 23,000 spindles and about 1,100 workers in 1950. However, due to strict restrictions of Siam government, the factory went bankrupt after a short time. See Wong Siu-lun, \textit{Immigrant Entrepreneurs}, 22.

\textsuperscript{170} See the Nanyang case in Chapter 4.

\textsuperscript{171} See Appendix D for a detailed discussion about foreign direct investment by Chinese multinationals in the Republican era.

\textsuperscript{172} Yang Tai hired Columbia University Professor J. B. Orchard as director and Mr. Leaves as a legitimate consultant. The regular staff of the New York company included three persons: Wei Jufeng (n.d.), Lu Huantai (n.d.) as technician, and Mrs. Ther Well (n.d.) as secretary. Yan Xuexi, “Shengsi waimao,” 87.
For example, Han Bichuan (n.d.) in Bangkok office and Qi Dafu (n.d.) in Batavia office were both previous employees of German trading companies. In New Asiatic’s complicated system, the foreign section was only a small branch of the whole structure. Even for the powerful Bank of China, its overseas branch system was not complicated. The London branch had thirty-four employees (fifteen Chinese and nineteenth British). Of course, the factory of Nanyang Brothers Cigarette Co. in Siam in the early 1930s hired several hundred local workers.

3.4 Impediments

Chinese multinationals faced more risks and difficulties than domestic enterprises. The risks and difficulties resulted from the host country environments, communication problems, agency problems, historical accidents (e.g. WWII), and the Chinese domestic environment.

The risk of doing business in foreign lands, the “liability of foreignness,” tested both the organizational capability and entrepreneurship of Chinese multinationals. Culture, language, and the legitimate policies of host countries all constituted considerable challenges. Hence, the overseas employees of foreign branches were frequently “bicultural.” Chinese multinationals inclined to hire local Chinese as employees. In addition, the employees sent from the headquarters had either received foreign education or mastered foreign languages and had experience in local societies. Furthermore, Chinese multinationals flexibly adjusted their overseas strategies to

173 Xu Chao, “Xinya yaochang,” 327.
175 See the Nanyang case in Chapter 4.
overcome some legitimate constraints of the host countries. The Chinese Egg Produce Company hired a British national as the head of its London branch in order to overcome registration problems. The Sichuan Animal Byproduct Trading Co. found it difficult to establish a wholly-owned company in the U.S and hence initiated a joint venture with another American company.

Breaking the established overseas networks was difficult for Chinese enterprises. In the silk-weaving industry, Chinese enterprises attempted to establish direct-export organizations. However, they were not successful since the long-established foreign export firms had strong connections with and enjoyed the confidence of customers abroad.176 The De Ji Trade Co. (德記洋行 deji yanghang, est. 1924) in Tianjin, a Chinese company specializing in the bristle trade, once tried to establish a branch in the U.S. However, when Diao Junxiao (n.d.), the general manager of De Ji, arrived in the U.S, he could not sell any bristle goods since American merchants secretly and collectively boycotted his goods.177

Communication was also a big challenge. Letters and cables were two main communication methods linking business entities in different countries. However, letters method often took a long time. Cables were faster, but limited to a certain number of words. Sometimes, the cable method resulted in misunderstandings between overseas subsidiaries and the parent company.

In addition, parent companies had to face the agency problem. Due to the unsymmetrical information, parent company strived to control their overseas branches. The Nanyang Brothers Tobacco Company suffered this problem in dealing with its

176 D. K. Lieu, The Silk Industry of China (Shanghai: Kelly and Walsh, 1941), 247.
177 Diao Yuanzhang, “Wo’men diaojia jingying deji yanghang shimo (De Ji Trade Co. of Diao Family), in Tianjin wenshi ziliao xuanji (The Cultural and Historical Records of Tianjin), vol. 37, p. 158.
Financial control was the key method. The Mayar Silk Mills Ltd. controlled its branches tightly through an institution of frequently transferring the accounts of its subsidiaries to the parent. In addition, the Chinese Egg Produce Company requested its London subsidiary to report its operational and financial situation every month.

The outbreak of the Pacific War in late 1941 suddenly suspended the internationalization of many Chinese firms. The Southeast Asian activities of the National Products Union Co. were forced to cease in 1942. Another proposal of the National Products Union Company to establish a branch in Burma was aborted. The overseas branches of the Bank of China were reduced from seventeen to only six after 1942. The Batavia branch of the New Asiatic Chemical Co. survived for just one year before Batavia was occupied by Japan in March 1942.

There were other difficulties due to China’s domestic condition. For example, the international operation of the Ming Sung Industrial Co. and the Mayar Silk Mills, Ltd. faced huge difficulties due to the chaos of the Chinese Civil War between 1946 and 1949. The Chinese government might also directly interfere into the internationalization process.

The Shanghai Liren Chemical Factory (上海立人化工廠 Shanghai liren huagong chang, est. n.d.), which was established before WWII, had two factories in 1947. It produced painting goods which were sold domestically and in Southeast Asia. After 1945, however, American goods dominated Chinese markets. Postwar inflation resulted in the high prices of raw materials so that the products of Liren could not compete with American ones at the same quality level. Liren proposed to establish a branch factory in America to

178 See the Nanyang case in Chapter 4.
179 The Singapore company continued to do business after WWII.
180 Silian zongchu shiliao, 198.
“improve products, borrow the latest technologies and make use of American raw materials.” It planned to send Hu Yusheng (n.d.), the 24-year-old chief engineer at Liren and Hu Xiaofang (n.d.), a 28-year-old engineer and English translator, to go to the U.S. to prepare its New York factory. However, the ROC Ministry of Economics denied Liren’s proposal on the grounds that the two persons were not qualified for preparing overseas factories since they were too young and their positions in the factories were not high enough.181

3.5 Summary

This chapter describes the general biography of Chinese multinationals in the Republican era based on the preliminary database. Between 1912 and 1937, the Chinese domestic environment was generally favorable for the development of modern enterprises. At the initiative of Chinese governments, modern economic and legal systems and infrastructures were gradually established in the Republican era. Chinese multinationals commonly adopted the modern joint-stock governance structures, invested in production facilities to gain economies of scale and scope, undertook vertical integration through developing their own marketing branches and distribution routes, and employed scientific management, and formed hierarchal organizational structures. Organizational capability, honed between 1912 and 1937, laid the foundation for their further internationalization.

In addition, the entrepreneurs of Chinese multinationals in the database ambitiously developed overseas markets. Many of them had received a foreign education or had considerable experience in international business, which enabled them to know

181 “Shanghai Liren huagongchang pai Hu Yusheng fuemi choushe fenchang” (Shanghai Liren Chemical Factory send Hu Yusheng to the Untied States to prepare its branch factory), The Second Historical Archives of China, 422(4)-12372.
foreign markets well and reduced the perceived risks of international operations. In seeking overseas markets, they established overseas branches for direct exports, as Chinese exports had long been controlled by foreign trading companies since the middle nineteenth century. In seeking overseas raw materials or commodities, Chinese multinationals, such as the New Asiatic Chemical Company, Tong Feng Yuan and Tong Ji Department Store, established overseas procurement offices. In seeking efficiency, Nanyang Brothers Tobacco Company established a manufacturing factory in the Dutch East Indies to explore local production and local sale. In seeking strategic-assets, the Kinchong Banking Corporation and the Shanghai Commercial & Savings Bank invested in foreign countries to fully utilize their financial advantages.

As the database shows, Chinese multinationals arose mainly in the periods of the late 1930s and the late 1940s. Their branches were found chiefly in Southeast Asia and to a lesser extent in the United States, Japan, Europe and the rest of the world. In addition, Chinese multinationals clustered in light and service industries. They were frequently the leading enterprises of their respective industries in China. However, compared to giant multinationals from the United States, Europe and Japan, Chinese multinationals were smaller in terms of foreign direct investment and overseas organizational scale. Moreover, they were tested by mutable and frequently adverse environments both in China and abroad between the late 1930s and late 1940s.

Echoing Kirby’s “internationalization” theme in Republican China, this chapter describes the organizational internationalization of Chinese enterprises, which is largely missing in the existing literature. In addition, echoing Cochran’s argument that hierarchy and network interacted in Chinese domestic market, this chapter argues that transnational
hierarchy and overseas networks interacted in the international market. The Yang Tai Silk Company is a case in point. In 1922, an overseas Chinese named Li Youchuan (n.d.) established the Express Company (运通公司 yuntong gongsi) in New York to trade in antiques. In the late 1920s, the Express Silk Company, dependent on the Express Company, was established to represent Shanghai and Zhejiang provinces in marketing raw silk in New York. Yang Tai had to give two percent of the sales revenue to Express Company as a commission. To avoid paying the commission, in 1935, the Yang Tai Co., Inc. was established in New York for direct exports. The change from overseas networks to transnational hierarchies shows the flexibility of Chinese enterprises in the international market. Hence, the overseas network strategy was not the only lifeline for Chinese enterprises dealing with international business in the Republican era.

Generally, organizational capability and entrepreneurship enabled Chinese enterprises successfully to grow into Chinese multinationals. However, their international operation was always tested by the external environment, and their international performance was moderated by the changes in external circumstances. Chinese multinationals responded to external effects in various ways. To see this more clearly, we will investigate four Chinese multinationals in detail in Chapter 4.

This chapter details the internationalization process of four Chinese enterprises in the database: Ming Sung Industrial Company, Chinese Egg Produce Company, Mayar Silk Mills, Ltd., and Nanyang Brothers Tobacco Company. The four enterprises are chosen mainly based on the availability of their resources and their representation. The four cases cover service and manufacturing industries of shipping, egg manufacturing, silk weaving and cigarette making. Their overseas branches undertook diverse functions of sales and marketing, procurement, and manufacturing. They reflect that Republican Chinese multinationals mainly invested in Southeast Asia (Ming Sung, Mayar and Nanyang) and to a lesser extent in the United Sates (Ming Sung, Mayar and Nanyang), Europe (Chinese Egg Produce Company) and the rest of the world.

These four cases show that organizational capability and entrepreneurship were key reasons accounting for the development of Chinese multinationals in the Republican era. Chinese multinationals did not lack entrepreneurship or organizational capability but lacked a beneficial external environment in the first half of twentieth century.

All these four Chinese multinationals gained their organization capability in the Republican era. Their organizational capabilities were not only based on their investment in production, management and marketing, but also based on their specific and efficient

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183 Considering the limited space and the availability of resources, the case studies have not included banks, insurance companies or pure trading companies.
routines. Chinese Egg Produce Company was characterized by its capability to contact with Chinese and British governments and initiate an international cartel. Nanyang Brothers Tobacco Company could identify with economic nationalism and efficiently utilize their networks in Southeast Asia to develop its organizational capability. The internationalization of Mayar Silk Mills was based on its strong domestic production, technological and managerial capability. Mayar proved the international ambition of a Chinese enterprise. Ming Sung Industrial Company was just a beginner at internationalization after 1945, but its communications capability proved a key to its early internationalization attempts.

The organizational capability of Chinese multinationals was further refined through the interaction between headquarters and their overseas branches. One of the key advantages of multinational enterprises is their flexibility and capability to mobilize international information and resources to serve their strategy. The four cases show that Chinese headquarters and their overseas branches undertook quite a bit of exchange in finance, market information, and technological knowledge. This interaction enabled Chinese enterprises to assess, mobilize and share international information and resources within their transnational hierarchy at an unprecedented scale.

In addition, entrepreneurship played a key role in initiating and advancing the internationalization of the four Chinese enterprises. The entrepreneurship of the top management, represented by Lu Zuofu (1893-1952) (Ming Sung Industrial Company), Zheng Yuanxing (Chinese Egg Produce Company), Cai Shengbai (Mayar Silk Mills), and Jian Zhaonian (Nanyang Brothers Cigarette Company), played a key role in developing their own enterprises and carrying on the internationalization process. These
entrepreneurs were proactive, risk-taking and apt to pursue overseas market opportunities.

The four cases suggest that it is necessary to investigate multilevel entrepreneurship within an enterprise. Traditional entrepreneurship studies, whether in Chinese business history or beyond, have focused on a single top executive like the general manager or president. For startup companies with simple structure, this narrow focus on managers or founders may be reasonable, but for established big companies, the narrow focus on top management is problematic because it oversimplified the role of middle managers and other organizational members.184

The entrepreneurial initiatives of middle managers were notable in these Chinese multinationals. The overseas branches of multinationals, due to their geographical distance, are considered to enjoy more autonomy and to be more like independent entities. Hence, the initiative of middle managers of overseas branches is crucial in developing international business. While the top management regulated the general strategy, the middle managers carried on their own entrepreneurial function. Humphrey Greenall (n.d.) actively developed new markets for CEPC, helped foster technological improvement, and boosted the formation of the international cartel. Yin Hechun (n.d.) (together with Cai Shengbai) widely marketed Mayar’s products, created new routines for the American venture of Mayar, and improved the quality of silk fabrics. The overseas managers of Nanyang Brothers Cigarettes Company aggressively invented various methods to market Nanyang’s cigarettes and fight against British American Tobacco Company, a leading

184 Chandler exclusively focused on the top management and considered that only these people could do entrepreneurial activities and make long-term strategic decision for a firm’s development. He argued that the middle managers simply operated under routines by using the resources already allocated. Chandler underestimated the initiatives or innovation activity of the middle managers or other members. Alfred D. Chandler, Jr., Strategy and Structure, 11.
cigarette manufacturing company in the contemporary world. Hence, the multilevel entrepreneurship can represent the entrepreneurship of the whole company.

However, the performance of Chinese multinationals had to be moderated by external environment. The four case studies show different ways to deal with the similar environmental adversities. CEPC was most successful at mobilizing external resources and expanding internationally. Mayar reluctantly survived when it undertook worldwide organizational deployment between the late 1930s and the late 1940s. Nanyang and Ming Sung largely failed to respond to the pressures of the Sino-Japanese War and the Chinese Civil War. Simply put, the dynamic interaction of organizational capability, entrepreneurship and environment fundamentally determined the rise and performance of Chinese multinationals in the Republican era between 1912 and 1949.
4.1 Ming Sung Industrial Company: 1925-1952

Transportation is a key issue in international business. Since the Opium War in 1840s, Western steamships from Britain, the Untied States, the Netherlands, and Germany and Japanese steamships dominated the freight shipping of China’s foreign trade. The presence of foreign steamships introduced advanced technology and management into China, which stimulated the rise of the modern Chinese shipping industry. The China Merchants Steam Navigation Co., initiated by the Qing government in 1873, was the first modern Chinese shipping company. It played an active role in developing international business for Chinese enterprises and competing against foreign steamships. In the Republican era, Chinese private steamship companies developed quickly in terms of the number of registered company and total shipping tonnage. By 1936, China had twenty-seven shipping companies whose total tonnage surpassed 5,000 tons. However, most China’s shipping companies were small in scale and operated in inland-river and coastline. They strived to survive in fierce competition against foreign shipping

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185 In 1952, Ming Sung was nationalized as a private and public jointly managed company.
In terms of oceanic shipping, Chinese companies were far less developed. Powerful companies such as the British Jardine, Matheson & Co., the British John Swire & Sons Ltd., the American Robert Dollar Co., and the Japanese Nippon Yusen Kaisha, dominated Atlantic and Pacific shipping. Between 1871 and 1936, Chinese steamships only undertook oceanic shipping twenty times. Most of these steamships reached Japan, Korea and Southeast Asian countries. In the late nineteenth century, four steamships of the China Merchants Steam Navigation Company reached Great Britain and the United States. However, in the early twentieth century, the China Merchant Steam Navigation Company declined when the Chinese private shipping industry was still in its childhood. No Chinese steamship ever reached Western countries. In his proposal about the international development of China, Sun Yat-sen (孫中山 1866-1924) urged development of China’s own overseas mercantile fleets.

Among all Chinese private shipping companies, the Ming Sung Industrial Company was notable for its development from a small company based in the Chinese interior to the largest Chinese private shipping company prior to 1949. Although Ming Sung has been little studied in English literature, in China, it has recently become the objective

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191 Zhongguo qiye shi, 458.
192 There were many more foreign companies operating oceanic shipping. See Fan Baichuan, Zhongguo lunchuan hangyunye de xingqi (The Rise of Steamship Shipping in China), 378-90.
193 See Guan Genglin, Jiaotong shi (The History of Transportation), vol.1, 1932, cited in Ling Yaolun, Lu Zuofo yu minsheng gongsi (Lu Zuofu and Ming Sung Industrial Company) (Chengdu: Sichuan University Press, 1987), 256.
194 Sun Yat-sen, The International Development of China (Shanghai: the Commercial Press, Ltd., 1920), 85.
195 Anne Reinhardt’s dissertation is virtually the only English work that examines the Ming Sung Company. She mainly emphasizes how Lu Zuofu, President of Ming Sung, made use of political connections to gain quick growth between 1925 and 1937. See Anne Reinhardt, Navigating Imperialism in China, 151-177. Anne Reinhardt’s dissertation offers a general picture of China’s shipping industry between 1860 and 1937. She analyzed steamships as a symbol of political struggle
of considerable scholarly attention. Chinese studies have examined the internal management of Ming Sung and the role of Lu Zuofu, who was the founder and president of Ming Sung. However, these studies have revealed very few details about the overseas organizational expansion of Ming Sung in late 1940s.

The following case study attempts to describe the internationalization of Ming Sung in late 1940s relying mainly on previously unexplored archives and memoirs. The case study will show that entrepreneurship and organizational capability boosted the internationalization of Ming Sung after 1945. However, while attempting to enhance its organizational capability through procuring new oceanic steamships and establishing overseas offices, Ming Sung faced huge difficulties during the Chinese Civil War between 1946 and 1949. The adverse domestic environment eventually aborted the early internationalization of Ming Sung.

Ming Sung was established by Lu Zuofu and several other partners in 1925 in Hechuan, Sichuan Province. Lu Zuofu was its president. Born in 1893 into a small merchant family in Sichuan, Lu had been a reporter for several local newspapers in Sichuan before the foundation of Ming Sung. In the face of China’s economic weakness, he decided to devote himself to developing a modern shipping industry to rejuvenate between China and foreign powers and a semicolonial social space. She made use of Ming Sung Company as a case of the rise of Chinese private companies. See also her review about Lu Zuofu studies in English. Also see Anne Reinhardt, “Prospects for the Study of Lu Zuofu Abroad,” published at the website of MinSheng Industrial (Group) Co. Ltd. See http://www.msshipping.cn/lzfyj/ldetail.aspx?lwcode=20070104 (accessed December 12, 2007).

The representative studies include Ling Yaolun, ed., Minsheng gongsi shi (The history of Ming Sung Company) (Beijing: People’s Transportation Press, 1990). The memoirs include Lu Guoji, Wo de fuqin luzuofu (My Father Lu Zuofu) (Chengdu: Sichuan People’s Press, 2003). One selected works of Lu Zuofu was published: Lu Zuofu, Lu Zuofu wenji (the Selected Works of Lu Zuofu) (Beijing: Peking University Press, 1999). There are also many short memoirs written by old employees of Ming Sung.

The existing literature, including academic studies, has revealed very little about the details of the overseas office of Ming Sung.
China.\textsuperscript{198} After Ming Sung was founded, Lu Zuofu expressed his thoughts as the “Ming Sung Spirit”: serve society, offer convenience to the masses, develop new industry, rejuvenate China. He emphasized that the individual should work for the enterprise and the enterprise should work for society. He argued that rejuvenating China and bettering Chinese society was the eventual goal of Ming Sung. Under Lu Zuofu’s leadership, Ming Sung had an enterprising and strong organizational culture.\textsuperscript{199}

Ming Sung developed quickly through a combination of strong internal management, political support and Chinese nationalism. Ming Sung adopted modern scientific management techniques such as personnel inspection and appointment and cost control. Lu Zuofu paid great attention to upgrading customer services on the ships of Ming Sung.\textsuperscript{200} Ming Sung gradually established an efficient hierarchically organizational structure in which modern shipping talents were trained and played an important role in managing the steamships of Ming Sung.\textsuperscript{201} In addition, Ming Sung, supported by Liu Xiang (劉湘 1889-1938), the most powerful warlord in Sichuan in 1920s and 1930s, unified the shipping industry in the upper Yangtze River. Between 1930 and 1935, Ming Sung bought twenty-eight Chinese-owned steamships and fifteen foreign-owned steamships. By 1936, Ming Sung had controlled various upper Yangtze River routes. Moreover, Ming Sung carried out propaganda to fight against foreign steamships so that the ships of Ming Sung were warmly welcomed by Chinese passengers and shippers.

\begin{footnotesize}
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\item \textsuperscript{198} Zhou Ninghua, “Lu Zuofu,” in Yan Ruping and Zong Zhiwen, eds, Zhonghua minguo renwu zhuan (The Biography of People in the Republican era), vol. 9 (Beijing: Zhonghua shuju, 1997), 273-74.
\item \textsuperscript{199} “Gong Shangwen, Zhuming hangye jia Lu Zuofu” (The famous steamship entrepreneur Lu Zuofu), in Chongqing gongshang shiliao (The Industrial and Commercial Records of Chongqing), no. 3 (1984), 99-126.
\item \textsuperscript{200} Ibid.
\item \textsuperscript{201} Lu Zuofu, “Yizhuang caidan jingying de shiye-minsheng shiye gongsi” (A Difficult Enterprise—Ming Sung Industrial Company), in Ling Yaolun, Xiongfu, eds., Lu Zuofu ji (The Selected Works of Lu Zuofu) (Wuhan: Huazhong shifan daxue chubanshe, 1991), 408-10.
\end{itemize}
\end{footnotesize}
particularly after the May Thirtieth Incident in 1925). Ming Sung quickly honed its organizational capability and effectively competed against foreign shipping companies along the Yangtze River.\textsuperscript{202} By August 1945, Ming Sung was the largest private shipping company in China, with 116 steamships with a total loading weight 50,000 tons. In 1949, Ming Sung had 96 steamships and 7,960 employees.\textsuperscript{203}

Although founded in the interior of China, Ming Sung was ambitious to develop China’s oceanic shipping routes. By 1937, after twenty years of operation, Ming Sung had a strong competitive advantage in the whole Yangtze River area. Lu Zuofu expected that the shipping business would be better off once WWII ended. In 1938, Lu Zuofu proposed a postwar blueprint stating that “after the war, we will build bigger boats and first develop Southeast Asian routes sailing across Hong Kong and other important commercial ports; and then develop the Northern coastline routes to Qingdao, Yantai and Tianjin; and last, we will compete against Western powers in the oceanic shipping. Ming Sung’s boats will sail in both the Pacific Ocean and the Atlantic Ocean.”\textsuperscript{204}

In April 1946, the board of Ming Sung decided to change Ming Sung’s business focus from the upper reaches of the Yangtze River to the lower reaches of the Yangtze River and ocean.\textsuperscript{205} To materialize this plan, Ming Sung established its Office of General Manager within its Shanghai branch. This office was directed by Lu Zuofu. It was composed of six sections: secretary, supply, personnel, accounting, shipping, and

\textsuperscript{202} See Wang Shijun and Huang Shaozhou, “Minsheng gongsi yu waishang de jingzheng” (The competition between Ming Sung Company and foreign shipping companies), in Wenshi ziliao xuanji (The Selected Compilation of Cultural and Historical Records), vol. 46 (Beijing: zhong guo wenshi chubanshe, 2000), 19-36.
\textsuperscript{203} Liu Huinong, “Dui saying qiye gaizao de diyige hangbiao——yi minsheng lunchuan gongsi de gongsi heying” (Retrospect in the process of becoming a jointly public and private company of Ming Sung), in Wenshi ziliao xuanji, vol.44 (Beijing: zhong guo wenshi chubanshe, 2000), 86-7.
\textsuperscript{204} “Weilai de minsheng gongsi” (Ming Sung Company in the Future), Xin shijie (New World), Vol.12., No. 3, 1938.
\textsuperscript{205} Ling Yaolun, ed., Minsheng Gongsi Shi, 340.
machinery. Several senior managers from the Chongqing headquarters headed each section. In addition, Ming Sung further established branches and offices in Chinese coastal ports, including Tianjin, Qingdao, Jilong (Taiwan), Guangzhou, Hong Kong, Fuzhou and Shantou. In June 1948, Ming Sung upgraded its Shanghai branch to Shanghai Area Branch in order to better manage branches on the eastern coastline and develop branches in Southeast Asia.\textsuperscript{206}

To develop oceanic shipping, Ming Sung needed to buy bigger and stronger steamships. However, most of Ming Sung’s boats were only suitable for sailing on the Yangtze River. In 1944, taking an opportunity of participating in the International Commercial Convention in New York,\textsuperscript{207} Lu Zuofu, Tong Shaosheng (童少生 1903-1984) (Vice president of Ming Sung) and Sun Enshan (孫恩山 n.d.) (interpreter) visited shipbuilding companies in the United States and Canada. In October 1946, Ming Sung contracted with two Canadian shipbuilding companies to manufacture nine advanced steamships. With the dual guarantees of the Chinese and the Canadian governments, Ming Sung successfully got a huge loan from Canadian banks. Ming Sung soon established an office in Quebec to supervise the shipbuilding process.

The two Canadian shipbuilding companies were in fact assembly plants. They bought various raw materials and parts from American companies such as the U.S. Steel Company and General Electric. Ming Sung established its own office in New York in November 1946. This office aimed to procure steel, parts and gas for the boats under

\textsuperscript{206} “Mingsheng dongshihui jilu yewu baogao” (The Record of Boarding meeting and Business report of Ming Sung Company), SMA, Q55-2-101, 1948, 2-4.

\textsuperscript{207} This convention was organized by American industrial and commercial organizations to discuss the postwar economic development. The other four representatives were Zhang Jia’ao, president of the Bank of China; Chen Guangfu, president of Shanghai Bank; Fan Xudong, president of Yongli Chemical Industrial Group; Li Mingzhu, president of Zhejiang Industrial Company.
construction in Canada. Tong Shaosheng was the director of this office for a short time and succeeded by C.C. Yang (楊成質 n.d.), sub-manager of Ming Sung Shanghai in early 1947. Hu Hanming (胡漢民 n.d.) was Vice-Director. Tong Shaosheng once served as an intern in the U.S Steel Company in early 1945. Through his personal relationship with the U.S. Steel and General Electric, New York Ming Sung soon contracted to supply the necessary materials for Ming Sung.208

New York Ming Sung further established relations with the American Shipping Company, arranging to send interns to the American Shipping Company to learn management techniques and latest technology. In 1947, New York Ming Sung contracted with American Shipping Company to engage in “cooperative shipping”: Ming Sung Company shipped the goods from the ports on the Yangtze River to Shanghai, and the American Shipping Company took over the goods from Ming Sung and shipped them abroad.209

After the end of World War II, the United States began to sell some surplus military facilities at low prices. Tong Shaosheng saw that some military boats could be easily altered for commercial use. Tong advised Lu Zuofu to take the opportunity to develop Ming Sung’s oceanic shipping capability. With Lu Zuofu’s authorization, in late 1946 Tong Shaosheng bought twenty-one military boats at a cost of just 2 million U.S. dollars for Ming Sung. Among the boats, four American army landing crafts, each with a loading weight of 3,000 tons, were particularly notable. They were renamed as Ning Yuan (寧遠),

209 Tong Shaosheng, “Huiyi jiefangqian de minsheng lunchuan gongsì” (My Memoir About Ming Sung Company Before 1949), in Gongshang jingji shiliao congkan (Historical Collections of Commercial and Industrial Materials), vol.1 (1983), 177.
Ting Yuan (定遠), Sui Yuan (綏遠) and Hwai Yuan (懷遠),\textsuperscript{210} and were sent in 1946 to New Orleans to be reconstructed as commercial freight steamships. Ming Sung hoped to use them as the backbone of its oceanic shipping.

In the early 1947, before the four big freight steamships were ready to sail to China, Ming Sung arranged a consignment for them. In fact, this consignment was the first and probably only time that Ming Sung’s own boats participated in real international business across the Pacific Ocean. The major players in this story were the Office of General Manager in Shanghai (Shanghai Ming Sung hereafter), New York Ming Sung, Nanyang Development & Finance Corporation\textsuperscript{211} (Shanghai Nanyang) and its New York Office (New York Nanyang hereafter). The supporting players were Kiangnan Railway Company\textsuperscript{212} and the Bank of China.

The following story, unfolding between January and July 1947, will show the complex relationships between overseas branches and headquarters. Mutual trust between New York Ming Sung and New York Nanyang eroded because of various unexpected reasons. The Shanghai headquarters of both companies offered the crucial support for the eventual accomplishment of this international business. The organizational capability of Ming Sung was tested in a complex inter-organizational relationship and international

\textsuperscript{210} Zhang Shouguang, \textit{Lu Zuofu nianpu} (Annals of Lu Zuofu) (Nanjing: Jiangsu guji chubanshe, 2002), 267. The exact freight capability was 3,352.2 tons for Ning Yuan, 3,327.1 tons for Ting Yuan, 3,326.6 tons for Sui Yuan and 3326.6 tons for Hwai Yuan.

\textsuperscript{211} The Nanyang Development & Finance Corporation was established in May 1940 with a capital of 2,500,000 Chinese dollars. Most of the capitals were invested by overseas Chinese. It was headquartered in Shanghai. Nanyang was a comprehensive business corporation dealing with the import and export of numerous commodities including Tung oil, bristle, beans, and various machines. See “Nanyang jiaru tongye gongsi huishen biao chengli jianshi” (The History of Nanyang Development & Finance Corporation and its application for entry in the guild), Tianjin Municipal Archives, W100-380, 1-4.

\textsuperscript{212} Kiangnan Railway Company was established in 1933. It was a private company authorized by the Nationalist government to operate the railway from Nanjing (Jiangsu Province) to Wuhu (Anhui province).
environment including China, Mexico and the United States.

In late 1946, Kiangnan Railway Company consigned Shanghai Nanyang to buy 100,000 Mexican tropical hardwood railroad ties with the dimensions of 6”x8”x8’ in size\(^{213}\) and weighing 160 pounds each; the total weight was 7,005 tons. Nanyang knew that Ming Sung had just bought several oceanic steamships in the United States and inquired whether Ming Sung could handle the shipping from Mexico to Shanghai.

This was a great business opportunity for Ming Sung at just the right time and place. Shanghai Ming Sung immediately agreed to supply two steamships in New Orleans in the United States to ship these ties from Mexico to Shanghai. A proposed schedule was contained in a memorandum dated January 6, 1947 written by New York Nanyang. 70,000 pieces of the ties were expected to be delivered to Vera Cruz, Mexico on January 17, 1947, while the rest were expected to be delivered at Nazanille or Salins Cruz on the west coast of Mexico by about January 25. The three Ming Sung boats were expected to arrive at Mexican ports on January 25, 1947. The loading rates at Mexico were about fifteen tons per hatch per hour. Hence, it was estimated that it would take seven to ten days to finish the loading task. The presumed date when the steamers sailed from Mexico to Shanghai was February 15.\(^{214}\)

According to the agreement between the two headquarters, the New York offices of Ming Sung and Nanyang were to inform them in advance of the cost of freight and date

\(^{213}\) Ties were 6 inches minimum thickness, 8 inches wide and 8 feet long. However, Nanyang soon mailed Ming Sung that the packing list should be 66,000 pieces of 6”x8”x8” and 34,000 pieces of 6.5”x8”x8” on February 28\(^{th}\), 1947.

\(^{214}\) “Meiguo Niuyue nanyang gongsi yu meiniuyue minsheng gongsi de laiwang yewu hanjian” (The business letters between Nanyang New York office and Ming Sung New York office), SMA, Q373-1-246, p. 22.
of Bills of Lading.\textsuperscript{215} Then, Shanghai Ming Sung and Shanghai Nanyang would sign a
Chartering Contract in Shanghai. After the contract was signed, they should request the
Bank of China, Shanghai, to instruct its New York branch to pay US$200,000 to the Ming
Sung New York office in advance to cover the freight of the shipments.

The charter contract was signed on January 20, 1947. The above-proposed schedule
was obviously unworkable. In mid-January, the Kiangnan Railway Company requested
Shanghai Nanyang to expedite shipping the ties to China. On January 20 and 27, F. T. Li
(n.d.), the manager of New York Nanyang, informed New York Ming Sung that 70,000
ties were already at Vera Cruz and 30,000 at Coatzocoalcos, the second largest port of the
east coast of Mexico. He urged Ming Sung to send its ships to Mexico as soon as
possible.\textsuperscript{216} On January 27, Li sent a check of US$200,000 to New York Ming Sung to
cover almost all of the whole freight fees. New York Nanyang withdrew US$50,000 from
the US$200,000 on January 29 to cover its liability with the Bank of China for
purchasing the ties.

The Letter of Credit opened in the New York office of Bank of China would expire
on February 15.\textsuperscript{217} On January 30, F. T. Li requested New York Ming Sung immediately
to send a captain to visit Nanyang’s shipping agents in Mexico City to find out the
loading facilities and check the quantity of ties in order for Ming Sung to release the bills

\textsuperscript{215}A Bill of Lading is a document issued by a transport company, which acknowledges the receipt of
specified goods for transportation to a specific place. It also serves as the contract between the shipper
(supplier/buyer) and carrier.
\textsuperscript{216}“Meiguo Niuyue nanyang gongsi yu meiniuyue minsheng gongsi de laiwang yewu hanjian” (The
business letters between Nanyang New York office and Ming Sung New York office), SMA, Q373-1-
246, pp. 17, 19.
\textsuperscript{217}A Letter of Credit is a legal instrument issued by a bank to a beneficiary (seller/exporter) on behalf
of a buyer/importer by which the bank substitutes its own credit for that of the buyer/importer. The
seller/exporter receives assurance of payment from the applicant’s bank before proceeding with the
shipment. After shipment and upon receipt of proper documentation, outlined in the Letter of Credit,
the bank will pay the beneficiary.
of lading before February 15.\textsuperscript{218} New York Ming Sung in reply promised to send one captain to Mexico. However, Ming Sung’s first steamship still had not arrived in Mexico by February 10. Li again requested that the first boat of Ming Sung arrive in Mexico before February 15.\textsuperscript{219}

On February 14, New York Ming Sung for the first time revealed the details of its shipping plan. Ming Sung decided that two boats \textit{Sui Yuan} and \textit{Ting Yuan} were enough to carry these ties. Ming Sung further requested New York Nanyang to pay the balance of the freight fee US$60,150.00.\textsuperscript{220} On February 18, New York Nanyang sent a check of 50,000.00 to New York Nanyang. New York Ming Sung probably on purpose delayed its ships until Nanyang paid the full amount. New York Ming Sung promised that its first ship could arrive in Mexico on February 28. Lacking confidence in Ming Sung, New York Nanyang warned Ming Sung that Ming Sung should take the full responsibility of demurrages once the schedule changed.\textsuperscript{221}

Ming Sung was indeed in a difficult position. The conversion work of Ming Sung’s four steamships was not finished by late February. In reply to Nanyang’s urging, New York Ming Sung replied that the sailing schedule had to be flexible and depend entirely on the progress of the conversions. New York Ming Sung informed New York Nanyang

\textsuperscript{218} “Meiguo Niuyue nanyang gongsi yu meiniuyue minsheng gongsi de laiwang yewu hanjian” (The business letters between Nanyang New York office and Ming Sung New York office), SMA, Q373-1-246, p. 14.
\textsuperscript{219} Ibid., 12.
\textsuperscript{220} The total freight fee is 210,150.00. Nanyang had already paid Ming Sung 200,150.00 but later withdrew 50,000.00. So, the balance was 60,150.00. See Ibid., 40.
\textsuperscript{221} Demurrages are a charge required as compensation for the delay of a ship or freight car or other cargo beyond its scheduled time of departure. Nanyang indicated that the storage charges for the ties were about US$3000 per month if they were not moved before March 15. “Meiguo Niuyue nanyang gongsi yu meiniuyue minsheng gongsi de laiwang yewu hanjian” (The business letters between Nanyang New York office and Ming Sung New York office), SMA, Q373-1-246, p. 9.
that the first boat *Sui Yuan* would not sail until March 8.\textsuperscript{222} On March 5, Ming Sung recalculated the freight chargeable and asked Nanyang to pay the balance US$5,666.50 in full to clear its account.\textsuperscript{223}

In March 10, New York Nanyang sent Ming Sung the documents necessary for entry into Mexican ports. However, when Ming Sung’s boats were ready in late March, Nanyang ran into problems. V. T. Lee (n.d.), Nanyang’s Mexican agent, cabled Captain Fulland of the *Sui Yuan* that it was difficult to arrange railroad platforms and other formalities. Lee requested that the *Sui Yuan* wait for several days.\textsuperscript{224}

Ming Sung’s first boat, *Sui Yuan*, finally arrived in Mexico in April 2. However, unexpectedly, *Sui Yuan* found that Nanyang’s shipping agent in Mexico had difficulties in obtaining the export license from the Mexican government. Ming Sung reminded Nanyang that US$600 would be charged as demurrage for each day.\textsuperscript{225} On April 11, Nanyang informed Ming Sung that the export license would be obtained in one or two days. On the same day, F. T. Li flew to Mexico to solve this problem. However, on April 12, the captain of the *Sui Yuan* cabled New York Ming Sung from Mexico that the local information revealed the impossibility of gaining export licenses and the *Sui Yuan* might suffer considerable delay.

At this point, Ming Sung and Nanyang were in the same boat. Ming Sung also wanted to help Nanyang get the export license. In China, Lu Zuofu, president of Ming Sung Industrial Co., jointly with the Nanyang headquarters, attempted to employ

\textsuperscript{222}“Meiguo Niuyue nanyang gongsi yu meiniuyue minsheng gongsi de laiwang yewu hanjian” (The business letters between Nanyang New York office and Ming Sung New York office), SMA, Q373-1-246, p. 38
\textsuperscript{223}Nanyang’s agent in Mexico later found that the 100,000 ties were not totally uniform: 66,000 pieces of 6”x8”x8’ and 34, 000 pieces of 6.5”x8”x8’. See Ibid., 37.
\textsuperscript{224}Ibid., 35.
\textsuperscript{225}Ibid., 33.
diplomatic channels by appealing to the Chinese Ministers of Communications and Foreign Affairs, the Chinese Embassy in Mexico and the Mexican Embassy in China to expedite release of the export license.\footnote{“Meiguo Niuyue nanyang gongsi yu meiniuyue minsheng gongsi de laiwang yewu hanjian” (The business letters between Nanyang New York office and Ming Sung New York office), SMA, Q373-1-246, p. 26, 27.} However, all their effort failed. When F. T. Li returned to New York on May 5, Nanyang confessed that it was extremely difficult to get the export license.

To meet the urgent demand of the Kiangnan Railway Company, Nanyang gave up the original plan of procuring ties from Mexico. In June 2, 1947, New York Nanyang informed New York Ming Sung that Nanyang would buy 150,000 Douglass Fir railroad ties from U.S. merchants. All the ties were delivered to Coos Bay, Oregon. One-third of these ties were consigned to Nanyang Shanghai (for unknown use) while the other two-thirds were to replace 100,000 Mexican ties. New York Nanyang required that Ming Sung send the \textit{Sui Yuan} to Portland immediately to undertake the shipment of ties for Nanyang itself. \textit{Ting Yuan} and \textit{Hwai Yuan} were used to ship the ties for Kiangnan Railroad Company.\footnote{Ibid., 1.}

New York Ming Sung reluctantly placed their vessels at Nanyang’s disposal. Ming Sung requested that Nanyang take responsibility for the demurrage in Mexico. In addition, Ming Sung requested that freight chargeable to the shipment from the West Coast on the \textit{Sui Yuan} must be identical to that from Mexico.\footnote{Ibid., 30.} On May 8, New York Nanyang informed New York Ming Sung that 50,000 of the American ties would be delivered to Longview, Washington, before June 5 and the other half by June 15 to Coos Bay, Oregon. While the \textit{Sui Yuan} sailed to Mexico, the \textit{Ting Yuan} was still held in New Orleans.
according to Nanyang’s request. The *Sui Yuan* left Mexico for Longview, Washington on May 17.

With various unexpected problems, the mutual trust between New York Min Sung and New York Nanyang eroded. In a letter dated June 24, C.C. Yang complained to Shanghai Ming Sung, “our experience in dealing with Mr. F.T. Li has been most unpleasant and we feel that we have to watch our step carefully in order to sufficiently protect our interests.” New York Ming Sung found that F. T. Li had no funds to finance the new *Hwai Yuan* shipment. C.C. Yang urged Shanghai Ming Sung to ask for “a firm and clear out arrangement with Nanyang, Shanghai, for the *Hwai Yuan* shipment” to avoid being left in the lurch as the other vessels.229

Conversely, New York Nanyang attributed all the difficulties in this process to Ming Sung. In a letter dated May 17 to Shanghai Ming Sung, the Nanyang headquarters complained that, due to the late arrival of Ming Sung’s *Sui Yuan* in Mexico, they could not be able to load ties before the prohibition of Lumber export regulation was enforced by the Mexico government. 230 The Nanyang headquarters requested that Ming Sung promise to undertake the 150,000 shipment with the freight fee according to the west coast conference rate.

The change of the shipping route to the American West Coast resulted in a hard bargaining process about the freight fee and demurrage (see Table 4.1). In a letter dated May 22, C.C. Yang argued that the change of loading place resulted in an increase in Ming Sung navigating mileage and operating expense since the *Sui Yuan* had arrived in Mexico. Yang believed that the freight rate for the *Sui Yuan* should be based on the

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229 “Nanyang qiye gongsi yu minsheng gongsi wanglai xinjian” (The correspondences between Nanyang and Ming Sung), SMA, Q373-1-875, p. 14.

230 Ibid., 27.
Mexican rate, for a total of US$105,000. However, F.T. Li argued that the *Sui Yuan* shipment should be charged at the American West Coast rate, for a total of US$70,465.95. On June 24, C.C. Yang resubmitted a new freight fee and demurrage proposal to Shanghai Ming Sung. He still insisted that the shipment of the *Sui Yuan* had to be paid at Mexican rates. But he compromised in terms of demurrage through not counting the days for both the *Ting Yuan* and the *Sui Yuan* sailing to the west coast. C.C. Yang stressed that this recalculation was the most logical and requested that Shanghai Ming Sung immediately negotiate with Shanghai Nanyang about his proposal. It was not clear what the final amount settled by this bargaining process was. However, fortunately, the *Ting Yuan* and the *Sui Yuan*, loaded with 100,000 railway ties, eventually sailed to China in late June. The *Hwai Yuan* also managed to arrive in China later in 1947.

This story reveals the complex relationship between overseas branches and headquarters. The New York offices of Ming Sung and Nanyang were the main players in this story. As representatives of their principals in Shanghai, they took care of the specific operation of the business, exchanged information and always bargained with each other. However, they were gradually involved in a trust crisis. The final shipment was delayed about four months beyond the proposed schedule. While New York Ming Sung delayed the sailing date of its steamships to Mexico, New York Nanyang could not get the export

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231 F. T. Li’s argument was based on the fact that *Sui Yuan* could be dispatched to China at an earlier date in order to meet the need of Ming Sung and requirement of the Kiangnan Company. However, this reason was obviously not sound enough. In fact, C.C. Yang did not accept this advice. See “Meiguo Niuyue nanyang gongsi yu meiniuyue minsheng gongsi de laiwang yewu hanjian” (The business letters between Nanyang New York office and Ming Sung New York office), SMA, Q373-1-246, pp. 26, 27.

232 “Nanyang qiye gongsi yu minsheng gongsi wanglai xinjian” (The correspondences between Nanyang and Ming Sung), SMA, Q373-1-875, pp. 14-5.

233 “Mingsheng dongshihui jilu yewu baogao” (The Records of Boarding meeting and Business report of Ming Sung Company), SMA, Q55-2-100, p. 99.
license from the Mexico government. In attempting to get the export license, Ming Sung and Nanyang fought together for their shared interests. But all their effort failed and Nanyang unilaterally changed the loading place. Furthermore, their disagreement on the freight fees and demurrage deepened their mutual distrust.

<table>
<thead>
<tr>
<th></th>
<th><strong>Sui Yuan</strong></th>
<th><strong>Ting Yuan &amp; Hwai Yuan</strong></th>
<th>Grand Total</th>
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</thead>
<tbody>
<tr>
<td><strong>C.C. Yang Proposal, May 22</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freight</td>
<td>105,000 (Mexican rate)</td>
<td>140,931.88</td>
<td>313,131.88</td>
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<tr>
<td>Demurrage</td>
<td>39,600(^a)</td>
<td>27,600(^b)</td>
<td></td>
</tr>
<tr>
<td><strong>F.T. Li Proposal, May 22</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freight</td>
<td>70,465.95 (West coast rate)</td>
<td>140,931.88</td>
<td>278,597.83</td>
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<tr>
<td>Demurrage</td>
<td>39,600</td>
<td>27,600</td>
<td></td>
</tr>
<tr>
<td><strong>C.C. Yang, June 24</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freight</td>
<td>105,000</td>
<td>140,931.88</td>
<td>287,331.88</td>
</tr>
<tr>
<td>Demurrage</td>
<td>27,000(^c)</td>
<td>14,400(^d)</td>
<td></td>
</tr>
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</table>

Table 4.1 Demurrage Bargaining Process (in US$)

a. According to the calculation of C.C. Yang, Sui Yuan arrived in Mexico on April 2\(^{nd}\) , left Mexico on May 17\(^{th}\) and expected to arrive in West Coast on June 6\(^{th}\). The number was obtained through US$ 600 (demurrage for each day) times 66 days.
b. According to the calculation of C.C. Yang, Ting Yuan was ready for sailing for Mexico on April 23\(^{rd}\), left New Orleans on May 17\(^{th}\) for West Coast and expected to arrive on June 7\(^{th}\). The number was obtained through US$ 600 (demurrage for each day) times 46 days.
c. In the final counting of delaying days, Ming Sung just count the days when Sui Yuan stayed in Mexico. The number was obtained through US$ 600 (demurrage for each day) times 45 days.
d. In the final counting of delaying days, Ming Sung just count the days when Ting Yuan stayed in New Orleans waiting for the order of Nanyang. The number was obtained through US$ 600 (demurrage for each day) times 24 days.

While the overseas offices mistrusted each other, the Shanghai headquarters offered the most valuable credit guarantees to their respective overseas offices and eventually
helped complete this international business. New York Ming Sung frequently asked for Shanghai Nanyang’s confirmation about the action of New York Nanyang through Shanghai Ming Sung. When F. T. Li asked New York Ming Sung for US$50,000 to repay his liability with the Bank of China for purchasing ties, New York Ming Sung immediately asked its headquarters for the recognition from W. H. Chu (n.d.), the general manager of Shanghai Nanyang.\textsuperscript{234} In reply, Shanghai Nanyang confirmed F. T. Li’s request and asked Shanghai Ming Sung to cable New York Ming Sung accordingly. In fact, both headquarters were more and more involved in this international business. By late May and June, New York Ming Sung even preferred to contact Shanghai Nanyang headquarter through Ming Sung Shanghai first and then deal with New York Nanyang.\textsuperscript{235}

The complexity and uncertainty of the international business environment challenged the organizational capability of Ming Sung. As a beginner in international business, Ming Sung’s worldwide coordination capability could only be advanced through trial and error. It might be fair to say that Ming Sung should have been responsible for the loading delay in Mexico because of the late arrival of its steamships. In addition, this was the first time for Ming Sung to manage such a global business involving China, the United States and Mexico. This international business not only tested the communication capability of Ming Sung to deal with Nanyang but also the internal communication effectiveness between New York Ming Sung and Ming Sung headquarter. The four players, New York Ming Sung, Shanghai Ming Sung, New York Nanyang, and Shanghai Nanyang, operated within an intensive communications web.

\textsuperscript{234} “Nanyang qiye gongsi yu minsheng gongsi wanglai xinjian” (The correspondences between Nanyang and Ming Sung), SMA, Q373-1-875, p. 44.
\textsuperscript{235} In fact, in many letters, New York Ming Sung asked Ming Sung headquarters for the directions of Nanyang headquarters Ming Sung requested Nanyang headquarters should give explicit and clear instructions to New York Nanyang. See Ibid., 14.
When the mutual trust between the overseas offices evaporated, New York Ming Sung actively made use of headquarters to advance the business. The collaboration of headquarters and overseas offices was the key to the eventual accomplishment of this international business.

Chinese multinationals undoubtedly needed to gain experience and sharpen their organizational capability through real business transactions. However, between 1946 and 1949, Ming Sung offices in New York and Quebec served primarily to supervise shipbuilding and procuring boat parts for Ming Sung steamships in China and the ones under construction in Canada. Although it did establish a few short-lived Southeast Asian routes, Ming Sung did not develop its Pacific Ocean and Atlantic Ocean shipping routes in any real sense. Its internationalization was interrupted for multiple reasons. First, Ming Sung had only a limited number of big oceanic steamships. The exploration of overseas routes by Ming Sung was just starting in the late 1940s. Between 1945 and 1949, Ming Sung had only four big oceanic steamships, all restructured military landing crafts. All these ships were used only in coastal and Southeast Asian routes when they came to China.236

Secondly, Ming Sung had few staff members experienced in the operation of oceanic shipping. From 1925 to 1945, Ming Sung had mainly operated along the Yangtze River so that its captains and sailors lacked oceanic voyage experiences. When the four landing crafts sailed back to China, Ming Sung had to hire thirty American sailors for

236 In 1947, Kinchong Banking Corporation and Ming Sung formed the Pacific Steamship Co (太平洋輪船公司 taipingyang lunchuan gongsi). Each party contributed half of the capital. This company had three oceanic steamships. All the three ships were used in Coastline shipping. See Zhang Shouguang, *Lu Zuofu nianpu*, 368.
three months to sail these steamships to China and then send these sailors home.\textsuperscript{237} After 1946, Ming Sung actively sent employees to the American Shipping Company as interns to learn steamship operational and managerial skills. However, some time was needed to form a mature oceanic sailing team.

Thirdly, the political and social environment was a crucial factor. Lu Zuofu knew well the significance of establishing decent relationships with governmental officials. He himself was once the vice-director of the Ministry of Communication and had always mobilized his political resources to develop Ming Sung. However, Ming Sung could not escape from the adverse political and social environment between 1946 and 1949. Due to the Chinese Civil War, Ming Sung’s boats were frequently forcibly used for military transportation by the Nationalist government in the Yangtze River. Ming Sung gained hardly any profit from these “directed” transport jobs. In addition, due to the virulent inflation in the postwar era, the business of passenger and freight shipping greatly declined. As a result, the profits gained from oceanic shipping had to compensate for the decline on business on the Yangtze River.\textsuperscript{238}

Ming Sung attempted to overcome these unfavorable external factors through the exploration of Southeast Asian routes. In 1949, Ming Sung intended to develop three routes: Hong Kong-Bangkok; Bangkok-Singapore; Hong Kong-Bangkok-Singapore-Hong Kong. However, the British Singapore government refused to grant permits to Ming Sung’s ships. Hence, Ming Sung only established a Bangkok office in March 1949. The four oceanic steamships—\textit{Ning Yuan}, \textit{Ting Yuan}, \textit{Sui Yuan} and \textit{Hwai Yuan}—were the

\textsuperscript{237} Wang Shijun, “Minsheng gongsi yu meiguodao de jingyan yu jiaoxun” (The Experience of the Business between Ming Sung and The United States), in \textit{Gongshang jingji shiliao congkan} (Historical Collections of Commercial and Industrial Materials), vol.1 (1983), 190.
\textsuperscript{238} Tong, “My memoir,” 180.
backbone of the Hong Kong-Bangkok route. The Bangkok office was headed by Xie Mindao (n.d.) who had previously been the manager of Shantou office.\textsuperscript{239} The steamships of Ming Sung were warmly welcomed by Thai merchants and the new Bangkok office immediately turned a profit.\textsuperscript{240} However, the deteriorating domestic situation aborted this new venture. From mid-1949, the desperate Nationalist government attempted to confiscate and destroy shipping vehicles to avoid their falling into Communist hands. In June 1950, Lu Zuofu returned to China from Hong Kong and was welcomed by the Communist government. In November 1950, the Thailand’s government, which recognized the exiled Nationalist government in Taiwan, attempted to confiscate the steamships and other assets of Ming Sung’s Bangkok office. The Southeast Asian route and the Bangkok office closed in early 1951.\textsuperscript{241}

After WWII, Ming Sung just started to internationalize. Ming Sung was undoubtedly entrepreneurial. After watching foreign steamships dominate Sino-foreign trade, Lu Zuofu and his team were ambitious to develop China’s oceanic shipping. Ming Sung actively manufactured and procured large advanced steamships in Canada and the United States. With these steamships, it explored overseas routes in Southeast Asia. By 1945, Ming Sung had a strong organizational capability in transportation on China’inland Rivers. However, as a beginner at internationalization, Ming Sung had to learn through experience and improve its organizational capability in the international context through time. The internationalization of Ming Sung was eventually impeded by its poor timing.

\textsuperscript{239} Zong Zhihu, “Wo yu minsheng gongsi” (My Experience in Ming Sung Company), \textit{Shanghai Wenshi ziliao xuanji} (Historical Materials of Shanghai), No. 48 (1984), 85.

\textsuperscript{240} See Xie Mindao, “Minsheng gongsi zai nanyang de huodong” (Ming Sung Company in Southeast Asia), in \textit{Wenshi ziliao xuanji} (The Selected Compilation of Cultural and Historical Records), vol. 46 (Beijing: zhong guo wenshi chubanshe, 2000), 37-48.

\textsuperscript{241} Xie Mindao, “Minsheng gongsi zai nanyang de huodong.”
The social and political instability resulting from the Chinese Civil War aborted the internationalization of Ming Sung in the late 1940s. If there was no Chinese Civil War, Ming Sung should have been more advanced in exploring oceanic shipping routes.
4.2 Chinese Egg Produce Company: 1923-1954\textsuperscript{242}

Eggs are extremely abundant in China. Chinese mainly use eggs as foodstuffs or to incubate young chickens. Foreign developed countries had a great demand for eggs and eggs products for industrial purposes.\textsuperscript{243} Owing to their abundance and to the lower manufacturing costs in China, eggs and egg products gradually became a bulk export item. As early as the 1860s, China already exported fresh eggs and salted eggs to Japan and Southeast Asia. However, fresh eggs were fragile and easily perishable. In 1887, Germans and Americans first established two egg manufacturing factories in Hankou.\textsuperscript{244} These foreign companies produced egg products such as dried eggs and later frozen eggs.\textsuperscript{245} With the maturation of refrigeration technology in the early twentieth century, the egg products could be kept for a long time during transportation. By 1926, the export amount and sales of frozen eggs exceeded those of dried eggs. In 1930, frozen eggs made up 73.83 percent of the total egg exports of China.

Eggs and egg products amounted to 21,000,000 taels in 1920 and 61,000,000 taels in 1929.\textsuperscript{246} Eggs and egg products were exported mainly to Britain, Germany, the U.S, and the Netherlands. Britain was the most important country for importing egg products; in 1930, frozen eggs made up 95 percent of egg products imported by Britain, where

\textsuperscript{242} In 1954, Chinese Egg Produce Company was nationalized through being a public and private jointly managed company.
\textsuperscript{243} Eggs could be used to prepare varnish, painting oil, ink, photographic thesis, and medicine, etc. See Wang Qidong, Egg Industry in China (Tianjin, 1937), 6-7.
\textsuperscript{244} Some records showed that the first egg factory was established by a German custom official in 1897 in Wuhu, Anhui province. See Wang, Egg Industry in China, 55.
\textsuperscript{245} Dried eggs included dried yolk, dried albumen, and dried whole eggs. Frozen eggs included frozen yolk, frozen albumen, and frozen whole eggs. The procedure was first to break the eggs and mix them up. The mixed egg liquid was put in specific tins, frozen and exported.
\textsuperscript{246} Chen Zhen, ed., Zhongguo jindai gongyeshi ziliao (The Historical Materials of Chinese Modern Industries) (Beijing: Sanlian chubanshe, 1957), vol. 4, 472.
most of the imported dried and frozen albumen and yolk to manufacture various goods. It was the “great workshop” of eggs in the world in the early twentieth century.247

However, Chinese egg exports were long controlled by foreign multinationals like Union Cold Storage Company from Britain and foreign trading companies like Jardine, Matheson & Company. 248 During WWI, Chinese-owned egg manufacturing factories experienced their golden age while the business of most foreign multinationals was disrupted by the war. One salient example was the Cheng Yu Company (承餘公司 chengyu gongsi). In 1916, ten Chinese egg businessmen, mainly from the Ningpo-clique Zheng family, financed and established the Cheng Yu Company in Shanghai.249 Cheng Yu Company was in fact an agent that procured eggs from inland China for foreign trading companies. The management of Cheng Yu sought to establish its own egg-manufacturing factory and directly export eggs abroad. In 1923, Cheng Yu’s management collected more 200,000 Mexican dollars to form Chinese Egg Produce Co. (CEPC hereafter).250

CEPC grew to become the largest private Chinese frozen egg manufacturer and exporter before 1949. However, this company has attracted surprisingly little attention both in either the English or the Chinese literature.251 Ning Jennifer Chang’s article, published in 2005, is virtually the only comprehensive description of the development of the Chinese Egg Produce Company. She detailed the rise of this company and its

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247 See Wang, Egg Industry in China, 77.
248 About the competition in Chinese frozen egg industry, see Chang, “Vertical Integration.”
249 Ningpo clique is the general name to describe the business groups which were based on kinship and native place from Ningpo. See Lin Shujian, Ningpo shangbang (Ningpo Clique) (Hong Kong: zhonghua shuju, 1995). Yuan Hengtong, Maochang gufen youxian gongsi jianshi (A Brief History of Chinese Egg Produce Company), SMA, Q229-1-181-1, p. 4.
251 The existing literature directly related to CEPC is very limited. Ning Jennifer Chang’s article was the only one in English literature. Chang’s article was especially revealing in terms of describing CEPC’s domestic development and international cartel. However, the London overseas branch was not her main focus. In Chinese, some book chapters have some short discussion about CEPC. See the Economic Institute of Shanghai Academy of Social Science, ed., Shanghai duiwai maoyi 1840-1949.
cooperation and competition with foreign rivalries. However, based on John Kay’s idea of “architecture,” she focused on networks rather than the hierarchy and routines of the Chinese Egg Produce Company. In addition, she did not describe in detail the establishment of the London and Osaka branches of the Chinese Egg Produce Company, which were crucial for exports.

Based on research in unexplored archives and other primary resources, this thesis will reveal how the CEPC developed into a very successful Chinese multinational before 1949. The combination of entrepreneurship and organizational capability constituted the internationalization of the CEPC. The interaction between the Shanghai headquarters of the CEPC and its London branch in market information and technological communication further honed its organizational capability. The CEPC successfully overcame adversity during the worldwide Great Depression, WWII and the Chinese Civil War by forming an international cartel and alliance with the Chinese and British governments. CEPC exhibited extreme vitality and the capability of Chinese enterprises to internationalize.

After CEPC was established in Shanghai in 1923, Zheng Yuanxing was selected as the general manager. Zheng Yuanxing had a miserable childhood. Without land to work, his family begged for living. At the age of thirteen, with the help of his uncle, Zheng Yuanxing became an apprentice of the small Chinese Bao Ji Egg Company (寶記蛋行 baoji danhang) in Shanghai. Within five years of becoming an apprentice, he studied hard and became an expert in the egg industry and even learned some English, German,

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252 John Kay divided architecture into three dimensions: 1) internal architecture (types of relationship among the employees); 2) external architecture (relationships with suppliers and customers); 3) networks (relationships with firms in related industries). However, John Kay’s architecture solely focused on networks (relationships) but not hierarchy and institution.
French, Russian and Japanese. His peers evaluated him as “smart, ambitious, brave, and persistent.”

From its inception, the CEPC survived fierce competition from foreign companies and quickly grew under entrepreneurial management. When the CEPC was just established in 1923, the International Egg Company (IEC), the branch of the British Union Cold Storage Company in China, sent its comprador Liu Buzhou (劉步洲, n.d.) to persuade Zheng to give up CEPC and promised to pay 50,000 taels for it. Furthermore, IEC promised to pay a monthly salary of one thousand Chinese dollars to those of CEPC’s directors who would work for IEC. While some directors were inclined to accept this offer, Zheng Yuanxing firmly refused and argued, “Our business was just started, but foreign companies attempted to buy it with huge money. This means that the future income of our business will be unbelievable.”

The development of CEPC embodied the Chandlerian three-pronged investment. CEPC imported advanced frozen egg manufacturing facilities, established cold storage warehouses and applied the latest manufacturing methods. To gain economies of scale and scope, CEPC carried on vertical integration and horizontal diversification. Chinese egg sources were extremely rich but widely dispersed. To meet the demand of huge “throughput,” CEPC established over 160 egg-purchasing posts around China. These posts, centering on CEPC’s Shanghai and Qingdao factories, formed a compact supply web. To guarantee egg quality, in 1933 CEPC established its own chicken farm, which

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254 Ibid.
255 Ning Jennifer Chang applied John Kay’s idea of architecture to analyze the development of CEPC. However, John Kay’s architecture solely focused on networks (relationships) but not hierarchy and institution. Hence, Chang’s analysis in fact focused on networks but placed less attention on the formation and significance of the hierarchy and routines of CEPC.
raised several thousand chickens in Shanghai. Unfortunately, the farm was closed during the Sino-Japanese War.

The growth rate of CEPC was astonishing. In 1923, CEPC had only several dozen employees with a daily frozen egg production of ranging from 5 to 10 tons and an annual production of 500 tons. By 1927, its daily production amount reached 60 tons and its annual production of 8,000 tons. Its employees increased to more than 1,000. By 1934, the annual producing capability of the Shanghai factory was 10,000 tons of frozen eggs, 40,000 boxes of fresh eggs and 5,000 tons of ice.\textsuperscript{256} Its sales were around 10 million Chinese dollars.\textsuperscript{257} In 1930, to gain a larger economy of scale, CEPC established a factory in Qingdao, Shandong province. The Qingdao factory could manufacture 50 to 60 tons of frozen eggs daily, with an annual production of 5,000 to 6,000 tons. Its employees numbered 600 to 700. Around 1930, CEPC’s Shanghai and Qingdao factories could produce 15,000 tons of frozen eggs and 50,000 boxes of fresh eggs annually. CEPC occupied 30 percent of the total egg exports of China.\textsuperscript{258} This ratio was kept until the export disruption due to the outbreak of the Pacific War.

In 1930, CEPC became a joint-stock limited company with capital of two million Chinese dollars. CEPC did not prohibit foreign shareholders, but if any controversy arose between the company and foreign shareholders, the final solution was to follow Chinese corporation law and other relevant Chinese law. The head office of CEPC was in Shanghai. According to the company’s charter, “The objects of the company shall be the extension of Chinese commerce, principally the development of exports of Chinese

\textsuperscript{256} Chen Zhen, ed., “Gongyeshi ziliao,” 470.
\textsuperscript{257} “Shanghai maochang gongsi zhi guoqu yu xianzai” (The Past and Present of Shanghai China Egg Produce Company), \textit{Guoji maoyi daobao} (Journal of International Trade), vol.5, no. 9 (1933), 1.
\textsuperscript{258} Yuan Hengtong, “Maochang gufen youxian gongsi,” 19.
Native products; manufacture, export, and trade in eggs and egg products; manufacture Tins; boxes; Cold storage; shipping and other business in connection with the company’s principal line of business.”259 The CEPC became the first and only Chinese frozen egg manufacturing company during the Republic era.

To diversify its business, the CEPC established the fresh egg-packing department to take charge of fresh (shell) egg exports in 1927. On the eve of the Pacific War, the fresh egg exports of the CEPC arrived annually at eight thousand tons second only to frozen egg exports.260 In addition, CEPC established dried-egg factories in Shanghai, Haozhou (Anhui province), Wuhu (Anhui province), Ningbo (Zhejiang province), Taizhou (Jiangsu province) and Gaoyou (Jiangsu province) during the 1930s. Its production of dried eggs accounted for 20 percent of the national total in 1940.261 Taking advantage of the extra capability of cold storage warehouses, CEPC entered cold storage and ice-making business. The clients of CEPC’s storage business ranged from those trading in seafood, meat, fruit, medicine, fur products to vegetables. By 1931, CEPC became a national leader in the storage business with a storage capability of 5,200 tons in Shanghai and 3,000 tons in Qingdao.262 While the core business of CEPC was the production and export of frozen eggs, these sidelines efficiently made use of the extra capability of existing facilities and created value for the company.

More importantly, CEPC developed its own managerial hierarchy. Appendix B shows a comparison of the managerial hierarchies in 1930 and 1942. The managerial

hierarchies are notably Chandlerian multi-departmental functional structures. After incorporation in 1930, CEPC established one central office and six departments: manufacturing, purchasing, export, accounting, transportation and cold storage. In 1942, the number increased to nine, with the addition of estate, retail and general egg produce departments. The central office included several sections including secretary, finance, general business, engineering, materials, and inspecting. In 1942, there were on average two to three middle managers (director and vice-director) in each department. It is notable that the middle managers in 1930 still were the backbone of CEPC in 1942. In fact, even at the lower level, the employees were also relatively stable. In nationwide egg collecting offices (managed by the purchasing department), office managers and staff were always employed for many years. The stability of employees cultivated their loyalty to CEPC.

With enhanced production and managerial capability, CEPC decided to develop direct exports abroad through establishing overseas branches. CEPC widely established its branches in important commercial cities around the world. However, the available materials discuss only its Osaka and London branches. In 1929, CEPC established its

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263 The multi-departmental structure was based on different functions such as production, purchasing, and marketing. The multi-divisional structure was based on products or business areas. Each product or business area is a division. For each product, the manager takes charge of the whole process of purchasing, production, and marketing.
264 “Maochang gufen youxian gongsi qiye zuzhi he renshi bufen” (The organization and personnel of CEPC), SMA, Q229-1-173, p. 8.
265 CEPC cared their employees quite a lot. Even in the difficult times, it tried not to fire employees and give compensations for the fired ones. See “Zheng Yuanxing zongjinge yanjiangci” (The address of Zheng Yuanxing), SMA, Q229-1-224, p. 4. The reason for this was probably that most of its employee came from Ningbo clique where Zheng Yuanxing came from. According to a survey in August 1942, CEPC had 313 employees not including management: 309 Chinese, 2 Japanese and 2 foreigners from other countries. Most of the Chinese workers were from Ningbo clique. See “Maochang gufen youxian gongsi qiye zuzhi he renshi bufen” (The organization and personnel of CEPC), SMA, Q229-1-173, p. 30.
Osaka Sales office in Japan to market its products. The Osaka office hired a Japanese man as the manager. When the second Sino-Japanese War broke out in 1937, the Osaka branch ended.267

Considering that Britain was the biggest importer of fresh and frozen eggs, a London branch was more important for CEPC for direct exports. The contemporary British Company Acts of 1908 to 1917 required that, for a company registered in Britain, it must have at least one British shareholder regardless of the number of shares.268 CEPC contracted with Humphrey Greenall (n.d.), a former manager of S. Behr & Mathew, Ltd.,269 a British frozen egg company, to establish a London branch with the name of Overseas Egg Produce Co. (OEPC hereafter) for CEPC. Greenall held thirty shares in CEPC with each share worth one thousand Chinese dollars.270 The London branch was expected to take charge of marketing CEPC’s frozen eggs under the “CEPCO” brand.271 CEPC probably hoped to make use of Greenall’s personal network to open the European sales market.

The contract signed by CEPC and Greenall in January 1927 stated that Greenall had to be faithful to CEPC and do his utmost to promote the business of CEPC. Greenall

267 “Maochang gufen youxian gongsi wei daban zhidian jieshushi yu shehuiju wanglai wenshu” (The letters between CEPC and Social Bureau for finishing up its Osaka offices), SMA, Q6-18-255-67, p. 2.
268 The original transcript states “whereas with the privity and approval of the China Company in lieu of establishing a London office for the China Company the said Humphrey Greenall has caused to be registered under the English Companies Acts 1908 to 1917 a Company with limited liability under the name Overseas Egg & Produce Company Limited,” in “Maochang gongsi gezhong weiren zhuang he xinjian” (Various contracts and letters of CEPC), SMA, Q229-1-27, p. 13.
270 “Maochang gongsi yu yingguo haichang gongsi wanglai dianbao xinjian” (The cables and letters between CEPC and OEPC), SMA, Q229-1-171, p. 436.
271 In the “Mao Chang Danye Gongsi Yang shi”, Yuan Hengtong, an old employee of CEPC, wrote that the OEPC was established in 1925. In Chang’s article, she simply adopted this statement. According to the original contract between CEPC and Greenall and the Memorandum and Articles of Association of Overseas Egg & Produce Company, the date to establish OEPC should be February 1927.
should give advice to and accept advice from CEPC on matters such as fluctuation in prices and ways of doing business. In addition, as the representative of CEPC, Greenall took charge of negotiating and settling claims and conducting litigation if necessary. As an employee of CEPC, Greenall earned $1,200 pounds per year as salary. In addition, the net profit made by the London office in a year was divided into eleven equal parts, one part of which was given to Greenall as a bonus. If the amount was less than £500 pounds, CEPC would be responsible for the difference.272

Located in London, OEPC was expected to take charge of the whole of European market (excluding Germany) for the sale of fresh eggs, egg products and other commodities marketed by CEPC. As so-called “European manager,” Greenall had the right to rent offices, engage clerks and do everything considered necessary to advance the business. In addition, he was authorized to make offers, accept offers, and to sign all contracts in connection with the business of CEPC, provided that all such offers have been approved by CEPC. Greenall was also given power to sign and accept checks, Bills of Lading and all other documents representing CEPC.273

The Overseas Egg & Produce Company, Limited, was incorporated in London on February 23, 1927. To avoid some unnecessary problems, for the external advertising OEPC was an independent company. It had its own board. The share capital was 10,000 pounds, divided into 10,000 shares. CEPC invested all 10,000 pounds and internally considered OEPC a subsidiary.274 The first two founding subscribers were Humphrey

272 “Maochang gufen youxian gongsi guanyu pinqing lundun fendian dailiren de qiyue” (The Contract between CEPC and its agent in its London branch), SMA, Q229-1-4-53, pp. 1-4.
273 Ibid. The contract between CEPC and Greenall was signed on January 1927.
274 See “Maochang gufen youxian gongsi feiyong fenpei zhaoyao” (The expense tables of CEPC), SMA, Q229-1-52-13, p. 43.
Greenall and Ernest E. Bayfield (n.d.), with one ordinary share each. Humphrey Greenall was the sole director of OEPC, having all the powers of a board of directors. He hired Albert Edwin Statham (n.d.) as the secretary.

OEPC was a sole importer and marketing agent of CEPCO egg products of CEPC. The contract between CEPC and OEPC stipulated that OEPC could not deal with any other egg products without the consent of CEPC. CEPC also could not accept orders for shell eggs other than through OEPC. The business between CEPC and OEPC was both through direct sale against offer and acceptance of OEPC and on consignment basis from CEPC. In addition, OEPC had no right to arrange financing without CEPC’s authorization. Greenall had to submit to CEPC a monthly report concerning the business with a balance sheet at the end of each month.

The communication between OECP and CECP was conducted through mails and cables. Cables were probably the quickest overseas communication method at that time. It commonly took about 1-2 days from the sender to the receiver. The business between CEPC and OEPC was done mostly by cables. The cables were mainly about the egg types (frozen egg or shell egg or dry albumen) and quantity and prices for different orders. Probably to protect business secrets, the cables between CEPC and OEPC was written combining regular codes and secret codes. Regular codes were numbers and letters representing generally-known country/city names and business entities, while secret codes were likely more specific and secure information used for business communication.

275 CEPC transferred 2 shares valued 2 pounds to Humphrey Greenall and Ernest E. Bayfield.
276 “Maochang gongsi gezhong weiren zhuang he xinjian” (Various contracts and letters of CEPC), SMA, Q229-1-27, pp. 20-22.
277 “Haiwai gongsi zhangcheng” (The Charter of OEPC), SMA, Q229-1-39-80, pp. 132-133.
278 Lots of cables between OEPC and CEPC existed. See “Maochang gufen youxian gongsi yu yingguo lundon haiwai daipin gongsi de yewu” (The Business between CEPC and OEPC), SMA, Q229-1-25; “Maochang gufen youxian gongyu yu lundun de dianbao” (Cables between CEPC and OEPC), SMA, Q229-1-39.
codes represented the details about orders or other essential information.  

Due to the abbreviated nature of cables, both OEPC and CEPC frequently confirmed the content of cables (ordered egg types and quantities and shipping information) by mail to avoid any misunderstanding. Mail was thus another key communication method between CEPC and OEPC. Appendix C lists the dates and content of the letters between CEPC in Shanghai and OEPC in London within the first half-year of 1941. This shows that the letter exchange between the two entities took about two months. Compared to cables, the letter method would include more information. From the OEPC side, the bulk of these exchanges were to inform CEPC of the stock and delivery information and sales amount of OEPC. In addition, OEPC was responsible for reporting its bank position and Statement of Account for each month. Other letter exchanges dealt with common trade problems like the quality issue and the changes of British policy. From the CEPC side, the mails were mainly dealing with shipping information.

The business of OEPC in the beginning years was quite good. But the profit was soon offset by the Great Depression. During the Great Depression, the producing capacity in China in the early 1930s was 70,000 tons of frozen eggs and 200,000 cases of shell

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279 See “Maochang gufen youxian gongsi yiban dianma” (The Regular Cable Code of CEPC), SMA, Q229-1-43; and “Maochang gongsi mima” (The secret codes of CEPC and their instructions), SMA, Q229-1-45, pp. 1-85.

280 “Maochang gongsi yu yingguo haichang gongsi wanglai dianbao xinjian” (The cables and letters between CEPC and OEPC 1940-1941), SMA, Q229-1-171, pp. 7, 80, 244, 271, 281.

281 There were also some airmails used by OEPC or CEPC that would certainly take less time.

282 Although the contract between CEPC and H. Greenall required monthly reporting its statement of account for OEPC, it seemed that this policy was flexibly obeyed. OEPC often reported its statement of account of several months together.

283 “Maochang gongsi gezhong weiren zhuang he xinjian” (various contracts and letters of CEPC), SMA, Q229-1-27, p. 10.
eggs but the European demand was only 40,000 tons of frozen eggs and 100,000 cases.\textsuperscript{284} The egg export industry in China was amid overproduction. The frozen egg companies in China competed in a “price war” to repeatedly lower their prices in the European market.\textsuperscript{285} Commonly, CEPC advised OEPC about acceptable prices of commodities to be shipped to Europe. OEPC could finally fix the selling prices according to the particular condition in the European market. However, both parties it found difficult to adhere strictly to this procedure during the Great Depression. OEPC was at serious losses. At the request of Greenall, CEPC had to made considerable allowances to OEPC off the invoice prices.\textsuperscript{286}

To better coordinate the prices in the Great Depression period, Greenall advised in 1930 that CEPC could fix the prices of the frozen eggs in advance according to the ruling prices in China. The eggs were shipped by CEPC from Chinese ports to the port of London under bills of lading drawn by CEPC. The bills of lading, with an invoice about the price of the eggs, were sent to the London branch of the banker of CEPC in Shanghai. The London banker had the responsibility of notifying OEPC about the shipped order. A duplicate invoice from CEPC was simultaneously sent to OEPC. The billings of lading were also accompanied by certain drafts payable at 2-4 months to the order of the banker. If OEPC accepted the order and its price, OEPC would pay the drafts at their due date after the eggs were sold. If the prices were too high to be accepted, OEPC always

\textsuperscript{284} “Maochang gufen youxian gongsi diaocha baogao ji fuxing jihua” (the investigation report and recovering plan of CEPC), SMA, Q229-1-183-1.

\textsuperscript{285} Due to fierce mergers, in 1930s, China had only eight frozen egg companies. They were International Export Company (Britain), China Egg Produce Company (China), “Ewo” Cold Storage Company (a branch of Jardine Matheson & Co.), Borden & Co. (America), Beth & Mathew, Ltd. (Britain), Henningsen Produce Co. (America), British Egg Packing & Cold Storage Co, Ltd. (Britain), and Cathay Cold Storage & Co., Ltd. (Britain). CEPC was the only Chinese frozen egg company.

\textsuperscript{286} “Maochang gongsi gezhong weiren zhuang he xinjian” (Various contracts and letters of CEPC), SMA, Q229-1-27, pp. 10-11.
persuaded CEPC to sell the eggs at prices lower than the invoice prices.287

On the CEPC side, Zheng Yuanxing attempted to use a more aggressive method to avoid the decline in prices due to overproduction. Zheng wanted to establish an international cartel to fix the selling price. In winter 1931, Zheng Yuanxing visited the European headquarters of the main Chinese egg importers to sell his proposal. However, Zheng failed because of a disagreement about the distribution of shares in the proposed cartel among these firms.288 In 1934, Zheng Yuanxing once more visited these headquarters in Europe and successfully managed to form an international cartel, the Weal Trust Company. The Weal Trust Company (WTC) established that eight main egg companies cooperated to purchase raw eggs in China and sell shell eggs and frozen eggs in Europe. The British Ministry of Food authorized a monopoly for WTC in the Sino-Britain egg business. The import amount and price of eggs through WTC would be authorized by the British Ministry of Food every year.

In 1934, probably after returning from Britain, Zheng Yuanxing submitted “The Regulation Method of Egg Export” to the Nationalist government. The proposal requested the establishment of the Refrigerated Egg Packer’s Association of China (REPA), whose members were direct exporters (in fact the subsidiaries of the members in Weal Trust Company) among the frozen egg factories in China. The shares and sales of each company were distributed according to the direct export amount of each factory over the past three years. The frozen eggs and shell eggs had to be standardized. The

287 “Maochang gongsi gezhong weiren zhuang he xinjian” (various contracts and letters of CEPC), SMA, Q229-1-27, pp. 9-13. In addition, many cables were relating to the communication about the pricing issue. See “Maochang gongsi yu yingguo haihang gongsi wanglai dianbao xinjian” (The cables and letters between CEPC and OEPC), SMA, Q229-1-171, p. 230.
288 Liu Zulai, “Maochang danye lengcang gongsi de lishi huigu” (China Egg Produce Company in Historical Retrospect), in Qingdao wenshi ziliao (The Historical Material of Qingdao), no. 6 (1984).
government should endow the monopoly rights to REPA under 70,000 tons of frozen egg and 100,000 boxes of shell eggs. All the exporting frozen eggs and shell eggs had to be accompanied by the certificate of REPA.\(^{289}\) The REPA was eventually established in 1934 in Shanghai, and Zheng Yuanxing became its president.

Among the final export shares in the WTC-REPA cartel, CEPC made up 33 percent of the annual exporting frozen eggs to Britain, second only to International Export Co.’s 34 percent. The other six companies (“Ewo” Cold Storage Company, Borden & Co., Beth & Mathew, Ltd., Henningsen Produce Co, British Egg Packing & Cold Storage Co, Ltd., and Cathay Cold Storage & Co., Ltd.) made up 33 percent.\(^{290}\)

After 1934, the international cartel, WTC-REPA, controlled the Sino-Britain egg business until the outbreak of the Pacific War in late 1941. An operational pattern came out. In the fourth quarter of each year, WTC would determine the amount and prices of Chinese frozen eggs to be imported to Britain in the coming year. This process included both the internal negotiation within WTC and the bargaining between WTC and the British Ministry of Food. WTC would inform REPA of manufacturing and exporting eggs according amount on the basis of the fixed percentage as indicated in the above paragraph.\(^{291}\) The final goal of the international cartel was to reduce competition and fix the maximum selling price.

OEPC operated as a representative of CEPC in the WTC in Europe. Like the leading status of CEPC in REPA, OEPC also played a key role. For example, in October 1940, OEPC was informed by the British Ministry of Food that Britain would fix a

\(^{289}\) “Maochang gufen youxian gongsi diaocha baogao ji fuxing jihua” (the investigation report and recovering plan of CEPC), SMA, Q229-1-183-1, pp. 21-22.
\(^{290}\) Shanghai duiwai maoyi, vol. 1, 303.
\(^{291}\) Please refer to the operational pattern in more detail in Chang, “Vertical Integration,” 444-5.
maximum selling price for all egg products in the United Kingdom. This order would apply to the export of liquid yolks (all kinds including Glycerin) and dried eggs (all kinds) from CEPC. British authorities asked for OEPC’s guidance for establishing a fair maximum price. Greenall sent an urgent letter to Zheng Yuanxing to ask for a reasonable FOB China Price\(^{292}\) for glycerinated yolks, prime dried albumen and spray dried yolks. He advised Zheng to keep the price as low as reasonably possible since “any serious rise in prices might result in the trade being stopped by the authorities withdrawing steamers and exchange facilities.”\(^{293}\)

The Chinese government attempted to foster the egg-products trade in the 1930s.\(^{294}\) Realizing the importance of maintaining the quality of exported eggs, the Chinese government imposed extremely rigid inspection and testing methods on eggs and egg products during the export trade. The procedure included factory inspection, packing inspection, sampling tests, physical tests, and chemical tests. The chemical test, for example, examined the moisture, oil content, acidity of fat, ash, and protein.\(^{295}\)

Quality problems were frequently a subject of communication between these two entities. In December 1940, British buyers complained that several cases of dried albumen were not prime quality. OEPC tried every method to persuade them to withdraw the claim against the goods.\(^{296}\) In letters dated on February 19 and March 13, 1941, OEPC repeatedly requested more quality regularity on the CEPC side. For example, all

\(^{292}\) FOB: Free On Board. At a named port of export where the seller quotes the buyer a price that covers all costs up to and including the loading of goods aboard a vessel.

\(^{293}\) “Maochang gongsi yu yingguo haichang gongsi wanglai dianbao xinjian” (The cables and letters between CEPC and OEPC), SMA, Q229-1-171, p. 240.

\(^{294}\) G.C. Allen and Audrey G. Donnithorne, Western Enterprises, 79.


\(^{296}\) “Maochang gongsi yu yingguo haichang gongsi wanglai dianbao xinjian” (The cables and letters between CEPC and OEPC), SMA, Q229-1-171, p. 206.
Prime Quality Spray Dried Hen Egg Yolks were sold in Britain as subject to the rule of “not exceeding 5 percent FFA (Free Fatty Acid) on arrivals.” However, among the products shipped by CEPC, over 50 percent of arrivals were showing 6 percent FFA and upwards; some inferior parcels were even as high as 9 percent. Greenall considered that these deliveries were harmful for the reputation of “CEPCO” mark and urged CEPC to strengthen its inspection and send along copies of the test analysis with each shipment.297

OEPC played an important role in improving technology on the CEPC side. To solve the problem of insufficient fermentation, in a letter dated June 3, 1940, Greenall sent a formula for the control of fermentation to CEPC. On June 25, 1940, OEPC sent six barrels of a “special powder” with user instructions to CEPC to be used in manufacturing a “double strength frozen egg.” As a result, the volume to be packed and transported was supposed to be reduced by 50 percent. When reconstituted in London, the eggs would be equal in every way to ordinary frozen eggs. This technique would save great freight and refrigeration costs.298 CEPC manufactured these new eggs according to instruction. The first shipment arrived in London in early September 1941. Greenall reported that on average one ton of double strength frozen whole eggs could save 43 pounds over 2 tons of ordinary frozen ones.299 More importantly, these new eggs proved to be satisfactory and gratifying to buyers like Bellamy & Co., Ltd..300

Sometimes, even with utmost effort from both CEPC and OEPC, the quality problems still could not be solved. CEPC and OEPC had to consider alternative methods. For example, British buyers refused to accept any Glycerinated Yolk shipment with FFA

297 “Maochang gongsi yu yingguo haichang gongsi wanglai dianbao xinjian” (The cables and letters between CEPC and OEPC), SMA, Q229-1-171, p. 168.
298 Ibid., 218.
299 Ibid., 66.
300 Ibid., 68.
in excess of 3.5 percent. However, although CEPC paid much attention to manufacture in 1941, there was still 4 percent of Glycerinated Yolks which were over 3.5 percent Free Fatty Acid in the analysis at the port of shipment. To market these products, Greenall initiated a new contract with buyers. The new contract allowed that no more than 5 percent of the total order could contain FFA over 3.5 percent. As a tradeoff, the new contract gave more benefit to buyers: “Free Fatty Acid not exceeding 4 percent to be invoiced at 2.5 percent below the contract price plus an allowance of 2 percent for each 1 percent in excess of 5 percent on arrival. Not exceeding 4.5 percent but over 4 percent to be invoiced at 5 percent below the contract price and the same allowances as above on arrivals.”

The outbreak of the WWII did great harm to the business of CEPC. War condition increased the risk of international business. In 1940, Greenall reported that CEPC’s cargo at Rotterdam was seized or lost as the result of the invasion of Holland by Germany. In 1938, CEPC’s two important factories in Shanghai and Qingdao were forcibly occupied by the Japanese army. CEPC actively reestablished the Shanghai factory in the French Concession and continued production. In 1942, compared to its heyday, CEPC had just 313 employees not including management: 309 Chinese, two Japanese clerks and two foreign clerks from other countries. Among them, there were 134 business clerks, 24 technicians, and 153 workers. 216 of the total were regular workers and 103 workers were temporary workers.
Fortunately, the core business of CEPC, the frozen egg export, still continued between 1937 and 1942. In 1941, CEPC produced 758 tons of frozen eggs with sales of 3 million Chinese dollars. The shell eggs earned only 380,000 Chinese dollars. The previous sidelines like ice and storage business gradually became the backbone of CEPC in the wartime situation. The ice and iced fish manufactured by CEPC in 1941 amounted to 3 million Chinese dollars.

There are no specific statistics for the financial performance of OEPC before the Pacific War. However, OEPC was obviously important in CEPC’s export business. For example, in 1940, the shell eggs shipped to OEPC amounted to 55,880 boxes of a total of 60,089 boxes. As an active member of WTC, OEPC seemed to have enjoyed a reasonable performance. It made gross profits of nearly 14 percent for 1937 and 8 percent for 1938 on turnover (purchases and sales).

After the outbreak of the Pacific War in late 1941, shipping on oceanic routes was suspended. The export of CEPC totally stopped. CEPC was in an extremely difficult position, forced to depend on its sideline businesses. The operation of WTC-REPA also automatically ceased. Little information about the relationship between CEPC and OEPC between 1942 and 1945 is available. But, OEPC did survive.

In late 1945, with the end of WWII, Zheng Yuanxing called for the managers and workers to take responsibility for revitalizing CEPC. CEPC managed to issue new

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305 This was the so-called “isolated island” period since Japanese army did not invade foreign Concessions in Shanghai. Hence, many Chinese factories moved there and continued production.
306 “Maochang gufen youxian gongsi qiye zuzhi he renshi bufen” (The organization and personnel of CEPC), SMA, Q229-1-173, p. 30
307 “Maochang gongsi 1940 nian bingdan shengchan ji chukou tongji biao” (The Statistics of the production and export of frozen eggs in 1940), SMA, Q229-1-6-106, p. 3.
308 “Maochang gongsi yu yingguo haichang gongsi wanglai dianbao xinjian” (The cables and letters between CEPC and OEPC), SMA, Q229-1-171, p. 349.
309 “Zheng Yuanxing zongjingli yanjiangci” (The address of Zheng Yuanxing), SMA, Q229-1-224, p.
stocks to finance its development from time to time.\textsuperscript{310} The prewar facilities and organization had established a good foundation for resuming frozen egg export after 1945. CEPC adjusted its managerial hierarchy and team. Until 1947, CEPC owned Hongkew Factory & General Warehouses, Hongkew Cold Storage, Nantao Cold Storage & General Warehouse and Eastern Warehouse in Shanghai. Each department had two to three middle managers.

Frozen egg production was soon resumed and eggs were exported to Europe, Hong Kong, and Southeast Asia. However, exports in 1947 were just 8 percent of the total exports before the war.\textsuperscript{311} Hoping to expand its overseas markets, CEPC attempted to resume the previous international cartel WTC-REPA. In 1948, Zheng Yuanxing went to Britain, met egg agents and import companies (previous members of the WTC) and talked to the British Ministry of Food. As a result, the previous international cartel WTC-REPA was resumed. CEPC obtained 30 percent of the export share in the resumed cartel.\textsuperscript{312}

In China, the export condition worsened due to virulent inflation of the late 1940s. Given that Chinese currency depreciated dramatically, the low exchange rate resulted in the high domestic egg procuring price compared to the low overseas selling price. Hence, it was impossible for private frozen egg company to export eggs abroad. To obtain more foreign currency, the Nationalist government commissioned the Central Trust of China\textsuperscript{313}

\textsuperscript{23.} Yuan, “\textit{Maochang gufen youxian gongsi jianshi},” 22.
\textsuperscript{310} “\textit{Maochang gufen youxian gongsi de chuangye jingguo}” (The Development of CEPC), SMA, Q229-1-213, p. 5.
\textsuperscript{311} \textit{Shanghai duiwai maoyi}, vol. 2, 301.
\textsuperscript{312} The Central Trust Company was a state-owned monopoly which was founded in 1935. After 1945, the Central Trust monopolized procuring the export materials and subsidized private exporting firms. The Central Trust mainly commissioned private exporting firms to export the raw materials which it collected in China.
to give a certain allowance for the export of certain items including frozen eggs, bristle, Tung oil and silk after 1947. Hence, CEPC arranged for REPA to contact with the Central Trust. The Central Trust paid a certain allowance to REPA to cover the gap between domestic procuring prices and overseas selling prices. The Central Trust estimated the procuring and manufacturing cost and profit rates of members of REPA and paid Chinese dollars to REPA.\textsuperscript{314} The members of REPA exported frozen eggs on the basis of fixed respective shares and then paid the 95 percent of the proceeds in pounds sterling to the Central Trust Company.\textsuperscript{315}

Supported by this institution, in 1948, egg exports by CEPC returned 30 percent of the amount before WWII. The total sales of frozen eggs were 15,000 tons and 3,150,000 pounds. Due to the great reputation of CEPC and its “CEPCO” brand, the unit price of frozen eggs exported to Britain was much higher than that of other companies.\textsuperscript{316} After the establishment of People’s Republic of China in 1949, Great Britain joined many other Western countries in boycotting Chinese goods and hence the Sino-Britain trade was suspended. It was unclear about the operation situation of OEPC after 1950.\textsuperscript{317} In 1954, Zheng Yuanxing sold the shares of OEPC controlled by CEPC in London. His own 375 shares of OEPC were sold to Humphrey Greenall. The CEPCO trade mark was transferred to Greenall without monetary consideration “in recognition of the good

\textsuperscript{314} Shanghai duiwai maoyi, vol. 2, 300-1
\textsuperscript{315} Chang, “Vertical Integration,” 447.
\textsuperscript{316} At that time, frozen eggs from Australia was 140 pounds sterling /ton, 170 pounds sterling/ton from Canada, 184 pounds sterling/ton from Poland and 210 pounds sterling/ton from CEPC. See “Maochang gufen youxian gongsi de chuangye jingguo” (The Development of CEPC), SMA, Q229-1-213, p. 6.
\textsuperscript{317} During the revaluation of the assets of CEPC by the People’s Republic of China government, the result showed that the long-time investment in the shares of OEPC had face value 8625 pound sterling. See “Maochang lengcang gongsi chonggu caizhan baobiao” (The Revalued Asset Table of CEPC), SMA, S113-4-24, p. 119.
agency service of Greenall for a number of years.” OEPC became totally independent from CEPC.

This case shows the great vitality of a Chinese multinational. The management of CEPC was entrepreneurial and aggressive enough to adopt new frozen egg technology and regain the export market of frozen eggs from Western multinationals. Through repeated vertical integration and diversification, CEPC gained strong organizational capability and became the largest Chinese frozen egg factory in the Republican era. Stimulated by entrepreneurship and supported by organizational capability, CEPC was a pioneer and successful enterprise in developing direct export and establishing overseas offices abroad. Zheng Yuanxing visited Europe eight times between the 1920s and the 1930s to conduct business. Its London branch played a key role in the Sino-British egg trade for nearly thirty years from 1927 to 1955.

One of the key strengths of multinationals is their capability to mobilize and exploit resources internationally. OEPC actively marketed the “CEPCO” brand so that “CEPCO” could become a famous brand of frozen eggs in Britain. In addition, OEPC collected useful market information and monitored the policy changes of the British government. Hence, CEPC was able to adjust its production to suit demand. In August 1940, OEPC knew that the British government had recently procured a great amount of glycerine. It immediately informed CEPC that the stocks of glycerine be in demand and asked to arrange supplies. Furthermore, OEPC was an overseas “R&D center” (research & development center) for CEPC. OEPC frequently sent formulas of latest egg

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72 “Guanyu lundun haichang gongsi gufen zhuanrang ji CEPCO shangbiao zhuanrangxin” (About the OEPC share transfer and the CEPCO branch transfer), SMA, Q229-1-3-102.
319 Shanghai duiwai maoyi, vol.1, 306.
320 “Maochang gongsi yu yingguo haichang gongsi wanglai dianbao xinjian” (The cables and letters between CEPC and OEPC), SMA, Q229-1-171, p. 278.
manufacturing technology to CEPC. These formulas improved the technological capability and production capability of CEPC. The close interaction of OEPC and CEPC advanced the organizational capability of the company as a whole.

In the face of the same adverse situation in the Republican period (e.g. incessant wars, the Great Depression, etc.) as other companies, CEPC effectively created a new industrial organization and mobilized various resources (particularly political resources) to overcome external adversities. China was a main supplier of frozen eggs in Britain. During the Great Depression, the demand of frozen eggs in Britain greatly declined and Chinese frozen eggs were overproduced. CEPC was aggressive enough to initiate the international cartel WTC-REPA. CEPC further successfully managed this international cartel to get the monopoly of frozen egg exports from the Chinese and British governments. CEPC in China and OEPC in London became primary leaders in this cartel. Although the frozen egg export of CEPC was suspended by the Pacific War, CEPC actively developed its sideline businesses like ice-making and cold storage to survive. In the virulent inflation period after 1945, CEPC successfully developed its production and export through contracting with the Nationalist government and resuming the previous international cartel. CEPC is a classic case of Chinese enterprises that could not only compete against Western multinationals but also even win them over in the international battlefield during the Republican era.
4.3 Mayar Silk Mills, Ltd.: 1920-1956\textsuperscript{321}

China has been famous for its silk fabrics for centuries. In agricultural China, raising silk-worms and weaving silk cloth was an important economic activity for many peasant families. Various fancy and patterned fabrics were manufactured by intricate handlooms. Late imperial Chinese governments established official silk textile factories for official consumption or border trade.\textsuperscript{322} After the 1840s, the opening of the treaty ports in China greatly increased the export of Chinese raw silk. The Chinese silk-reeling industry developed quickly after the mid-nineteenth century.\textsuperscript{323} China became an important raw silk source for weaving centers in Western countries such as the United States and France.

The modern Chinese silk-weaving industry did not emerge until the Republican era. In 1915, Wu Hua Silk Weaving Factory (物華絲織廠 wuhua sizhichang) in Shanghai was China’s first modern silk-weaving company using electric power looms.\textsuperscript{324} The electric looms could produce more consistent and reliable silk fabrics with much greater efficiency. From 1915 to 1931, Shanghai gradually became the silk-weaving center of

\textsuperscript{321} In 1956, Mayar Silk Mills, Ltd was transformed as a joint public-private enterprise.
\textsuperscript{324} D. K. Lieu, \textit{The Silk Industry of China}, 162.
China.\textsuperscript{325} The number of silk-weaving factories in Shanghai soared to five hundred in 1931, compared to just one (Wu Hua) in 1915.

However, in the international market, Chinese silk-weaving companies relied heavily on foreign trading firms for exporting silk fabrics. Without direct export organizations, Chinese firms failed to compete with long-established foreign firms which had close connections with overseas customers.\textsuperscript{326} From 1927 to 1929, Japan, China, and Italy produced 67.6 percent, 18.4 percent, and 13.4 percent of total international silk market shares in value.\textsuperscript{327} Since the late nineteenth century, Japan became China’s main competitor in exporting both raw silk and silk fabrics in the international market.\textsuperscript{328} The advantages of Japanese silk companies were their firm size, reliable quality, low prices, better shipping, direct export and governmental subsidies.\textsuperscript{329} In fact, some Chinese silk-weaving companies in the Republican era also grew significantly in scale and attempted to explore international market and fight against competitors from Japan or other countries. Mayar Silk Mills, Ltd. was a notable case of Chinese silk fabrics producers who aggressively developed direct exports in the Republican era.

The case of Mayar Silk Mills reveals the remarkable ambition of Mayar for

\textsuperscript{325} In fact, the silk weaving industry was similarly developed in the interior cities like Hankou, Hanzhou, Huzhou, and Suzhou. However, since 1927, the majority of interior silk weaving factories moved to Shanghai. First, the interior factories found it hard to compete against Shanghai due to both local levies and export and parcel post tax. Second, with the popularity of power looms in silk weaving factories, Shanghai enjoyed better power supply infrastructure. Thirdly, Shanghai had complete export communication and transportation facilities for export and domestic trade. See Lieu, \textit{Silk Industry}, 166-7.
\textsuperscript{326} D. K. Lieu, \textit{The Silk Industry of China}, 247.
international expansion in the Republican era. There have been no studies about Mayar in English. The most comprehensive examination about Mayar in Chinese was given in *Jindai Jiangnan sizhi gongye shi* (History of the modern Jiangnan silk industry) edited in 1991 by Xu Xinwu. However, it concentrates on the domestic development of Mayar and sheds little light on Mayar’s international operation. In fact, the overseas organizational expansion was the core strategy of Mayar from the late 1930s until the late 1940s. By the late 1930s, Mayar was both organizationally capable and entrepreneurial enough to undertake overseas expansion. It had effectively adjusted its organizational structure to suit its overseas expansion strategy. Its strong domestic organizational routines boosted its overseas exploration and laid the foundation for developing new routines abroad.

In 1920, Mo Shangqing (莫觴清 1877-1938), a silk reeling merchant from Zhenjiang, established Mayar in Shanghai. At the beginning, Mayar was a small silk-weaving factory with just twelve electric looms. In 1921, Cai Shengbai, Mo Shangqing’s son-in-law, took in charge of the Mayar management. Cai Shengbai was born in 1894 in Zhejiang. In 1911, Cai was admitted into Tsinghua University in Beijing, and in 1916, Cai was sent to Lehigh University in Pennsylvania to study geology. In 1919 after graduation, he came back to China. Cai, young and ambitious, established four guidelines for the management of Mayar: purchasing machines, hiring technicians, innovating management and expanding business. In 1922, Mayar was the first company

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332 See “Cai Shengbai,” in Ibid., 560.
in China to install the latest weaving machinery such as Atwood winding, doubling and twisting machines and Crompton Knowles looms. Under the leadership of Cai Shengbai, Mayar developed quickly. Following an aggressive acquisition strategy, Mayar had eleven silk weaving factories and 3,614 workers when Mayar was incorporated in 1933. It owned 1,098 electronic power looms with a daily silk output of one thousand piece goods. In April 1933, Shanghai had 387 silk weaving factories with 4,785 power looms. The production capability of Mayar made up one-fourth of the total of Shanghai’s silk-weaving firms. In 1933, the sales revenue of Mayar was six million Chinese dollars, which was two hundred times Mayar’s sales revenue in 1920. By then, Mayar was the biggest silk-weaving enterprise in China.

Cai Shengbai was among the first entrepreneurs to introduce scientific management to Chinese enterprises. Mayar developed a multi-divisional structure rather than the popular function-based multi-departmental structure (see Figure 4.1). In this structure, the general managerial office, composed of seven sections, was directed by the general

333 “Meiya zhichouchang gaikuang diaocha” (The Investigation about Mayar Silk Mills), SMA, Q78-2-12150, pp. 13, 35.
334 *Shanghai minzu jiqi gongye* (Shanghai Machinery Industry) (Shanghai: zhonghua shuju, 1979), vol. 1, 333-4.
336 Muouchu, a graduate from Texas A & M. University, translated the Frederic Taylor’s *Principles of Scientific Management* into Chinese in 1914.
337 This was brought out by Chandler in American business history. The multi-departmental structure was based on different functions such as purchasing, marketing, manufacturing, and accounting. Chandler argues that this multi-departmental structure was gradually replaced by multi-divisional structure. A multi-divisional structure had one general office and several divisions. The general office composed of general executives and staff specialists who coordinated, appraised and planed goals and policies and allocated resources for a number of quasi autonomous divisions. Each division handled a major product line or carries on the firms activities in one large geographical area. Within each division, there were a number of departments. Each department was responsible for the administration of a major function-manufacturing, selling, purchasing, etc. See Alfred Chandler, Jr., *Strategy and Structure*. 
manager in charge of coordinating, reporting, inspection and allocating resources to each factory. Each factory was composed of both production departments and supporting (service) departments. The factory director was responsible for daily operational decisions and actions. Hence, the general manager could focus more on the long-term development of the company.

Mayar gradually established complete organizational regulations. These regulations were compiled into a compact system and officially published by the Mayar headquarters in Shanghai in May 1940. These regulations were classified as three tiers and several items within each tier (see Table 4.2).
Table 4.2 The Levels of Regulations of Mayar

<table>
<thead>
<tr>
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<th>B</th>
<th>C</th>
<th>D</th>
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<tbody>
<tr>
<td>I</td>
<td>Charter (章程 zhangcheng)</td>
<td>General Rules (總則 zongze)</td>
<td>Rules (規程 guicheng)</td>
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<tr>
<td>II</td>
<td>Regulations (規則 guize)</td>
<td>Sub Regulations (分則 fenze)</td>
<td>Brief Regulations (簡章 jianzhang)</td>
<td></td>
</tr>
<tr>
<td>III</td>
<td>Specific Rules (細則 xize)</td>
<td>Methods (辦法 banfa)</td>
<td>Plans (方案 fang’an)</td>
<td>Notices (須知 xuzhi)</td>
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This regulation system, from general organizational structure to specific operation, defined the routines of Mayar as a unified entity. The first tier defined the most fundamental organizational nature. It included “The Charter of Mayar Silk Mills, Ltd.,” “General Rules on Organizational Structure and Responsibility,” “General Rules on the Services and Benefits of Employees,” “Accounting Rules of Mayar” and “Statistical Rules of Mayar.” The second tier regulated the middle level managerial issues including “Factory Regulations” and “Brief Regulations on Internship.” The third tier defined the specific operational rules and methods including “Specific Rules on Sales Offices”, “Methods of Product Inspection” and “Plans on Product Development.” After much adding and amending, Mayar had eighty-one various regulations by September 1944.338

Take “Statistical Rules of Mayar” issued in 1942 as an example of Mayar’s strict management. The statistics method is considered a crucial control tool of modern industrial enterprises. However, due to its complexity, few Chinese enterprises established true statistical systems. Mayar’s statistical rules operated at both the level of

338 “Meiya sizhi sichang gexiang guizhang zhidu” (The Regulations of Mayar No.4 Factory), SMA, Q199-48-251, pp. 58-63.
the General Managerial Office and the level of area branches. The business department in General Managerial Office compiled eighteen tables including the changes of silk prices and sales situation. The accounting department compiled monthly twelve tables including financial reports and statement of account. These monthly statistical reports enabled the general managerial office and top executives to know the operational details of the whole company.

Mayar gradually honed its product innovation capability. In 1930, Mayar invested ten thousand taels to establish a Weaving Lab and Design Committee. The responsibility of the lab and committee was to research domestic/foreign silk fabrics and develop new products. Mayar once published notices in newspapers promising to market one new product on each Monday. To materialize its promise, Mayar developed a compact routine. The lab first produced a 5-mm sample of the new product, formulated a production procedure and estimated the manufacturing cost. The general manager would hold a meeting each Monday to review the proposal from the lab. Once authorized, the general managerial office would transfer the procedure for branch factories and determine the production amount. Once a factory received the task, it would give priority to the new products and market it as soon as possible.339

By the mid-1940s, Mayar had more than two hundred kinds of silk products like fancy silks, crepe georgette (喬其 qiaoqi), satin (緞淩 duanling), velvet (絲絨 siron), brocades (花葛 huage), plain silk (紡 fang), French crepe (單綢 danchou), Jacquard crepe (花綢 huachou), Crepe de Chine (雙綢 shuangchou).340 Furthermore, each product

340 “Meiya zhichouchang gaikuang diaocha” (The Investigation about Mayar Silk Mills), SMA, Q78-
had different types in terms of criteria like breadth and width. Before 1949, Mayar developed more than twelve hundred types of silk fabrics.

However, Cai Shengbai was not familiar with the distribution of silk fabrics. Guangdong silk merchants controlled Chinese silk exports to the Southeast Asian market. Mayar lacked the overseas network resources which Nanyang Brothers Tobacco Company enjoyed. To focus on production, in 1922, Mayar exclusively commissioned Tianshengjin, a Shanghai-based silk store, to market its products in China and Southeast Asia. But the commission method prevented Mayar from directly knowing the demands of customers. In 1928, Cai Shengbai organized a trip across Southeast Asia for both investigation and marketing. In every destination, Mayar hosted local famous wholesalers and retailers to get information about local taxation, consumer demands and competition condition. Mayar simultaneously introduced its products to local silk merchants. Mayar established the Meilong Silk Store in Shanghai to focus on the Indian and Southeast Asian markets in 1929. In 1930, exports made up 60 percent of Mayar’s production.

The Shanghai silk weaving industry began to decline in the autumn of 1931 due to a big flood of the Yangtze River and the Japanese invasion of Manchuria. The flood resulted in a widespread famine, while the Japanese succeeding invasion of Shanghai in 1932 further forced many silk weaving companies out of business. The purchasing power of Chinese consumers was weakened by the flood, famine and military conflict. In

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2-12150, p. 29.
341 Xu Xinwu, ed., Jindai jiangnan sizhi gongye shi, 303.
the export market, due to the worldwide depression after 1929, purchasing power in Southeast Asia also greatly declined. Additionally, Japanese rayon products had begun to take the opportunity to dominate the Southeast Asian market because of their low prices and transportation and finance advantages.

To protect China’s natural silk production, the Chinese government had imposed a two hundred percent import tariffs on rayon. With high production costs, Chinese rayon products would hardly win over Japanese products in the Southeast Asian market. In 1932, Mayar proposed that the Nationalist government the establishment of a bonded warehouse in Shanghai where Mayar could import tariff-free rayon, and manufacture and export rayon goods. In 1936, Mayar finally got the license from the government. With a cost advantage of the bonded warehouse, Mayar’s high-quality silk products were soon popular again in the Southeast Asian market. Unfortunately, the warehouse was destroyed when Japan invaded Shanghai in 1937.

To avoid the damage due to the occupation of Japanese army in Shanghai, Mayar reestablished its factories in Hong Kong, Chongqing, Guangzhou and Hankou except for factories No. 4 and No. 9 which were in the foreign settlements. With the expectation that the chaos in China would only increase, Mayar grouped the companies into five area branches: North China, South China, West China, North China, Middle China and East China. This reorganization established the guideline of “unified management and separate operation.” During the wartime emergency, these area branches could operate

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344 Artificial silk, so-called “rayon”, made up of vegetable fiber rather than the natural silk from silkworm, were first imported into China in 1923. The rayon-woven fabrics were similarly luster and elastic to natural silk but at a cheaper price. The rayon used by Chinese companies was totally imported from foreign countries such as Japan, Britain, France, Italy and the United States.  
345 In the early 1930s, Japanese government helped Japanese enterprises to establish bonded warehouses to encourage its silk fabrics export. This was also a reason that accounted for the low prices of Japanese rayon products in Southeast Asian markets. See Xu, *Sizhi gongye shi*, 350.
independently, without the direction from the headquarters.

From the early period of the Second Sino-Japanese War in 1937 until the outbreak of the Pacific War in late 1941, the China’s domestic market was in a chaos but the oceanic trade routes were not blocked. To explore the Singapore market, Mayar joined with Mei Heng Textile Company\textsuperscript{346} to establish Tsin Nan Company (晉南行 jinnan hang) as a Joint Sales Agency in Singapore in May 1939.\textsuperscript{347} The joint office collected shares 50,000 in Singapore dollars, while Mayar invested 10,000 and gained control over this company.\textsuperscript{348} Gao Shiheng (高事恒 n.d.), Vice-president of Mayar, became the manager of Singapore Tsin Nan Company.

The main business of the Tsin Nan Company was the import and sale of Mayar’s silk. However, British-run Singapore imposed strict restrictions on the silk import quotas. Furthermore, due to the preference of the Singapore government, the most of the import quotas were given to previously established local companies. Hence, Mayar’s silk products were hardly imported into Singapore. The Tsin Nan Company sold other daily-use Chinese goods to support its regular operation. In 1940, its total sales was just 430,000 Chinese dollars with a net revenue of 1,000 dollars.\textsuperscript{349} To support the Singapore Tsin Nan Company, Mayar invested 10,000 Chinese dollars and established the Tsin Nan Procurement Office in Shanghai in 1941. This office procured various Chinese daily

\begin{footnotes}
\footnote{346} Mei Heng Textile Company was mainly invested and controlled by Mayar.
\footnote{347} Mayar originally planed to establish a wholly-owned sales branch in Singapore. However, the company law in Singapore regulated that all limited companies must be registered in the government. Mayar considered the great risk in the wartime and abandoned the plan. See “Meiya sizhi sichang dongshihui jilu” (The Board Meeting Record of Mayar No. 4 Factory), 1941, SMA, Q199-48-158, p. 32.
\footnote{348} “Meiya sizhi sichang dongshihui jilu” (The Board Meeting Record of Mayar No. 4 Factory), 1939, SMA, Q199-48-156, p. 101.
\footnote{349} “Meiya sizhi sichang dongshihui jilu” (The Board Meeting Record of Mayar No. 4 Factory), 1941, SMA, Q199-48-158, p. 27.
\end{footnotes}
goods according to the demand of Singapore Tsin Nan.\textsuperscript{350}

Mayar was optimistic about the Southeast Asian market. Given that Tsin Nan was a new venture for Mayar, Cai Shengbai believed that it would be able to enjoy the same privileges as the established companies in Singapore in the postwar period.\textsuperscript{351} In the business proposal for 1940, Mayar planned to establish a branch in British Malaya, two offices in Java and Thailand, and even attempted to explore the American market.\textsuperscript{352} In August 1940, Mo Rude (莫如德 n.d.), Vice Manager of the Singapore Tsin Nan Company, replaced Gao Shiheng to take charge of the Tsin Nan Company. The Tsin Nan Company made more effort to market its goods beyond Singapore across Southeast Asia.\textsuperscript{353}

In October 1940, to expand overseas business, the Mayar Hong Kong factory was established. Mayar found that the import quota of British Singapore was not applied to silk products manufactured with British rayon in British colonies.\textsuperscript{354} Hence, the Mayar Hong Kong factory specialized in manufacturing silk products using British rayon to supply the Singapore market.\textsuperscript{355} However, the output of the Hong Kong factory was constrained by its physical facilities and the availability of British rayon in its early years, 1940 and 1941.\textsuperscript{356}

To regulate overseas operations, Mayar formulated and issued “Organizational

\textsuperscript{350} “Meiya sizhi sichang dongshihui jilu” (The Board Meeting Record of Mayar No. 4 Factory), 1941, SMA, Q199-48-158, p. 32.
\textsuperscript{351} Ibid., 27.
\textsuperscript{352} Ibid., 11.
\textsuperscript{353} Yang Guodong, an employee of Tsin Nan once travel around Southeast Asia to contact business. See “Meiya sizhi yingong fuwaifu xingcheng jilu” (The Record of Business travel of Mayar No. 4 Factory), SMA, Q199-48-296, pp. 19-24.
\textsuperscript{354} The British government regulated that so called “100 percent British goods” must be totally made up of British rayon and manufactured in British Commonwealth of Nations. The 100 percent British goods could be freely imported in British Commonwealth of Nations without any restriction.
\textsuperscript{355} “Meiya sizhi sichang dongshihui jilu” (The Board Meeting Record of Mayar No. 4 Factory), 1941, SMA, Q199-48-158, p. 46.
\textsuperscript{356} “Meiya sizhi sichang dongshihui jilu” (The Board Meeting Record of Mayar No. 4 Factory), SMA, Q199-48-158, p. 5.
Structure of Tsin Nan Company” in March 1941, “Sub Regulations on Accounting of Tsin Nan Company” in April 1941, and “Specific Rules on the Operation of Tsin Nan Company in Singapore” in May 1941. In October 1940, Mayar published “Methods on Paying Salaries to Overseas Employees.” These regulations laid the general framework for Mayar’s international operation. They regularized the relationships between the overseas branches and the Mayar headquarters. In fact, these routines were used later as references for other overseas branches.

However, after the Pacific War broke out in late 1941, the Hong Kong factory was confiscated by the Japanese. Exports to Southeast Asia were also totally suspended. The total amount of production and sales of silk piece goods of Mayar between 1942 and 1945 only made up 37.8 percent and 33.34 percent respectively of those between 1938 and 1941.

As soon as WWII ended in August 1945, Mayar’s board discussed how to develop new enterprise in the postwar period. Mayar formally consolidated its wartime area-based multi-divisional structure. Each area branch company was in charge of procurement, production, marketing and distribution in its area. The manager of each branch company had exclusive rights to hire or fire directors of factories or offices within its area. However, the general managerial offices had the right to inspect and direct each branch company. The general managerial office had the right to appoint branch managers and distribute the operating capital to each branch every year. The branch was not independently responsible for profits and losses. All financial issues were settled by the

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357 “Meiya sizhi sichang gexiang guizhang zhidu” (The Regulations of Mayar No.4 Factory), SMA, Q199-48-251, pp. 58-63.
358 “Meiya sizhi sichang dongshihui jilu” (The Board Meeting Record of Mayar No. 4 Factory), SMA, Q199-48-158, p. 204.
general managerial office at the end of each year.\textsuperscript{359} This area-based multidivisional structure was more like Chandlerian multi-divisional enterprise in American business history. The top executives, free of routine operation, could focus on strategic and entrepreneurial considerations for the whole company.

With optimistic expectations of the postwar world market, Mayar attempted to resume its overseas expansion. Before 1945, Mayar’s internationalization was limited to Southeast Asia. After 1945, Mayar’s strategy involved both to consolidate its Southeast Asian markets and to invent American and European markets.\textsuperscript{360}

To explore overseas markets, Mayar further adjusted its organizational structure. In May 1946, Cai Shengbai proposed to establish six Overseas Business Zones under the direction of the general managerial office. His proposal showed his global initiative and ambition for expansion. In June 1946, the board passed Cai’s proposal (see Figure 4.2).\textsuperscript{361}

\textsuperscript{359} “Meiya zhichouchang gaikuang diaocha” (The Investigation about Mayar Silk Mills), SMA, Q78-2-12150, 248. In fact, the branch company must submitted Financial Report on the 12th and the end of each month to the general managerial offices. See “Meiya sizhi sichang guizhang zhidu” (The Regulations of Mayar No.4 Factory), SMA, Q199-48-251, p. 188.
\textsuperscript{360} “Meiya sizhi sichang dongshihui jilu” (The Board Meeting Record of Mayar No. 4 Factory), 1946, SMA, Q199-48-157, p. 70.
\textsuperscript{361} Ibid., 85.
Figure 4.2 Organizational Structure Adjustments to Support Overseas Expansion

Note:  
[a] Batavia is today’s Jakarta, capital of Indonesia. Saigon and Hai Phong are cities in Vietnam.  
[b] In December 1947, Mayar further established an Overseas Department directly under the General Managerial Office. The previous Overseas Business Zones under the Business Department were moved to the Overseas Department from Business Department. The dashed line above shows this change.
Within each zone, Mayar appointed one general manager to take charge of all the sales offices in that zone. The general manager could also be the director of one of the sales offices in that zone. The director of sales offices within each Business Zone had to hold Power of Attorney, a proof of rights and obligations authorized by Mayar headquarter. The Power of Attorney could take effect only after the consular officials from host countries signed it. To strengthen this new operational pattern, Mayar appointed Mo Rude, an experienced employee in international business, to be the vice-director of the Business Department of Mayar and sent him to Mayar’s Hong Kong branch, which mainly supplied silk products to the Southeast Asian Business Zone.

Accompanying the organizational adjustment, Mayar designed specific rules to regulate the operation of overseas branches. In June 1946, Mayar issued “Specific Rules on the Operation of Overseas Business Zones,” which regulated the responsibility of overseas managers. In June 1947, Mayar issued “Methods on Ordering and Transferring of Stocks and Settling Accounts,” which detailed the methods dealing with exchange rate in settling accounts at both sides of the headquarters and the overseas branches. In September 1947, Mayar amended “Methods about Paying to Overseas Employees.” For the employees sent from the headquarters, Mayar paid two-thirds of their salary with Chinese dollars and one-third through the local currency. Employees hired locally were paid entirely with the local currency. These improved routines further regularized the

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362 “Meiya sichang guanyu Caisheng xiang ge fengongsi fasong de dianba xinjian” (The letter and cables from Cai Shengbai to branch companies), SMA, Q199-48-78, p. 267.
363 “Meiya sizhi sichang gexiang guizhang zhidu” (The Regulations of Mayar No. 4 Factory), SMA, Q199-48-161, p. 23.
364 Ibid., 127.
365 Ibid., 267. In the 1940 version of regulation, 50 percent of the salary was paid in Chinese dollars
international operation of Mayar.

As the first step, Mayar established the Southeast Asia I and North American Business Zones and intended to establish other Business Zones at suitable time. Tang Jiancai was appointed as the general manager of Southeast Asia I and he established the Mayar Bangkok office on October 20, 1947.\textsuperscript{366} To fit the new organizational blueprint, the previous Singapore Tsin Nan Company was restructured as the Mayar Singapore Sales Office since July 1, 1946. When the Tsin Nan Company ended, the number of its employees was probably five to ten.\textsuperscript{367} Its total assets were 212,577.50 Singapore dollars.\textsuperscript{368} The assets of Tsin Nan Co. were transferred to the Singapore Sales Office (SSO).\textsuperscript{369} Some staff members of the Tsin Nan Company worked for the new SSO.\textsuperscript{370}

Mayar headquarters exerted strict financial control over SSO. The headquarters required that transfers between SSO and other branches be through headquarters. For example, to clear the account of the business between Hong Kong branch and SSO, SSO had to prepare three copies of a transfer bill for headquarters, for the Hong Kong branch and for itself.\textsuperscript{371} In addition, SSO had to send monthly balance sheets and business reports to headquarters beginning in July 1946. SSO also had to send financial reports every ten days beginning in September 1946. The monthly interest for any balance

\begin{footnotesize}
\begin{enumerate}
\item \textsuperscript{366} “Cai shengbai wei meiya zai taiguo sheli fenhang zhi Guangzhou yinhang han” (The letters from Cai Shengbai to Guangdong Bank for establishing a branch in Thailand), SMA, Q65-3-142-150.
\item \textsuperscript{367} There was no particular information in terms of the number of employees in Tsin Nan Company. According to one allowance table before the end of Tsin Nan Co., the staff includes Mu Rude, Tang Jiancai, Shen Xiaokun, Chen Xueyao and probably several other staff. See “Meiya zhichouchang gufen youxian gongsi yu xinjiapo hang wanglai yewu” (The business between Mayar Silk Mills and its Singapore branch), SMA, Q199-48-208, p. 112.
\item \textsuperscript{368} Ibid., 111.
\item \textsuperscript{369} Ibid., 117.
\item \textsuperscript{370} “Meiya sichang guanyu Caisheng xiang ge fengongsi fasong de dianba xinjian” (The letter and cables from Cai Shengbai to branch companies), SMA, Q199-48-78, p. 198.
\item \textsuperscript{371} “Meiya zhichouchang gufen youxian gongsi yu xinjiapo hang wanglai yewu” (The business between Mayar Silk Mills and its Singapore branch), SMA, Q199-48-208, p. 108.
\end{enumerate}
\end{footnotesize}
between SSO and headquarters would be 0.6 percent. The balance was to be settled at the end of each month. SSO was also to submit 1 percent of its monthly sales to headquarter as management fees.\textsuperscript{372} The headquarters offered operating capital to every branch and got 0.8 percent monthly interest.\textsuperscript{373} Due to the exchange rate, in February 1947, headquarters further required that SSO keep its record in Singapore dollars alone. If the business dealt with other currencies, SSO was to change them to Singapore dollars according to contemporary exchange rates.\textsuperscript{374}

Seamail frequently took half a month to one month between China and Singapore. In the postwar period, the competition in Singapore was fierce since European companies had gradually reentered the Southeast Asia market after the end of WWII. In addition, Chinese goods had their own shortcomings. Shen Xiaokun (沈孝焜 n.d.), the manager of SSO, indicated that the tastes of the Southeast Asian market and the Chinese market were somewhat different in terms of the texture and color of silk fabrics.\textsuperscript{375} Hence, Chinese goods were always not in demand. SSO proposed to headquarters to change its monthly interest to 0.3 percent to increase in operating capital.\textsuperscript{376} But headquarters considered it equal to each branch and did not accept this proposal. SSO tried hard to expand its business. In 1946 and 1947, its business went well in Singapore and was expected to expand across Malaya and the Dutch East Indies. The total sale of SSO in 1947 was 510,000 Singapore dollars. Its unsold silk stock was reduced to 80,000 from 220,000

\textsuperscript{372} “Meiya zhichouchang gufen youxian gongsi yu xinjiapo hang wanglai yewu” (The business between Mayar Silk Mills and its Singapore branch), SMA, Q199-48-208, p. 109.
\textsuperscript{373} The amount of the operating capital for each branch depended on their respective sale between July and December 1946. Ibid., 117.
\textsuperscript{374} Ibid., 93.
\textsuperscript{375} Ibid., 70.
\textsuperscript{376} Ibid., 56.
Another key point with internationalization of Mayar was the development of the European and American markets. Cai Shengbai investigated the European and American markets in early 1946. In January 1946, Cai arrived in Britain. He met W. C. Yong (n.d.), the agent of Shenxin Textile Company in Britain. Yong consented to be the contemporary agent of Mayar to market silk products and buy machines for Mayar in Britain. Cai also traveled to Italy, France and Switzerland. However, Cai was not optimistic about the European market, since the demand in Europe had weakened greatly due to WWII. In addition, post-war European countries strictly regulated foreign exchanges. Silk products, which were considered luxury items, were subject to a high import tariff. Hence, Mayar’s main focus switched to the American market.

Opening American market had always been a dream of Mayar. The original plan to enter the U.S. could be traced back to 1939. However, due to WWII, the proposal was suspended. After WWII, the Board of Mayar consented to appoint Cai Shengbai to develop a Mayar American branch. Cai had received an American education; he knew American society well and could speak English proficiently. Cai arrived in San Francisco on June 7, 1946 and finally in New York on June 14, 1946. The first trial shipment, including eight cases of silk piece goods, was sent to New York on the “Pan American Victory” boat on June 23, 1946. The first shipment included many types of silk fabrics but a small number of samples of each type. Cai expected to make a test selling in America.

377 Ibid., 10.
378 “Meiya zichang youguan wenjian, xinjian, baogao” (The records, letters and reports of Mayar No. 4 Factory), SMA, Q199-48-235, p. 29.
379 “Meiya sizhi zichang dongshihui jilu” (The Board Meeting Record of Mayar No. 4 Factory), 1941, SMA, Q199-48-158, p. 11.
As soon as Cai Shengbai arrived in New York, he immediately met silk clients and began to establish a sales office. He hired a female American clerk as a secretary and attempted to hire some local Chinese clerks. He also subscribed to two magazines, *Rayon Textile Monthly* and *Textile Age*, both for one year. By mid-August, the sales office was basically established.

The goal of Cai Shengbai was to realize his plan of establishing an American Business Zone. He researched the American company laws and talked to lawyers. The way a company was registered was crucial in America. If New York Mayar registered as an overseas branch of a foreign company, the investigation of Federal Commerce Department would take half a year. Once authorized, Mayar then would have to register with some state government. The taxation issue was complicated since it was really difficult to distinguish which part of projects should be taxed on the head office side and which part should be taxed on the branch side. If Mayar registered through an individual as a general agent, Mayar had no rights to directly market to American customers.

Eventually, Cai Shengbai decided to establish a new company named Mayar Silk Mills, Inc. and register it in Delaware with capital of US$10,000. This new company was wholly invested by Shanghai Mayar Silk Mills, Ltd. For external advertisement, this company was an independent company; for internal management, the new company was a branch of Mayar and was managed under the regulation of Overseas Business Zones. In

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380 “Meiya sichang guanyu Caisheng xiang ge fengongsi fasong de dianba xinjian” (The letter and cables from Cai Shengbai to branch companies), SMA, Q199-48-78, p. 244.
381 Ibid., 222.
382 It was not clear that why Mayar registered in Delaware. From an indirect approach, we know that Delaware was in a time of prosperity and growth after 1945. The per capita income in Delaware was well above the average in the nation. Additionally, the location of Delaware, midway between New York and Washington and between Philadelphia and Baltimore enabled local businesses to market their products easily in a broader scale. The land and labor was cheap there. Maybe the registration in Delaware was easier than in New York. See John A. Munroe, *History of Delaware, 5 edition* (University of Delaware Press, 2006), 230-231.
October 7, 1946, New York Mayar signed a business contract with Mayar Silk Mills, Ltd. The contract regulated the rights on both parts and was used for external audits. The new company was located in Rooms 1943-44, 42 Broadway, New York. To better market Mayar products, the company moved to 330 Fifth Avenue, in early November.

During WWII, to protect their assets, Mayar had some investments in US Dollars. The US$10,000 for investing in New York Mayar was drawn from the USD savings certificates of the Mayar Chongqing Company. In addition, Cai called for another US$40,000 as operational capital. The money was financed through selling some American bonds held by Mayar Chongqing Company and some silk goods.383

Before the new company was established, Cai already began to look for staff. In the beginning, Cai found it quite difficult to recruit local silk experts. So, he informed headquarters to send the secretary Yang Yuan Lung and sub-accountant Tsai Yung Fang to New York. Their salaries would be paid in New York.384 However, with increasing familiarity with local labor markets, Cai found that hiring local employees were more convenient than transferring employees from Shanghai Mayar. Hence, these two persons eventually did not travel to New York.

Cai Shengbai decided to hire Yin Hechun as the manager of New York Mayar. Yin was a previous sales agent for Universal Company (環球公司, n.d.)385 in America. Yin was from Shanghai and had earned his bachelor degree from an American college. By 1946, he had been doing business (mainly selling Chinese goods) for 11 years in America.

383 “Meiya sichang guanyu Caisheng xiang ge fengongsi fasong de dianba xinjian” (The letter and cables from Cai Shengbai to branch companies), SMA, Q199-48-78, p. 157.
384 Ibid., 186.
385 It is not clear whether this company was the Universal Trading Company of T.V. Soong.
Cai considered him experienced, sincere and enterprising.386

The internal organization of New York Mayar was not complicated. Cai Shengbai, Yin Hechun and the American lawyer Robertson were originally designed as directors of New York Mayar. Considering that it was unnecessary to have Americans as directors, Cai decided that Mo Rude should replace Robertson as a director. When New York Mayar was established in September 30, 1949, Cai Shengbai was president & treasurer and Yin Hechun was vice president & secretary. In addition, New York Mayar hired Xia Wenlu (n.d.) as an accountant, Zhang Xing (n.d.) as a business clerk and two American females as secretaries.

The existing routines from headquarters fostered the routinization of the operation of New York Mayar. The hiring process of the staff in New York office followed the procedure of that of Shanghai Mayar.387 In July, Cai Shengbai requested copies of various organizational regulations from Shanghai Mayar Silk Mills, Ltd. Cai hoped to use these regulations to train new employees. By mid September 1946, Cai Shengbai received stock sheets, personnel registration sheets and various organizational regulations. He asked that accounting regulations and tables must arrive in America before mid October.388 In dealing with account transferring and settlement between New York Mayar and headquarters, New York Mayar copied the regulations of the Tsin Nan Company.389

Two kinds of correspondence existed between New York Mayar and headquarters. First, the official letters between New York Mayar and headquarters were written in

386 Ibid., 220.
387 “Meiya zichang guanyu Caisheng xiang ge fengongsi fasong de dianba xinjian” (The letter and cables from Cai Shengbai to branch companies), SMA, Q199-48-78, p. 220.
388 Ibid., 114.
389 “Niuyue banshi chu yu meiya de laixin” (The letters between New York Mayar and Shanghai Mayar), SMA, Q199-48-139, p. 18.
English. Secondly, the letters between Cai Shengbai as the general manager of Mayar and headquarters were written in Chinese. He requested that all the correspondence on both sides be numbered for easy inference in the future.390 Through some letter exchanges, Cai found that the letters from headquarters were mostly addressed to him rather than to New York Mayar. He knew that this was due to his paramount status in Mayar. Considering that he was just temporarily managing New York Mayar, he required that all letters dealing with American business should be addressed to New York Mayar and signed by Yin Hechun.

Communication problems were notable during the initial period. Cai knew the domestic economic situation through newspapers and letters from Shanghai Mayar. However, he frequently complained that Shanghai Mayar responded to his questions too slowly. Estimating that a letter would take one month to reach him, he urged Shanghai Mayar to reply once they received letters from him.391 At another time, New York Mayar required No. 2328 sample from Shanghai Mayar but the reply from Shanghai was No. 2306. Cai indicated that information accuracy was essential in international business.392

The communication problem arose because of both communication tools and mutual unfamiliarity. Except Cai Shengbai, the other employees of New York Mayar had lived in America for years, and they knew little about the situation in China and business habits in Shanghai Mayar. On the other hand, Chinese staff lacked experience in the American trade. So, they did not know American business procedures and operational shortcuts. For example, New York Mayar once advised Shanghai Mayar that it would

390 “Meiya sichang guanyu Caisheng xiang ge fengongsi fasong de dianba xinjian” (The letter and cables from Cai Shengbai to branch companies), SMA, Q199-48-78, p. 157.
391 Ibid., 154.
392 “Niuyue banshichu yu meiya de laixin” (The letters between New York Mayar and Shanghai Mayar), SMA, Q199-48-139, p. 63.
facilitate the clearance of the shipped goods through customs if Shanghai Mayar indicated the shipment was a consignment but not purchased on the consular invoice.393

Thus, the American venture was a process of organizational learning. New business operational routines were gradually established. Shanghai Mayar was informed to send by air mail a bill of lading, one copy of the consular invoice, commercial invoice and packing list once a shipment was sent from Shanghai. Hence, the clearance though the customs on American side would be greatly facilitated. In addition, given that it took nearly a month for the first shipment from San Francisco to New York, New York Mayar made arrangements with a forwarding agent who had offices at both San Francisco and New York to move the shipment faster. As time went on, both parties grew familiar with the transoceanic business.394

The first test shipment of eight cases of silk fabrics arrived on July 16, 1946 and finally reached New York on August 12, 1946. Unfortunately, Case No. 3 was missing when the shipment arrived at San Francisco. Case No.2 was retained in the Customs warehouse to be used for appraising the import duty of the entire shipment.395 Mayar received the other six cases.

Cai Shengbai held a very optimistic view about selling the first shipment since Chinese silk goods had long been absent from the American market. Cai and his

393 “Meiya sichang guanyu Caisheng xiang ge fengongsi fasong de dianba xinjian” (The letter and cables from Cai Shengbai to branch companies), SMA, Q199-48-78, p. 151.
394 “Cai zongjingli youmei baogao” (The report of Cai Shengbai about American market), in “Meiya sichang youguan wenjian, xinjian, baogao” (The records, letters and reports of Mayar No. 4 Factory), SMA, Q199-48-235, p. 37.
395 Case 2 was retained in customs until late November. The reason for that was that American trade regulated specific import duties for different kinds of silk products. But the invoice sent from Shanghai Mayar did not indicate the variety of the goods. So, the test of custom appraiser took a long time. Yin Hechuan advised Shanghai Mayar to specify whether the fabric was made of pure silk or a mixture. If it was made of a mixture, Shanghai Mayar should specify the percentage of silk and rayon in value and weight on the invoice. See “Niuyue banshi chu yu meiya de laixin” (The letters between New York Mayar and Shanghai Mayar), SMA, Q199-48-139, p. 52.
colleagues in America tried to show the first goods to prospective buyers with selling prices based on the invoice from Shanghai Mayar. But, by mid-October, New York Mayar had not sold any goods. The high prices on the invoice from Shanghai Mayar became a major impediment to the sale of the goods.

The Mayar head office never expected the complex competition in the American market and the worsening economic condition in China. First, in American market, raw silk prices declined from about US$10 for grade D silk to about US$7 per pound in late 1946. Hence, the American domestic manufactures could not only produce silk goods of better quality, but could sell them at a lower price since they saved on transportation and the high tariff on imported goods. Secondly, the silk fabrics from Italy in American market were cheaper than Mayar’s. Thirdly, Chinese currency had depreciated very quickly. The exchange rate changed from 1: 2,020 when the first shipment was sent from Shanghai in late June to 1: 3,350 when the first shipment arrived in New York in late August. The quotation for the same type goods from China in August 1946 was lower than Mayar’s invoice prices. Hence, Mayar even could not compete against Chinese goods from other manufacturers.396

Even worse, a four-month D/A (Document against Acceptance) draft form the Bank of China accompanying the first shipment would mature on November 25, 1946.397 The amount of the draft was US$11,444.19. New York Mayar would not be able to pay the draft on its due date unless Shanghai Mayar sponsored it. On October 2, 1946, New York

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396 “Meiya sichang guanyu Caisheng xiang ge fengongsi fasong de dianba xinjian” (The letter and cables from Cai Shengbai to branch companies), SMA, Q199-48-78, p. 55.
397 D/A is short for Document against Acceptance which is a payment method. The documents (invoice, bill of lading, etc.) are surrendered [by the bank] to the importer/buyer after the importer/buyer has accepted the accompanying draft, acknowledging the obligation to pay at a future date. Four month D/A draft means that the buyer/importer should pay the seller in four months.
Mayar sent a letter to the New York branch of Bank of China. New York Mayar requested to adjust the D/A draft at 30 percent discount from the present value. In addition, Mayar asked to extend the maturity date for three more months to sell the goods in the U.S. On the same day, New York Mayar sent a letter with the same content to Shanghai Mayar and requested Mayar headquarter to negotiate this issue with the headquarters of the Bank of China in Shanghai. The draft was eventually adjusted by the Bank of China and Mayar overcame this crisis.

To know the American silk market was a paramount task for New York Mayar. Before New York Mayar was founded, during July and August 1946, Cai Shengbai took the initiative to do a thorough market investigation to determine the taste of American customers. He found that quality and design were two important features in selling silk goods in America. He required that products exported to America be of high quality materials. According to the feedback about the goods of the first shipment, on August 26, Cai Shengbai informed Shanghai Mayar to ship second cargo of goods, including 100 mandarin coats, 100 lounging pajamas, 100 kimonos (with dragon design), and 30 brocaded satin crepe. To catch the Christmas season, he emphasized that the second shipment had to arrive before November.

However, sale of the first shipment showed that New York Mayar somewhat misunderstood the taste of American market. The Dragon was a symbol of power and elite status in China, but in American market it did not have this meaning. In the first shipment, there were three types of lounging pajamas, two with a dragon design and one with a peony flower design. Cai and his colleagues later found that the dragon design was

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398 “Meiya sichang guanyu Caisheng xiang ge fengongsi fasong de dianba xinjian” (The letter and cables from Cai Shengbai to branch companies), SMA, Q199-48-78, p. 82.
399 Ibid., 143.
not very well received, but the one with flower design was welcomed. On October 11, New York Mayar asked headquarters to ship the flower-design silk, which should be beautiful but not flashy or loud. They confessed that the two samples with the dragon design appeared to be more suitable for theatrical people who went in for ostentation.400

The existing materials do not reveal the details of the operation of New York Mayar after 1947. But it was certain that the internationalization of Mayar continued. To meet the demand of overseas expansion, in December 1947, Mayar further established an Overseas Department directly under the General Managerial Office. The previous Overseas Business Zones under the Business Department were moved to the Overseas Department. Cai Shengbai headed the Overseas Department. This new department was in charge of all overseas operational issues (manufacturing, transportation, finance and inspection).401 The dashed line in Figure 4.2 showed the organizational adjustment since December 1947. In 1948, Cai Shengbai visited the U.S., Brazil, and Argentina. He organized Li Ya Industrial Company in Argentina to sell Mayar goods. Hong Kong Mayar invested HK$75,000 in this new company.402

There are no detailed statistics about the performance of New York Mayar. According to a report of Cai Shengbai when he returned to China from the U.S., the sales revenue of New York Mayar was just US$8,000 by March 1947.403 Between 1947 and 1949, the losses of New York Mayar were about US$49,000.404 It is fair to expect that

400 “Meiya sichang guanyu Caisheng xiang ge fengongsi fasong de dianba xinjian” (The letter and cables from Cai Shengbai to branch companies), SMA, Q199-48-78, p. 37.
401 “Meiya sizhi sichang gexiang guizhang zhidu” (The Regulations of Mayar No.4 Factory), SMA, Q199-48-251, p. 93.
402 Xu, Sizhi gongye shi, 414.
403 “Cai zongjingli youmei baogao” (The report of Cai Shengbai about American market), in “Meiya sichang youguan wenjian, xinjian, baogao” (The records, letters and reports of Mayar No. 4 Factory), SMA, Q199-48-235, 37.
404 Xu Xinwu, Sizhi gongye shi, 416.
the business of New York Mayar would not have been better off after 1947, since its performance was moderated by two key external factors: domestic inflation and American clothes-manufacturing habits.

First, Mayar set out its overseas expansion at the same time as when China’s virulent inflation began. When Cai was in the U.S., he was particularly concerned about the inflation rate and exchange rate, which directly influenced the international business. When the exchange rate was 1: 2,020 in June 1946, Mayar’s rayon quotation based in China was five times the goods in American markets. When the exchange rate in mid-August increased 30 percent (compared to mid-June), the same goods in China were 30 percent cheaper than the invoice price of Mayar’s first shipment in America. New York Mayar had to request the price be lowered 30 percent the price for the first shipment in order to sell them in the American market.

Commonly, if the domestic price index keeps stable, the increase in exchange rates (the depreciation of Chinese currency compared to U.S dollars) would benefit Chinese export since Chinese goods would become cheaper in the international market. Hence, Cai Shengbai perceived that the prices of Chinese goods must be more competitive in international business. He prepared to order a third shipment from Shanghai Mayar in mid August 1946. However, Cai did not realize that the inflation rate in China was much faster than the increase in the rate of exchange rate. Put another way, the domestic price was always increasing and in the exchange rate could not offset inflation between 1946 and 1949.

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405 “Cai zongjingli youmei baogao” (The report of Cai Shengbai about American market), in “Meiya sichang youguan wenjian, xinjian, baogao” (The records, letters and reports of Mayar No. 4 Factory), SMA, Q199-48-235, p. 37.
406 “Meiya sichang guanyu Caisheng xiang ge fengongsi fasong de dianba xinjian” (The letter and cables from Cai Shengbai to branch companies), SMA, Q199-48-78, p. 155.
In a letter to Shanghai Mayar dated October 23, 1946, Cai Shengbai indicated that the price of raw silk in America was US$7.25 to 7.50 per pound but the same raw silk in China was US$10 per pound. The high cost of raw silk had to result in the high production cost of Chinese silk fabrics. Hence, in terms of price, silk fabrics from China could not compete against those manufactured in America and even in other countries like Italy. Cai Shengbai considered it abnormal for a less developed country like China to have such a high price index. With a somewhat optimistic attitude, Cai thought that price increases would stop by the end of 1946. Once the domestic situation was stabilized, the price would decrease and New York Mayar should persist for the sake of future opportunities.407

Cai Shengbai did not expect that the inflation would in fact worsen. 1946 was merely a preface to the virulent inflation of 1947 and 1948. Unlimited currency supply and the fiscal deficit of the Nationalist government interacted with the price index. The price index in August 1948 was 5,334 times that in December 1945.408 In addition to the high manufacturing cost of Chinese silk fabrics, the import duty of America and transportation cost amounted to 80 percent of the invoice price when the goods were exported into American market. Unlike China Egg Produce Company, Mayar could not get compensation from Chinese government. New York Mayar found it extremely difficult to sell its goods.

Secondly, Mayar’s shipment was too small for test production by American clothing manufacturers. Chinese women made silk clothes themselves, but American customers always bought manufactured clothes. Mayar had to ask American

407 “Niuyue banshichu yu meiya de laixin” (The letters between New York Mayar and Shanghai Mayar), SMA, Q199-48-139, p. 75.
manufacturers rather than retailers to do the test production. However, Mayar’s shipment to America was too small. Because of high labor costs, American manufacturers were not inclined to do test production for small amounts. Even if American manufacturers did test productions for Mayar and the market accepted the new product, Mayar would have been unable to supply enough silk fabrics at a fixed price because of the soaring prices and transportation problems.\textsuperscript{409} American manufacturers did not want to run the risk of losing reputation and efficiency. Hence, Mayar was in a dilemma: it was risky to send a large shipment to the U.S., but without a large test production New York Mayar could not open the American market. Cai Shengbai had to confess to do business in America required accurate plan and scheduling. Mayar obviously lacked this capability and did not have chance to hone this capability between 1945 and 1949.\textsuperscript{410}

Mayar was the most notable silk-weaving company before 1949. This case shows that Mayar, as a modern enterprise, defined by either technological advances or organizational advantage, was both entrepreneurial and organizationally capable in expanding the overseas market. Mayar best illustrates Chandler’s thesis: structure follows strategy. When Mayar pursued an overseas expansion strategy after 1945, it quickly established Overseas Business Zones and later Overseas Department to support its expansion. In addition, the domestic organizational routines of Mayar laid the foundation

\textsuperscript{409} One shipment from China to American took at least one month not including the time for clearance through American customs in the late 1940s.
\textsuperscript{410} After 1949, the New York Mayar still existed. Cai Shengbai stayed in Hong Kong after 1949. However, there was not detailed information of New York Mayar after 1949. By late 1949, the domestic assets of Mayar made up 44.7 percent while the overseas assets made up 55.3 percent. Xu Xinwu, \textit{Sizhi gongye shi}, 416. Among them, Hong Kong company held the majority of overseas assets. However, it seemed that Mayar’s overseas investment (especially Hong Kong) was somewhat self-protective capital outflow from mainland China, but from the available materials the establishment of New York Company and overseas offices in Southeast Asia were more due to entrepreneurship. In addition, the timing of establishing New York Company and Singapore offices were in 1946 before the economic breakdown. In general, Chinese merchants were less motivated to carry out capital outflow in 1946.
for applying and developing routines in overseas exploration. Furthermore, the overseas branches of Mayar created their own routines to adapt to the local environments in host countries. The new knowledge they learned in foreign lands was transferred back to their Shanghai headquarters. This information and knowledge communication upgraded the organizational capability of Mayar as a whole.

Mayar is also a case of how the transnational organizational hierarchy of Chinese enterprises substituted the international market. At the very beginning, Mayar lacked both the organizational capability to launch its own marketing institutions and the necessary network resources to develop the Southeast Asian market. It had to rely on the market and commissions of other silk stores to market its own products. With its sharpened organizational capability, Mayar gradually expanded its own transnational hierarchy in Southeast Asian and even in the U.S. market. The transnational hierarchy helped Mayar collect overseas market information, improve the quality of products, and accumulate experiences for its further internationalization.

However, the performance of internationalization of Mayar was moderated by external markets and the political environment. World War II and the Chinese Civil War constituted crucial handicaps to the development of Mayar. When Mayar began to explore the Southeast Asian markets in 1940, the Pacific War stopped its progress. When the Second World War ended, the Civil War in China and virulent inflation made the development of the newly established New York Mayar impossible. Hence, the coming of Chinese multinationals was impeded by their timing in the Republican era.
4.4 Nanyang Brothers Tobacco Company: 1905-1951

Cochran’s masterful analysis of the competition between Nanyang Brothers Tobacco Company (Nanyang hereafter) and British American Tobacco Company (BAT) set a milestone in Chinese business history. Cochran convincingly showed that entrepreneurship was the key element accounting for the development of Nanyang and BAT and their competition in China. However, Cochran and other scholars have mainly focused on Nanyang’s domestic operation and management, placing less emphasis on the multinational operation of Nanyang.

This case study will discuss the international operation of Nanyang in Southeast Asia. In addition to China’s domestic market, Nanyang fiercely competed against BAT in the Southeast Asian market. The sales performance of overseas branches in Southeast Asia was extremely important for Nanyang (See Table 4.3 later). These overseas branches of Nanyang effectively complemented, if not totally replaced, existing overseas Chinese business networks and market in Southeast Asia. Particularly notable, Nanyang established one of the few modern manufacturing factories abroad. Entrepreneurship and organizational capability, which underpinned all these international operations of Nanyang, will be reevaluated and credited in the international market.

In 1905, Nanyang was established in Hong Kong by the Jian Brothers (Jian Zhaonan and Jian Yujie 1875-1957). The Jian Brothers came from Foshan in Guangdong Province. They had once done import and export business in Kobe and Bangkok.

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411 In 1951, Nanyang became a public and private jointly managed company.
412 Sherman Cochran, Big business in China.
413 The rise of Nanyang was partly due to the boycott against American goods in 1905. See Y. C. Wang, “Free Enterprise in China: The Case of A Cigarette Concern,” Pacific Historical Review,
Through their overseas business, they gained enough capital (HK$100,000) to found Nanyang. In the early years, Nanyang’s business was exclusively based on the Hong Kong and Southeast Asian market. In 1912, Nanyang sold 18 percent of its cigarettes in Hong Kong locally, 7 percent in Siam and 75 percent in Singapore.\(^4\)

The exclusive concentration on Hong Kong and Southeast Asia proved the inclination of Nanyang to avoid high tariffs and BAT competition. Compared to the high import tariff on cigarette products in Japan or French Indochina, the Southeast Asian market was easy to enter. Vast overseas Chinese communities in Southeast Asia helped reduce the unfamiliarity of foreign markets. In addition, after 1902, BAT, a multinational giant of the cigarette industry, gradually focused its operations on China where it established a comprehensive operation, from manufacturing to marketing to distribution. Western companies did not, however, establish cigarette manufacturing factories in Southeast Asia before 1915.\(^5\) Hence, the Southeast Asian market was less competitive.

By 1915, Nanyang had established its own manufacturing and marketing system. Nanyang was already a big company with over 1,100 employees, eleven tobacco brands and an annual income of over two million Chinese dollars.\(^6\) It had developed a vast distribution network through overseas Chinese agents in the Southeast Asian market. After 1915, Nanyang’s business focus turned to China’s domestic market.\(^7\) In 1915,

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29:4 (1960), 399.
4\(^1\) Cochran, *Big business in China*, 58.
4\(^3\) The economic institute of Shanghai Academy of Social Science, *Nanyang xiongdi yancao gongsi shiliao* (The Historical Resources of Nanyang Brothers Tobacco Company) (HRNBTC hereafter) (Shanghai: Shanghai renmin chubanshe, 1958), 8.
4\(^4\) The foundation of the new Republican government in 1912 stimulated a favorable social climate to invest in modern industries. The opposition to foreign commercial penetration was intensified in South China in 1915. The policy of Guangdong province eased their tax burdens for Chinese-owned factories. Cantonese merchant association promoted Chinese-made goods. Hence, the Jian Brothers expect to get high profits in Chinese market. In addition, the outbreak of World War I disrupted the

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Nanyang officially registered in the Ministry of Agriculture and Commerce as an unlimited liability company. In 1918, Nanyang changed to a limited liability company with fixed capital of five million dollars. The controlling shares were still within the Jian family. Jian Zhaonan was President of incorporated Nanyang. In 1915, the headquarters of Nanyang and the general factory were gradually relocated from Hong Kong to Shanghai.

Before 1915, Nanyang, like most Chinese trading companies, employed market and overseas Chinese networks to distribute its products in the Southeast Asian market. Because of their Guangdong origin, the Jian Brothers found it easiest to depend on the networks of Northern and Southern Hang in Hong Kong and Southeast Asia. Jian Zhaonan was once a director of the Shanghai Federation of Overseas Chinese. Since 1915, Nanyang started to establish its own sales offices in Southeast Asia. In 1915, Nanyang established its General Sales office in Hong Kong. By 1919, it had overseas branches in Singapore, Siam, the Dutch East Indies, and Vietnam. The Siam office was established in 1915. The Singapore sales office was founded in early 1916 to take charge of the business in British Malaya and the Dutch East Indies. The Surabaya office

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418 The motivation to register in Beijing seemed to establish two new Tobacco factories in Shanghai and Tianjin.
419 Northern and Southern Hang was an general name for the industry doing foreign trade based in Hong Kong. Most of the merchants came from Guangdong and had established vast networks with overseas Chinese merchants in Southeast Asia, Japan and even North America. It was divided into the northern route and the southern route. The northern route dealt with the export business from mainland China. The southern route dealt with the export of native goods in Southeast Asia.
421 The general sales offices moved to Shanghai when the headquarters eventually changed to Shanghai in 1918.
422 Siam is now Thailand. The Dutch East Indies is now Indonesia. British Malaya is now Malaysia.
423 This Siam office was probably the Yihe Company. Since the restructuring in 1909, Nanyang was forced to redeem debts. Jian Yujie, Nanyang’s vice president, went to Siam to establish the Yihe Company. Yihe company was a general trading company which business includes towels, china, areca, etc.
in the Dutch East Indies began to work in May 1919. Before that, Surabaya’s business was included in the Singapore office’s operation. Once the headquarters of Nanyang eventually moved to Shanghai in 1918, Nanyang’s Hong Kong branch mainly supplied Hong Kong local market and the Southeast Asian market. All Nanyang’s sales offices in Southeast Asia were directed by its Hong Kong branch.

The reason for this timing (in 1915) of Nanyang’s overseas organizational expansion is not clear. However, 1915 was an important point in Nanyang’s history. By this time, Nanyang had honed its organizational capability in production and management. With a favorable social environment in south China, Nanyang was determined to enter the Chinese domestic market and directly confront BAT. Jian Zhaonan knew the power of BAT’s vast distribution network on the basis of its compact hierarchy in China. He considered that product quality and organizational expansion were crucial to develop Nanyang’s competitive advantage. In a letter to Jian Yujie in 1916, he argued “with great quality, Nanyang should widely established branches, like stars in the sky, so that we can not be beaten easily!”424 Between 1915 and 1919, Nanyang established more than twenty sales offices in important commercial cities in China and Southeast Asia.

Between 1918 and 1923, Nanyang was in its postwar golden age. The entrepreneurship and managerial capability of Jian Zhaonan was the key to the development of Nanyang.425 Jian Zhaonan identified economic nationalism after the foundation of the Republic of China in 1912 as a crucial resource which Nanyang could

424 HRNBTC, 62-3.
425 This point was convincingly addressed by Cochran. But it must be cautioned that the performance of Nanyang eventually resulted from the combined efforts of both the top management, middle managers or other company staff. It was unquestionable that the role of Jian Zhaonan was a key to Nanyang. However, exclusively focusing on Jian Zhaonan undervalues the contribution of the management team as a whole. Jian Yujie and other important middle managers in Nanyang’s branches should be acknowledged.
depend on but BAT could not. So he actively exploited the patriotic quality of Nanyang’s products. He used various marketing methods like publishing newspapers and sponsoring flying exhibitions to enlarge the influence of Nanyang and compete against BAT.

In addition, Jian Zhaonan attempted to establish a professional management team like BAT within Nanyang. He appointed some non-family members in important positions: Chen Bingqian (a former BAT comprador, n.d.) in charge of finance, Chen Qijun (a graduate from MIT, n.d.) in charge of technology and Wu Tingsheng (a former BAT comprador, n.d.) in charge of marketing. These professional managers helped Nanyang establish a Western operational and managerial system and upgrade the competitiveness of Nanyang against BAT.426

However, Nanyang was a hybrid of a modern managerial institution and traditional family management.427 Jian Zhaonan was not only the entrepreneurial president of Nanyang but also the patriarch of Jian family. The dual identities were crucial to pursuring the integrity and efficiency of such a big family business as Nanyang. In fact, the enlargement of non-family senior management team was considered a danger to the control of Jian family by other Jian family members.428 But, Jian Zhaonan efficiently kept a balance between his family control and the power of non-family members. Hence, under the leadership of Jian Zhaonan, both his family members and professional

426 See the details in Cochran, Big Business in China, 151-63
427 Wellington Chan considers the cores of Chinese family firms: (1) small-scale, relatively simple organizational structure; (2) close overlap of ownership, control by individuals linked by family and kinship ties, or by partnerships among kin and family friends; (3) centralized decision-making; (4) personal and family networking that encourages opportunistic diversifications, cutting across regional and national boundaries to expand membership of affiliate firms and to reduce transaction costs in sourcing, capital acquisition, and contracts; and (5) a high degree of strategic adaptability. See Wellington Chan, “Tradition and Change in the Chinese Business Enterprise: the Family Firm Past and Present,” in Chinese Business History: Interpretive Trends and Priorities for the Future, eds., Robert Gardella, Jane K. Leonard and Andrea McElderry (A special issue of Chinese Studies in History), 131.
428 Cochran, Big Business in China, 162.
managers were enterprising.

The competition between Nanyang and BAT was equally fierce in Southeast Asia. Nanyang’s two brands *Shuangxi* (雙喜) and *Feima* (飛馬) were especially popular in Southeast Asia.\(^{429}\) In 1915, the demands for both BAT’s and Nanyang’s cigarettes greatly exceeded their supplies in Singapore. To gain more profits, BAT’s cigarette price quickly increased. In 1915, Nanyang’s Shanghai manufacturing factory had not yet been established and the Hong Kong factory could not produce enough cigarettes to supply both the domestic and overseas markets. In September 1915, Nanyang’s Singapore agent could only supply 380 cases of *Feima* cigarettes but the market demand was 500 to 600 cases.\(^{430}\) However, Nanyang kept its prices stable and soon increased its market share in Singapore.

To defeat Nanyang, BAT persuaded the taxation bureau of Singapore to tax two more Singapore dollars for any case of Shuang Xi which weighted was over 130 pounds. This policy was put into effect in June 1, 1916. The Singapore Nanyang branch made every effort to fight against this policy but failed. The office had to advise Shanghai Nanyang to strictly fix the weight of each case at 125 pounds to avoid this unequal treatment.\(^{431}\)

Lowering their own prices was another method applied by both Nanyang and BAT in Southeast Asia. Whenever Nanyang issued new branded cigarettes in Southeast Asian market, BAT always lowered the price of its one or two brands of cigarettes, hoping to beat Nanyang’s new product. In 1931, to combat BAT, Nanyang also decided to undertake the strategy of “small profits but quick turnover.” Penang Nanyang (in British

\(^{429}\) HRNBTC, 28.
\(^{430}\) HRNBTC, 30.
\(^{431}\) HRNBTC, 65.
Malaya) prepared to lower the price of its “Baique” cigarettes once BAT issued any new brand into the market.432

The sales offices of Nanyang were wholesalers and had to depend on local merchants to retail their cigarettes. By 1936, Nanyang had fifty-three local agents in Singapore, seventy-three in British Malaya and ninety-one in Thailand.433 The Nanyang’s overseas sales offices invented various methods to encourage their agents. The Nanyang office in the Dutch East Indies once offered 20 local dollars for every 1,000 dollars sold and 500 for 10,000 dollars sold. In December 1931, this office further established a “reserve” institution. For example, if the commission for each case was six local dollars, Nanyang gave its agents only three dollars while keeping the other half secret to the end of the year. According to the performance of the agents, Nanyang distributed the reserved commission to them.434

The sales offices of Nanyang in Southeast Asia tried every method to advertise the Nanyang brands. For example, in 1929, the Siam Nanyang office intended to print and distribute some advertising pamphlets but their proposal was rejected by the local government. In Siam, four established newspapers competed against each other. If Nanyang published an advertisement in just one of them, then it might be criticized by the others; if it published in all of them, the cost was too large. Nanyang finally decided to print its own newspapers. This newspaper was sponsored solely by Nanyang and was edited by ten educated Cantonese.435 In addition, in 1931, Siam Nanyang once donated

432 HRNBTC, 251.
433 HRNBTC, 235.
434 HRNBTC, 252.
435 HRNBTC, 248.
ten baht to a local Chinese charity from each case of “Baique” cigarettes sold.\textsuperscript{436} They distributed “Baique” widely among Chinese communities to stimulate a demand.

The Singapore office in 1922 and the Batavia\textsuperscript{437} office in 1923 initiated remittance service for overseas Chinese in Southeast Asia. Many overseas Chinese in Southeast Asia were from Chaozhou and Shantou in Guangdong Province, so they sent lots of remittances to these cities. Hong Kong Nanyang transferred an experienced clerk from the Singapore office to its Shantou office to strengthen this business.\textsuperscript{438} The benefit of the remittance service was quite good. Nanyang not only got large operational capital but also could get some benefit from the change in exchange rate.\textsuperscript{439}

In 1923, the Singapore office further launched a saving business for local overseas Chinese. Savings collected from overseas Chinese were not left in the Singapore office, but used as operational capital by the whole company. In July 1923, Nanyang was extremely short of capital to buy tobacco leaves. Jian Yingfu (n.d.), the manager of Hong Kong Nanyang, asked that the Singapore office collect 300,000 to 400,000 Singapore dollars and send them to Hong Kong in early August. He suggested that the Singapore office could increase the interest rate a little to encourage more deposits. In addition, he requested that Wenlan (n.d.) and Shitou (n.d.), two experienced sales clerks from the Singapore office, mobilize their personal networks within Guangdong and Fujian communities in Singapore to collect more deposits.\textsuperscript{440}

\textsuperscript{436} HRNBTC, 250.
\textsuperscript{437} Batavia is now Jakarta in Indonesia.
\textsuperscript{438} HRNBTC, 494.
\textsuperscript{439} The contemporary exchange rate and the future exchange rate may be difference. Hence, through manipulating buying and selling one currency, Nanyang could get the benefit resulted from the difference of two exchange rates. HRNBTC, 493.
\textsuperscript{440} HRNBTC, 493.
Nanyang’s overseas sales offices proved to be essential to the whole company. In 1917, Nanyang obtained a monopoly in the Dutch East Indies market and still could not meet the market demand. Jian Yingpu, the head of Nanyang Hong Kong, even wrote to the Shanghai headquarters to ask for an increase in prices. Since Nanyang’s headquarters and its key business moved to Shanghai, the percentage of domestic sales greatly increased. However, overseas sales were still notable. In 1915, not counting Hong Kong, the sales of its Singapore and Siamese branches made up 55.17 percent. In 1929, the sales in Singapore, Siam and the Dutch East Indies offices accounted for 13.45 percent of Nanyang’s total sales amount.

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Table 4.3 Geographical Distribution of Nanyang’s Sales Amount (number in percentage)
Note: a. the percentage in 1919 was based on the sales amount between January and October

In addition to the sales offices in Southeast Asia, Nanyang also undertook direct investment in a tobacco leaf procurement company in the United States. This move was mainly due to Nanyang’s dissatisfaction with the quality of tobacco leaves procured in China. Nanyang was not able to hire and hold experienced purchasing agents who could

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441 HRNBTC, 31.
judge the quality of tobacco leaves. In 1918, Jian Zhaonan traveled to the American South to form the China-American Tobacco Company (中美烟叶公司 zhongmei yanye gongsi), jointly ventured with John Oglesby Winston Gravely (1862-1932), an independent American leaf-dealer in South Carolina. This company, based in South Carolina, was capitalized at 500,000 U.S. dollars, in which Nanyang was the secondary stockholders (behind Gravely), investing 150,000 U.S. dollars. The company established large warehouses in New York, Kobe, Shanghai and Hong Kong in 1919 and 1920 and became the major supplier of tobacco leaves for Nanyang.

However, the performance of this joint venture was not totally satisfying. Nanyang had to deal with the agency problem. Nanyang complained that Gravely caused bothersome thesis work and should take responsibility for such purchasing problems as spoilage of tobacco leaves in transit and the loss due to fluctuations of currency exchange rates. To control China-American Tobacco Company totally, in the mid-1920s, Nanyang doubled their investment in the company to 300,000 U.S. dollars, which led Nanyang to be the largest stockholder in the joint venture. Nevertheless, Nanyang still could not satisfactorily solve the purchasing problems of American tobacco leaves. In 1929, to solve its financial crisis, Nanyang sold their 300,000 U.S. dollars of controlling shares in China-American Tobacco Company.

Family businesses are particularly vulnerable once the paternal authority is lost. The death of Jian Zhaonan in 1923 was a watershed in Nanyang’s history. The golden age

443 Ibid., 162.
444 Ibid., 168.
445 Ibid.
446 Ibid., 191.
was over. The entrepreneurship of Jian Zhaonan was the key to the vitality of Nanyang. He actively hired professional managers, initiated new products and aggressively explored new markets. The combination of Jian Zhaonan’s entrepreneurship and authority guaranteed the operational efficiency of Nanyang and the effectiveness of professional managers. After the death of Jian Zhaonan, like many other declining family businesses, Nanyang began to fall apart.

Jian Yujie, the new president of Nanyang, was not as strong a leader as his Brothers. Jian Yujie did not lack entrepreneurship since he was cofounder of Nanyang and had played a crucial role as Vice-president in developing Nanyang. However, he lacked the authority status of his big Brothers in the Jian family. He was too indulgent to his relatives. Jian family members frequently made decisions without referring to Jian Yujie or professional managers. For example, Jian Yingpu, the manager of Hong Kong Nanyang and another young Brothers of Jian Zhaonan, frequently undertook financial maneuvers. Controlling Hong Kong Nanyang’s capital, he secretly lent money to his friends or invested personally in speculation in Southeast Asia. To cover up the family scandal, Nanyang had to pay back the debt of Jian Yingfu when his speculation failed. After the death of his eldest brother, Jian Yingfu clearly felt he could indulge

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himself, ignoring the leadership of Jian Yujie. 451

The new management still strived to develop Nanyang in the late 1920s and early 1930. In the domestic market, they focused less on internal managerial and operational innovation but more on the external Chinese patriotic movement (e.g. boycotting foreign goods) and governmental patronage. 452 However, in the overseas market, Nanyang carried on a big move to manufacture cigarettes abroad. Nanyang was one of the very few Chinese companies that ever established manufacturing factories abroad before 1949.

Nanyang’s earliest proposal to establish a cigarette factory in the Dutch East Indies was in August 1918. In the Dutch East Indies, imported manufactured cigarettes were taxed twenty-five Dutch dollars while the imported cigarette leaves were only taxed four Dutch dollars. Jian Yujie proposed to the Board to establish a local factory to save on import costs. However, for some unknown reason, this proposal was not acted on. By 1923, BAT had already established a factory in Dutch East Indies. Nanyang considered it necessary to establish its own factory there to compete against BAT. But Nanyang heard that the Dutch East Indies government probably would increase the taxation rate on local manufactured cigarettes. In addition, Nanyang was not sure about overseas organizational issues like recruitment and decided to wait to access BAT’s performance. 453

In February 1929, the proposal to establish a factory in Dutch East Indies was again brought on the table. Nanyang had established its own sales office in the Dutch East Indies in 1919. In 1929, the imported tax on each case of cigarettes increased to about eighty Dutch dollars, while the tax on imported raw materials for local

452 Cochran, Big Business in China, 170.
453 HRNBTC, 183.
manufacturing was just less than forty. In terms of the significant decline of the profits in the Dutch East Indies, Nanyang decided immediately to establish the Dutch East Indies factory. Nanyang also hoped that the output of this factory could supply the whole Southeast Asian market, including Singapore and British Malaya. This would save a lot of expenses of Nanyang to pay the tariff in the Southeast Asian market which would be triggered by the import from Hong Kong.454

However, the process was not smooth. Nanyang originally planned to collect shares of 500,000 Dutch dollars for the proposed Dutch East Indies Nanyang factory. One half of the shares would be invested by Nanyang headquarters, while the other half would be collected from local Chinese merchants. But the collection of 250,000 Dutch dollars from Chinese merchants was extremely difficult. Only in April 1930 was the factory finally established; it received a license from the Dutch East Indies government in May.

In the beginning, due to the inefficiency of inexperienced workers, the daily output of the Dutch East Indies factory was quite small. In June 1930, the number was only about fifteen cases per day. However, this small output still met the market demand. In late May 1932, this factory had thirteen cigarette machines and could produce fifty cases per day. The gross profit margin seemed quite good for the cigarettes manufactured in the Dutch East Indies factory. The cost per case was 152.33 Dutch dollars and could be sold at 205 Dutch dollars. Each case could earn fifty Dutch dollars.455 Table 4.4 shows a simple balance sheet in 1933.

454 HRNBTC, 389.
455 HRNBTC, 186
### Table 4.4 The Manufacturing Situation of the Dutch East Indies factory in 1933

<table>
<thead>
<tr>
<th>Items</th>
<th>Capital (Dutch Dollar)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output: 322,871,000 pieces</td>
<td>1,058,267</td>
</tr>
<tr>
<td>Costs:</td>
<td></td>
</tr>
<tr>
<td>Salary</td>
<td>38,236.39</td>
</tr>
<tr>
<td>Tax on Cigarette papers</td>
<td>197,784.22</td>
</tr>
<tr>
<td>Cost of Cigarette papers</td>
<td>16,262.00</td>
</tr>
<tr>
<td>Imported American Cigarette Leaves</td>
<td>146,907.23</td>
</tr>
<tr>
<td>Imported Chinese Cigarette Leaves</td>
<td>40,201.28</td>
</tr>
<tr>
<td>Imported Java Cigarette Leaves</td>
<td>28,077.75</td>
</tr>
<tr>
<td>Utilities</td>
<td>6,524.15</td>
</tr>
<tr>
<td>Stamp Tax</td>
<td>21,653.40</td>
</tr>
</tbody>
</table>

Source: HRNBTC, p. 187.

Compared to its Shanghai and Hong Kong factories, the scale of this Dutch East Indies factory was not large.\(^{456}\) Before its shutdown in April 1934, this factory had only sixteen cigarette machines, ten of which were out of date and produced inferior cigarettes and six of which were just acceptable. There was little information about labor in this factory. The workers probably numbered around five hundred and most of them were local people. In a letter to the Dutch East Indies government in 1935, the President of the Nanyang Dutch East Indies factory indicated that when the factory had still been in

\(^{456}\) In 1930, Shanghai factory had 35 cigarette machines and Hong Kong factory had 33. See HRNBTC, 175.
operation, before April 1934, it hired 519 workers not counting the officers. There were 464 local Dutch East Indies workers and just 55 Chinese workers. He stated that once his factory was reopened, at least 500 unemployed local workers would be employed.\textsuperscript{457}

The Nanyang Dutch East Indies factory was short-lived. The main reason for the retreat of Nanyang was not reduced market demand but the heavy taxation of the local colonial government. The management of the Dutch East Indies factory considered that the factory would suffer great losses if it continued in operation. Nanyang headquarters consented with a temporary production suspension in April 1934.\textsuperscript{458}

In 1937, due to operational difficulties, the Jian family sold 27 percent of Nanyang’s stocks to T.V. Soong, Minister of Finance in the Nationalist government, and hence lost control over Nanyang.\textsuperscript{459} During the Sino-Japanese War, several major Nanyang factories in Shanghai and Hong Kong were destroyed. Nanyang had to move its production to such inner China cities as Chongqing and Yunnan. The output of Nanyang never again reached that of its golden age. Cochran put it in this way, “The Japanese by no means started Nanyang on its downward course, for the decline of the company was traceable to previous development such as mismanagement of Nanyang since the death of Jian Zhaonan, new taxes imposed by the Kuomintang government, and heavy competitive pressure from BAT. But the Japanese forced Nanyang to contract to the point where it ceased to be a big business.”\textsuperscript{460}

Nanyang’s overseas offices and factories were also eventually destroyed by the war. Nanyang reopened its Dutch East Indies factory in August 1937. However, this factory

\textsuperscript{457} HRNBTC, 187.
\textsuperscript{458} HRNBTC, 186.
\textsuperscript{459} Parks M. Coble, Jr., \textit{The Shanghai Capitalist}, 231-2.
\textsuperscript{460} Cochran, \textit{Big Business in China}, 198.
was forced to close again in early 1939 because of a huge loss of HK$400,000. In addition, as a consequence of similar losses, Nanyang sales offices in Singapore, Thailand and the Dutch East Indies were also forced to close in 1939. Hong Kong Nanyang ceased to operate after the outbreak of the Pacific War in late 1941. In 1942, the Japanese army occupied the Dutch East Indies and confiscated all the assets of Nanyang’s Dutch East Indies factory.\footnote{HRNBTC, 534.}

Nanyang is somewhat different from the other three cases. Before 1937, Nanyang was a hybrid of a modern managerial institution and traditional family control. The Jian family controlled the majority of shares and important positions in the company and was ruled paternalistically. Jian Zhaonan was called “big brother” by his family members. He efficiently combined his authority and entrepreneurship in developing Nanyang between 1905 and 1923. Jian Zhaonan in fact set a model of entrepreneurship for his relatives. Although Nanyang was full of Jian family members, Jian Zhaonan stimulated their enterprising spirits and reduced the nepotism problems to a bare minimum. Under Jian Zhaonan’s “watchful eyes”, the family members also devoted themselves into developing business. Jian Zhaonan’s combination of entrepreneurship and authority enabled Nanyang to develop a special organizational capability of a family-controlled business. But with his death, there was no one within the family to provide this entrepreneurial and paternalistic leadership.

However, we should not exaggerate the benefit of this hybrid institution. Jian Zhaonan, to the end, was inclined to leave the control of Nanyang within the Jian family rather than to professional managers. When Nanyang was incorporated and registered with the government in 1918, Jian Zhaonan managed to add one special article to the
charter: Jian Zhaonan would be the general manager forever. Once he voluntarily resigned or died, he had the right to appoint the successor. It is unclear how Jian Zhannan persuaded the government to authorize such a charter. This kind of article might be a unique case of such a provision in modern joint stock companies (whether in China or abroad). He was just like an imperial emperor!

The biggest danger of family control was not nepotism but the loss of authority. Once Jian Zhaonan died, no one had the reputation to integrate and lead the family as a whole. Although new top executives tried to revive Nanyang, they could not effectively combine entrepreneurship and paternal authority. The previous organizational capability gained under the leadership of Jian Zhaonan eroded. Nanyang was hardly a whole but more like the sum of loosely related parts.

As a multinational, Nanyang was a typical case to provide evidence of the interactive relationship between overseas network and transactional hierarchies. The Jian family was from Guangdong Province, where many overseas Chinese in Southeast Asia came from. So it was easy for Nanyang to mobilize existing overseas Chinese networks. At its outset, Nanyang depended on these Chinese networks to distribute its products in Southeast Asia. After 1915, with the aggressive expansion strategy of Jian Zhaonan, Nanyang gradually established its sales offices in Southeast Asia. However, the overseas hierarchy did not totally replace previous networks and markets. Since the sales offices were mainly wholesale, they had to rely extensively on Chinese retail agent networks or markets in Southeast Asia. These sales offices designed various institutions to encourage the initiative of their local agents. In addition, the Guangdong background of Nanyang was extremely helpful in mobilizing overseas Chinese networks and resources in

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462 HRNBTC, 15.
Southeast Asia. When Siam Nanyang attempted to issue its own newspapers, it recruited ten educated Cantonese. When the Singapore office aspired to attract more deposits, it also tried to mobilize its close relationship with Guangdong’s Chinese communities.

In fact, economic nationalism, an external social resource which Nanyang benefited from in both its domestic and overseas expansion, is in essence a psychological contract or network which was based on Chinese identity. In the international arena, the same nationality was an enough of a force to establish a forceful network. Hence, when Nanyang entered Southeast Asia, it soon gained a competitive advantage over BAT. In the heyday of the boycott movements, Nanyang soon felt the power of the interaction of overseas hierarchy and this nationalism network in Southeast Asia. Cochran’s observation about the interaction of hierarchy and network in mainland China is revealing. Furthermore, this case shows that even in the international arena overseas transnational hierarchies and overseas network not only can coexist but also dynamically interacted.

The internationalization of Nanyang was the result of a combination of entrepreneurship and organizational capability. The high tide of its internationalization was between 1915 and 1923, when Nanyang was enterprising and growing fast under the leadership of Jian Zhaonan. The sales offices survived for 20 years until the late 1930s. Nanyang was also notable for establishing an overseas manufacturing factory. However short-lived, it was a symbol of entrepreneurship and capability of Chinese enterprises.

However, Nanyang’s internationalization was eventually aborted due to the bad timing in wartime and its organizational weakness. Particularly after the beginning of the governance of the Nationalist party in 1927, the tax burden imposed by the government
became a real impediment for the development of Nanyang.\textsuperscript{463} In addition, the loss of authority within the Jian family after the death of Jian Zhaonan became an internal governance problem. All these factors made Nanyang particularly vulnerable in face of the coming of the Second Sino-Japanese War. While its domestic market shrunk, its international market also declined. Its organizational capability after 1923 was far less strong than it had been in the era of Jian Zhaonan.

4.5 Summary

The four cases show that the dynamic interaction of organizational capability, entrepreneurship and environment accounted for the rise and performance of Chinese multinationals in the Republican era. Before they went abroad, all the four Chinese enterprises honed their organizational capability in Chinese domestic market. They successfully competed against foreign rivalries in China and were entrepreneurial to explore overseas opportunities.

Technology transfers from abroad strengthened the organizational capability of the four Chinese enterprises. Thanks to the internationalization in Republican China, Chinese entrepreneurs got the chance to import technology directly from abroad.\textsuperscript{464} The technology transfer improved the competitive edge of Chinese enterprises both in China and abroad. Ming Sung procured modern steamships in Canada and big oceanic steamships from the Untied States, which strengthened its shipping capability. Through the technological communication with its London branch, the Chinese Egg Produce

\textsuperscript{463} Wang, “Free Enterprise in China,” 411-2.
Company effectively improved its frozen-egg manufacturing capability. The technological capability of Mayar Silk Mills was based on its early adoption of the most advanced silk-spinning machines. These machines enabled Mayar to produce silk fabrics of quality equal to that of foreign fabrics. Nanyang Brothers Tobacco Company also imported key cigarette-making machines from the United States.

The Sino-foreign commercial competition has been an important theme in Chinese business history.465 In addition to the Chinese domestic market, this chapter shows that the Sino-foreign competition was also notable and fierce in the international market. Ming Sung succeeded in competing against foreign steamship companies in the Yangtze River and was ambitious to compete with foreign rivals in Pacific Ocean and Indian Ocean. The competition between Nanyang Brothers Tobacco Company and BAT in Southeast Asia was equally fierce. Nanyang established a vast network of sales offices in Southeast Asia and adopted a variety of methods to beat BAT. The establishment of the cigarette-manufacturing factory in the Dutch East Indies was also partly a means of competing against the cigarette-manufacturing factories of BAT in Southeast Asia. The competition between Mayar and Japanese rivals was notable in Southeast Asia. When Mayar entered the American market, it faced competition from Italian and American silk weavers. In addition, the Chinese Egg Produce Company succeeded in gaining competitive advantages both in China and European markets. The cases of Chinese multinationals call for further research about overseas Sino-foreign commercial competition in the Republican era.

The four cases also reveal a complex relationship between the headquarters and the overseas subsidiaries. Chinese headquarters exerted strict control over its overseas

subsidiaries with particular reference to finance and accounting. For example, Mayar and CEPC required their subsidiaries periodically to submit financial and operational reports. In addition, the headquarters and the overseas subsidiaries were in a symbiotic relationship. The organizational capability of the headquarters was the basis for the effective operation of its overseas subsidiaries. For example, the overseas branches of Mayar relied on the existing routines from the headquarters. When the operation of the overseas subsidiaries fell into crisis, the headquarters had the most valuable credit to protect their overseas subsidiaries. Ming Sung was a case in point. In addition, the overseas subsidiaries were critical to the development of the whole company. Their role in marketing, investigation, procurement and technology transfer helped hone the organizational capability of the headquarters. The London office of CEPC offered both marketing information and technological consulting to OEPC. The overseas Chinese remittance collected by Nanyang sales offices in Southeast Asia helped solve the financial problem of their Shanghai headquarters. In fact, this transnational relationship between the headquarters and the overseas subsidiaries enabled Chinese multinationals to mobilize and utilize global resources at an unprecedented scale.

All the four Chinese enterprises grew into multinationals through organizational internationalization. The cases show that transnational hierarchy, international market and overseas networks dynamically interacted in international business. Lacking overseas networks, Chinese Egg Produce Company and Mayar Silk Mills effectively employed transnational hierarchy to substitute international market for direct export. From solely relying overseas Chinese networks, Nanyang Brothers Tobacco Company established overseas sales branches in Southeast Asia. These sales offices partly substituted previous
overseas networks, since Nanyang still had to rely on local overseas Chinese retail distribution networks in Southeast Asia. Thus, there was no single panacea or solution for international business of Chinese enterprises. Chinese enterprises were flexible and alternatively utilized any of the three strategies (transnational hierarchy, international markets and overseas networks) whenever possible and necessary.

The organizational capability and entrepreneurship accounted for the development of Chinese multinationals in the Republican era. However, the performances of Chinese multinationals were affected by the external environment. Regrettably, Chinese multinationals lacked a favorable environment in the late 1930s and 1940s. Among the four cases, Chinese Egg Produce Company effectively managed to overcome external adversities through partnering with the Chinese and British governments. However, the international operations of the other three enterprises were greatly impeded by the external environment. Generally, Chinese multinationals did not lack entrepreneurship or organizational capability but lacked a beneficial external environment in the late 1930s and 1940 in China and abroad.
CHAPTER 5
CONCLUSION

This thesis examines a largely neglected but important type of enterprise, Chinese multinationals, in Republican China between 1912 and 1949. This thesis is based on a preliminary database created by the author which identifies forty-eight Chinese multinationals established before 1949. It shows that the combination of organizational capability, entrepreneurship, and environment accounted for the rise and performance of Chinese multinationals between 1912 and 1949. Organizational capability guarantees the ability to mobilize various resources to boost and support entrepreneurship in international expansion. Entrepreneurship is a fundamental motivation to overcome risks and pursue opportunities in foreign markets. Environment is the key moderating factor which may either facilitate or hinder the internationalization process.

The formation of the organizational capability of Chinese multinationals was a learning process. Between 1912 and 1937, modern Chinese enterprises emerged in various industries such as banking, shipping, trading, textile, flour, cigarettes, pharmaceutics, mechanical engineering, silk reeling and weaving, and egg-manufacturing. These modern Chinese enterprises carried out Chandlerian three-pronged investment. They heavily invested in production through importing advanced foreign technologies to gain economies of scale and scope. They invested in marketing and distribution domestically and internationally to gain the advantage of vertical integration. They
invested in human resources and established hierarchical organizational structures. Chinese middle managers began to play a crucial role in these hierarchical enterprises. Chinese entrepreneurs adopted scientific management, emphasizing production standardization, cost control, and personnel management. These methods constituted the early formation of organizational capability of Chinese modern enterprises and laid the foundation for the rise of Chinese multinationals.

Entrepreneurship played a key role in the development of Chinese multinationals in the Republican era. This thesis shows that Chinese entrepreneurs were ambitious to explore overseas markets through organizational internationalization. This consciousness of international exploration was partly due to their confidence in their perfected organizational capability in the Republican era. Chinese multinationals looked worldwide for resources for production, markets for their products or services, efficiency for their operational integration, and strategic assets for augmenting their competitive advantage. In fact, they carried out the Schumpeterian “new combinations” in the international market through introducing new products abroad and investigating unexplored overseas markets (like Mayar Silk Mills), seeking new sources of raw materials (like New Asiatic Chemical Co. and Nanyang Brothers Tobacco Company), and even initiating international cartel (like Chinese Egg Produce Company).

Once overseas branches were established, the dual entrepreneurships of the Chinese headquarters and their overseas subsidiaries further stimulated the upgrading of the organizational capability of Chinese multinationals as a whole. The transfer of fundamental routines from Chinese headquarters to overseas subsidiaries was the key to the early operation of these overseas branches. Furthermore, these overseas branches
created their own routines to adapt to local environment in host countries. The new knowledge they learned in foreign lands was transferred back to their Chinese headquarters (such as the Mayar Silk Mills and the CEPC). Hence, the information and knowledge communication between Chinese headquarters and overseas subsidiaries proved crucial in developing organizational capability (both in technology and management).

This thesis shows that transnational hierarchies, international markets and overseas networks dynamically interacted. When dealing with international business, Chinese enterprises by no means exclusively referred to overseas networks or international markets. They also created transnational hierarchies to obtain direct control over overseas market and reduce transaction costs. The flexibility of their international strategy was conditioned on the availability of networks, the strength of their organizational capability, the importance of specific overseas markets and other factors such as specific historical coincidences. Hence, the eventual choice among the three strategies was a result of complex calculation of internal and external circumstances of Chinese entrepreneurs in the Republican era.

However, Chinese multinationals were greatly challenged by the external environment in the late 1930s and the late 1940s, just at the time when they got started. The first golden age for Chinese multinationals was from the late 1930s until the outbreak of the Pacific War in late 1941. The chaos of the China’s domestic market due to the Sino-Japanese War since 1937 pushed Chinese enterprises to explore overseas markets, particularly in Southeast Asia. However, the new overseas subsidiaries of Chinese enterprises in Southeast Asia were soon suspended due to the outbreak of the Pacific War.
in 1941, as the oceanic shipping was blocked and the Japanese army occupied Southeast Asia. In the postwar years after 1945, when Chinese enterprises resumed their internationalization, the outbreak of the Chinese Civil War gradually ruined their dreams. The economic and social chaos in China since late 1946 made the domestic operation of Chinese multinationals extremely difficult, let alone their international operation. From mid-1947, the Nationalist government regulated the export of several important items such as tea, raw silk, tung oil, and frozen eggs. In addition to these regulated items (which could get sponsored by the government), most exports of other items were especially difficult because of the high prices resulting from the virulent inflation of the late 1940s in China. Since most Chinese multinationals established overseas branches for direct exports, their international operations were threatened or even destroyed by this inflation. If we conclude that the development of Chinese multinationals was generally a failure, we must recognize that the failure was probably less due to weak organizational capability or lack of entrepreneurship than to the adverse environment and the bad timing of Chinese multinationals in the 1930s and 1940s.

Furthermore, in contrast to multinationals from developed countries, China’s direct foreign investment in the Republican era was commonly smaller and their overseas organizational layout was simpler. The database shows that most of these overseas branches were sales offices or procurement offices. Only the Nanyang Brothers Tobacco Company and Shenxin Textile Company invested in foreign manufacturing in the Republican era. In the same period (1912-1949), American and European multinationals clustered in capital-intensive and technological-intensive manufacturing industries. Their capability in overseas expansion derived from product innovation

466 See the discussion about statistics of Chinese direct foreign investment in Appendix D.
capability, marketing and logistics.\textsuperscript{467} Japanese multinationals, represented by general trading companies and shipping companies, had already invested in Europe, the United States and China before 1914.\textsuperscript{468} These foreign multinationals were frequently quite big in terms of their foreign direct investment and organizational hierarchy.

Mira Wilkins, in her comparison between multinationals from the United States, Europe and Japan, used five features as bases: 1) the size of the home market; 2) heterogeneity or homogeneity at home; 3) national status as importer or exporter of capital; 4) geographical position; and 5) antitrust attitudes.\textsuperscript{469} Indeed, all these criteria are significant but they were based on two assumptions (although Wilkins did not mention them): that the United States, Europe and Japan were at the same or similar industrialized level and that they all had a unified and independent central government. In explaining the differences between multinationals from China and the ones from developed countries, Wilkins’ bases are obviously incomplete. It is reasonable to propose that late and less industrialization as well as the relatively weak central government in China before 1949 accounted for the main differences of Chinese multinationals and foreign ones.

However, what matters here is not the comparative underdevelopment of Chinese multinationals relative to foreign ones, but the relative development of Chinese multinationals as a new-type enterprise in China in the Republican era. Comparing Republican China with late imperial China, the rise of Chinese multinationals in the

Republican era represented a historical advance.\textsuperscript{470} This thesis shows that Chinese enterprises were entrepreneurial and organizationally capable of investing in foreign lands in the Republican era. The key constraining factor was bad timing: Chinese multinationals, when they just got started, met extremely adverse environments, largely without the support of the Chinese government (unlike Japanese multinationals). For instance, if China’s and the world environment had been more favorable in the 1930s and 1940s, Chinese multinationals should have been more developed. Similarly, contemporary Chinese multinationals have benefited from the peaceful and favorable domestic and international environment in the present world.

The study of Chinese multinationals in historical perspective is in its very early stages. This thesis is virtually the first research about historical Chinese multinationals in the current scholarship (whether in English and Chinese). Hence, this thesis intends to bring out a new perspective for investigating Chinese business history rather than for concluding studies of Chinese multinationals. It calls for more attention both from academics and probably from the public sphere to pay attention to historical Chinese multinationals.

Although combining a comprehensive description (Chapter 3) and detailed cases (Chapter 4), this thesis has raised more questions than it solved. Future studies should in more detail address such questions as the role of Chinese government in assisting or impeding or being indifferent to Chinese multinationals, the policies of host countries in influencing Chinese multinationals, the organizational strength and weakness of Chinese multinationals, the differences in the performance of Chinese multinationals in different

\textsuperscript{470} In fact, some Chinese multinational emerged in late nineteenth century. But they were limited in terms of numbers and industry types. See “Early Chinese Multinationals before 1912” in 2.3.
industries, the relationship between Chinese headquarters and overseas subsidiaries, and the comparison between Chinese multinationals and foreign multinationals. Answering all these questions, Chinese business history will require more case studies of Chinese multinationals in diverse industries based on the database created in this thesis and beyond. The author believes that the studies of historical Chinese multinationals are not only an important new direction for Chinese business history, but also a valuable reference to understand the rising success of contemporary Chinese multinationals in the early twenty-first century.
APPENDIX A

A PRELIMINARY DATABASE OF CHINESE MULTINATIONALS BEFORE 1949
(sorted by industry)

<table>
<thead>
<tr>
<th>Name</th>
<th>Year of Establishment</th>
<th>Location of Headquarters</th>
<th>Main Manager</th>
<th>Overseas branches (date)</th>
<th>Industry</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>He Sheng Yuan</td>
<td>1837</td>
<td>Shanxi</td>
<td>He Hongru</td>
<td>Tokyo, Kobe, Osaka, Inchon (1907)</td>
<td>Banking</td>
<td>Shanxi Piaohao shiliao, p. 652.</td>
</tr>
<tr>
<td>Yuan Feng Run</td>
<td>1883-1889</td>
<td>Shanghai</td>
<td>Yan Xin-hou</td>
<td>Singapore, Hong Kong</td>
<td>Banking</td>
<td>Shanxi Piaohao shiliao, p. 664.</td>
</tr>
<tr>
<td>Du Shen Yu</td>
<td>1906</td>
<td>Shanxi</td>
<td>NA</td>
<td>Moscow</td>
<td>Banking</td>
<td>Shanxi Piaohao shiliao, p. 667.</td>
</tr>
<tr>
<td>Tai Gu Zhuang Hao</td>
<td>1899</td>
<td>Shantou</td>
<td>Lin Yuyan</td>
<td>Singapore, Hong Kong</td>
<td>Banking</td>
<td>Shanxi Piaohao shiliao, p. 364.</td>
</tr>
<tr>
<td>Kinchong Banking Corporation</td>
<td>1917</td>
<td>Tianjin (later Shanghai)</td>
<td>Zhou Zuomin</td>
<td>Manila (1940), New York (1948)</td>
<td>Banking</td>
<td>Jincheng yinhang shiliao, pp. 579, 863.</td>
</tr>
<tr>
<td>The Shanghai Commercial &amp; Saving Bank, Ltd. (SCSB)</td>
<td>1915</td>
<td>Shanghai</td>
<td>Chen Guangpu</td>
<td>New York (1945)</td>
<td>Banking</td>
<td>Chen Guangfu yu Shanghai yinhang, p. 40</td>
</tr>
<tr>
<td>Name</td>
<td>Year of Establishment</td>
<td>Location of Headquarters</td>
<td>Main Manager</td>
<td>Overseas branches (date)</td>
<td>Industry</td>
<td>Sources</td>
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</tr>
<tr>
<td>Bank of China (中國銀行)</td>
<td>1911</td>
<td>Shanghai</td>
<td>Zhang Jia’ao (張嘉敖)</td>
<td>Osaka (1931), London (1929), New York, Cuba, Singapore (1936), Jakarta (1939), Sidney (1942), etc.</td>
<td>Banking</td>
<td>Zhongguo yinháng shíliào huìbian, the first section, vol. 2.</td>
</tr>
<tr>
<td>Zhen Hua Painting Co., Ltd (振華油漆公司)</td>
<td>1920</td>
<td>Shanghai</td>
<td>Qin Jingcheng (秦竟成)</td>
<td>Singapore</td>
<td>Chemical</td>
<td>Zhongguo jindài guóhuò yundōng, p. 380; SMA, Q78-2-14969.</td>
</tr>
<tr>
<td>Nanyang Brothers Tobacco Co. (南洋兄弟煙草公司)</td>
<td>1905</td>
<td>Hong Kong, Shanghai</td>
<td>Jian Zhaonan (簡照南)</td>
<td>Singapore (1916), Thailand (1915), Indonesia (1919)</td>
<td>Cigarette</td>
<td>Nanyáng xióngdí yán cao gōngsī shíliào.</td>
</tr>
<tr>
<td>Name</td>
<td>Year of Establishment</td>
<td>Location of Headquarters</td>
<td>Main Manager</td>
<td>Overseas branches (date)</td>
<td>Industry</td>
<td>Sources</td>
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</tr>
<tr>
<td>Pacific Insurance Co. (太平保險公司)</td>
<td>1929</td>
<td>Shanghai</td>
<td>Ding Xuenong (丁雪農)</td>
<td>Singapore, Manila, Batavia (1930s)</td>
<td>Insurance</td>
<td>Jincheng yinhang shiliao, pp. 289-296.</td>
</tr>
<tr>
<td>The China United Assurance Society, Ltd (華安保險)</td>
<td>1912</td>
<td>Shanghai</td>
<td>Du Yuesheng (杜月笙)</td>
<td>Batavia, Medan, Thailand (1925)</td>
<td>Insurance</td>
<td>SMA, Q336-1-19.</td>
</tr>
<tr>
<td>China Can Co., Ltd. (康元制罐廠)</td>
<td>1922</td>
<td>Shanghai</td>
<td>Xiang Kangyuan (項康元)</td>
<td>Singapore, Thailand (1936), Hong Kong(1934)</td>
<td>Manufacturing</td>
<td>SMA, Q78-2-15919; Y9-1-101-55</td>
</tr>
<tr>
<td>Name</td>
<td>Year of Establishment</td>
<td>Location of Headquarters</td>
<td>Main Manager</td>
<td>Overseas branches (date)</td>
<td>Industry</td>
<td>Sources</td>
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<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>(華昌煉錫公司)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Asiatic Chemical Co., Ltd.</td>
<td>1926</td>
<td>Shanghai</td>
<td>Xu Guanqun (許冠群)</td>
<td>Singapore, Thailand, Luzon (1939),</td>
<td>Pharmacy</td>
<td>SMA, S65-1-33-3; <em>Shanghai Jindai xiyao hangye shi</em> (The Western Pharmaceutical Industry in Modern Shanghai), pp. 274-90.</td>
</tr>
<tr>
<td>(新亞制藥股份有限公司)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>(信誼制藥公司)</td>
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<td>Ming Sung Industrial Co.</td>
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<td>Chongqing</td>
<td>Lu Zuofu (盧作孚)</td>
<td>New York (1946)</td>
<td>Shipping</td>
<td>SMA, Q78-2-16257.</td>
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<tr>
<td>(民生實業股份有限公司)</td>
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<tr>
<td>(輪船招商局)</td>
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<tr>
<td>(南通繡品公司)</td>
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<td></td>
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<tr>
<td>Name</td>
<td>Year of Establishment</td>
<td>Location of Headquarters</td>
<td>Main Manager</td>
<td>Overseas branches (date)</td>
<td>Industry</td>
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</tr>
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<td>Mayar Silk Mills, Ltd.</td>
<td>1920</td>
<td>Shanghai</td>
<td>Cai Shengbai</td>
<td>Singapore (1939)</td>
<td>Silk weaving</td>
<td>SMA, q78-2-12150.</td>
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<td>Shen Xin Cotton Co.</td>
<td>1915</td>
<td>Shanghai</td>
<td>Rong Zongjing</td>
<td>Thailand (1950)</td>
<td>Textile</td>
<td>Rongjia qiye shiliao (The Historical Materials of Rong Family Business).</td>
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<td>Tian Yuan Industrial Co., Ltd.</td>
<td>1945</td>
<td>Shanghai</td>
<td>Rong Desheng</td>
<td>Thailand (late 1940s)</td>
<td>Trading &amp; Textile</td>
<td>SMA,Q78-2-13761</td>
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<td>China Travel Service</td>
<td>1927</td>
<td>Shanghai</td>
<td>NA</td>
<td>Singapore (1934), Manila, Calcutta, San Francisco (1946), etc.</td>
<td>Travel agency</td>
<td>Q275-1-96, pp. 50-61 Pan Taifeng, “Ji zhongguo lvxingshe” (The History of Chin Travel Service), in Chen Guangfu yu Shanghai yinhang, 188-215.</td>
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<tr>
<td>He Yong Tai</td>
<td>1895</td>
<td>Shanghai</td>
<td>Chen Fengsheng</td>
<td>Thailand, Singapore, Hong Kong</td>
<td>Trading</td>
<td>Shanghai duiwai maoyi, p. 451</td>
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<tr>
<td>Name</td>
<td>Year of Establishment</td>
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<td>Feng Ji Sea food Store</td>
<td>1889</td>
<td>Shanghai</td>
<td>Zhu Hanfang (朱涵芳)</td>
<td>Changqi (1891), Osaka, Kobe, Incheon</td>
<td>Trading</td>
<td><em>Shanghai duiwai maoyi</em>, p. 554.</td>
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<tr>
<td>Dong Lin Store (東林店)</td>
<td>1898</td>
<td>Shanghai</td>
<td>Xie Chonghua (謝崇華)</td>
<td>Osaka (1905)</td>
<td>Trading</td>
<td><em>Shanghai duiwai maoyi</em>, p. 583.</td>
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<tr>
<td>Tong Feng Yuan (同豐源)</td>
<td>1913</td>
<td>Shanghai</td>
<td>Bi Silian (畢似蓮)</td>
<td>Osaka (1917)</td>
<td>Trading</td>
<td><em>Shanghai duiwai maoyi</em>, p. 584.</td>
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<tr>
<td>Da Ye Trading Co., Ltd.</td>
<td>1939</td>
<td>Shanghai</td>
<td>Li Tongcun</td>
<td>Burma, Vietnam, Hong Kong (around 1940)</td>
<td>Trading</td>
<td>SMA, Q78-2-14244; Q336-1-19</td>
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<td>Cheng Ji Hao (成記號)</td>
<td>NA</td>
<td>Guangdong</td>
<td>NA</td>
<td>Kobe, Nagasaki Hakodate (1866)</td>
<td>Trading</td>
<td><em>Chen Guangfu yu shanghai yinhang</em> (Chen Guangfu and Shanghai Bank), p. 30; Q78-2-12917</td>
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<td>Industry</td>
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<td>Ji Xiang Hao (紀祥號)</td>
<td>NA</td>
<td>Harbin</td>
<td>NA</td>
<td>Vladivostok, Russia</td>
<td>Trading</td>
<td>1880 niandai dongbeiye diqu huashang huodong (Chinese merchants in Northeast Asia in 1880s), in Zhongguo haiyangshi lunwenji (Articles on Chinese oceanic history), No. 7.</td>
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<td>Mao Heng (茂恒商號)</td>
<td>1928</td>
<td>Kunning (Yun Nan)</td>
<td>Dong Aiting, etc. (董愛庭)</td>
<td>Burma, Vietnam, India (1930s)</td>
<td>Trading</td>
<td>Yunnan Jinchukou Maoyi (The Foreign trade of Yunnan), pp. 81-101.</td>
</tr>
<tr>
<td>Yong Chang Xiang (永昌祥)</td>
<td>1903</td>
<td>Kunning (Yun Nan)</td>
<td>Yan Zizhen (嚴子珍)</td>
<td>Calcutta (1943)</td>
<td>Trading</td>
<td>Yunnan Jinchukou Maoyi, pp. 130-137.</td>
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<td>Chinese Goods Union Co. (中國國貨聯營公司)</td>
<td>1937</td>
<td>Shanghai</td>
<td>Caishenghai, Wu Yunchu (蔡聲白，吳殤初)</td>
<td>Singapore (1939), Burma (1941),</td>
<td>Trading</td>
<td>Zhongguo guohuo lianhe yingye gongsi shizhoujian jiniankan (The 10 anniversary Book of Chinese Goods Union Co.).</td>
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<tr>
<td>Yuan Lai Hao (源來號)</td>
<td>1895</td>
<td>Shanghai</td>
<td>Ye Hongying (葉鴻英)</td>
<td>Japan</td>
<td>Trading</td>
<td>Shanghai wenshi ziliao cungao huibian, vol.6, pp. 333-339.</td>
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<tr>
<td>Name</td>
<td>Year of Establishment</td>
<td>Location of Headquarters</td>
<td>Main Manager</td>
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<td>Industry</td>
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<td>Nanyang Development &amp; Financial Co. (南洋企業公司)</td>
<td>1940</td>
<td>Shanghai</td>
<td>Zhou Zuomin (周作民)</td>
<td>Thailand (1941), Singapore, and other Southeast Asian countries</td>
<td>Trading</td>
<td>Jincheng yinchang shiliao, pp. 610-613.</td>
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<tr>
<td>Tong Feng Yu Cotton Co. (同豐欲紡織公司)</td>
<td>1923</td>
<td>Tianjin</td>
<td>Gao Xingbei</td>
<td>Osaka (1920s)</td>
<td>Trading</td>
<td>Zhonghua minguo shi dangan ziliao huibian, No. 3, Industries, p. 1418.</td>
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</table>
APPENDIX B

MANAGEMENT HIERARCHY OF CEPC IN 1930 AND 1942
In 1942, CEPC had three warehouses in Shanghai. Zhang Xuming was Director of Nantao Cold Storage & Warehouse Department. Jin Shaonan was Director of Eastern Warehouse Department. Chen Weiru was Director of Western Warehouse Department.

Sources: Yuan Hengtong, “Maochang,” 7-8; SMA, Q229-1-173, 8.

<table>
<thead>
<tr>
<th>Department/year</th>
<th>1930</th>
<th>1942</th>
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<tbody>
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<td></td>
<td></td>
<td>H.H. Dye, sub-Mgr.</td>
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<tr>
<td></td>
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<td>Ye Fengchi, sub-Mgr.</td>
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<td>Yuan Guangxing, Asst. Mgr.</td>
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<tr>
<td>Manufacturing Dept.</td>
<td>Jin Shaonan, Director</td>
<td>Jin Shaonan, Director</td>
</tr>
<tr>
<td></td>
<td>Yuan Hengtong, vice-director</td>
<td>Yuan Hengtong, vice-director</td>
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<tr>
<td>Purchasing Dept.</td>
<td>Zhu Jinshui, Director</td>
<td>Zhu Jinshui, Director</td>
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<td>Liu Mengcheng, vice-director</td>
<td>Liu Mengcheng, vice-director</td>
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<td>Zheng Jingshi, vice-director</td>
</tr>
<tr>
<td>Export Dept.</td>
<td>Yao Junhe, Director</td>
<td>H.H. Dye, Director</td>
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<tr>
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<td>Yuan Guangxing, vice-director</td>
<td>Yuan Guangxing, vice-director</td>
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<td>Zheng Zhongqi, vice-director</td>
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<tr>
<td>Accounting Dept.</td>
<td>Hu Zukun, Director</td>
<td>Hu Zukun, Director</td>
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<td>Fan Yun Zhang, vice-director</td>
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<td>Zhou Zhengchang, vice-director</td>
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<td>Han Fengchun, vice-director</td>
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<tr>
<td>Transportation Dept.</td>
<td>Li Xinggen, Director</td>
<td>Li Xinggen, Director</td>
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<tr>
<td></td>
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<td>Cai mengsong, vice-director</td>
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<td>Luo Zhileng, vice-director</td>
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<td>Cold Storage Dept.</td>
<td>Zhang Xuming, Director</td>
<td>Zhang Xuming, Director</td>
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<td></td>
<td></td>
<td>Jin Shaonan, vice-Director</td>
</tr>
<tr>
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<td>Chen Weiru, vice-Director</td>
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<tr>
<td>Estate Dept.</td>
<td>—</td>
<td>Ye Fengchi, Director</td>
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<tr>
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<td>Zhou Wuming, vice-director</td>
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<tr>
<td>Retail Dept.</td>
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<td>Wang Kejian, Director</td>
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<td>Zhang Zipin, vice-director</td>
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<tr>
<td>General Egg Produce Dept.</td>
<td>—</td>
<td>Tand Dingchen, Director</td>
</tr>
<tr>
<td></td>
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<td>Chen Weiru, vice-director</td>
</tr>
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<td></td>
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<td>Zhang Qiwen, vice-director</td>
</tr>
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</table>

* In 1942, CEPC had three warehouses in Shanghai. Zhang Xuming was Director of Nantao Cold Storage & Warehouse Department. Jin Shaonan was Director of Eastern Warehouse Department. Chen Weiru was Director of Western Warehouse Department.
APPENDIX C

CORRESPONDENCES BETWEEN CEPC AND OEPC, JANUARY- JUNE 1941
<table>
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<th>Received date by CEPC</th>
<th>Letter Content</th>
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<td>3-22-1941</td>
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<td>1-14-1941</td>
<td>3-22-1941</td>
<td>Stock and delivery information and Bank Position</td>
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<td>1-20-1941</td>
<td>3-22-1941</td>
<td>Stock and delivery information and Bank Position</td>
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<td>NA</td>
<td>Complained quality problems</td>
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<td>2-5-1941</td>
<td>5-3-1941</td>
<td>Complained marking problems</td>
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<td>2-10-1941</td>
<td>4-9-1941</td>
<td>Stock and delivery information and Bank Position</td>
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<td>2-17-1941</td>
<td>5-3-1941</td>
<td>Explain the cable misunderstanding</td>
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<td>2-18-1941</td>
<td>NA</td>
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<td>3-11-1941</td>
<td>5-26-1941</td>
<td>Stock and delivery information and Bank Position</td>
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<td>3-13-1941</td>
<td>6-9-1941</td>
<td>Complained the quality problem</td>
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<td>3-17-1941</td>
<td>5-26-1941</td>
<td>Other</td>
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<td>NA</td>
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<td>3-21-1941</td>
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<td>3-21-1941</td>
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<td>Shipment invoice and telling prices</td>
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Sources: Complied according to SMA, Q229-1-171, 1-439.
APPENDIX D

THE STATISTICS OF FOREIGN DIRECT INVESTMENT OF CHINESE MULTINATIONALS
Compared to the densely studied foreign investment in China, there is no official or comprehensive estimate of foreign direct investment of Chinese multinationals before 1949. This may be due to the lack of necessary statistics in different countries and the failure to recognize Chinese multinationals as an important theme in modern Chinese business history. Rather than give a comprehensive estimate (which is impossible at this stage of studies), the following part will generally discuss estimates of Chinese direct investment in respective the U.S., Southeast Asia, Japan and Europe.

The American statistics regarding Chinese direct investment may be comparably most complete due to a series of compilation of foreign investment in the United States in 1930s and 1940s. Generally, Chinese direct investment in the U.S did not seem large. In 1937, the U.S. completed the first thorough compilation of statistics of foreign investments in the United States. Foreign investment in the U.S was mainly undertaken by developed countries such as Britain, Canada, Netherlands, Germany and France. The available estimate of Chinese foreign investments in the United States at the end of 1927 and 1929 were respectively 20 million and 50 million U.S. dollars which only made

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472 These compilations were conveniently put into one volume by Mira Wilkins. See Mira Wilkins, ed., *Foreign Investments in the United States: Department of Commerce and Department of Treasury Estimates* (New York: Arno Press, 1977).


474 Foreign investment is a general name used in the 1937 compilation which included direct investment, common stocks, preferred stocks, bonds and other investments. Direct investment included “all foreign investments in those American corporation or enterprise which are controlled by a person or a small group of persons (corporate or natural) domiciled in a foreign country. This definition bases the classification of the foreign investment on the domicile of the control of the enterprise.” See U. S. Department of Commerce, “Foreign Investment,” 31.
up of 0.6 percent and 1.1 percent of the total. However, there was no specific number of Chinese direct investments in the U.S. in the 1937 compilation, which was generally included under the “rest of world” category.

In 1937, Chinese investment in the United States amounted 58 million US dollars which accounted for 0.8 percent of the total. Considering that the 1937 statistics excluded the American investment from abroad, it was reasonable to conclude that Chinese investment in the U.S. had increased since 1929. It is understandable since many Chinese assets strived to enter a safe place such as the U.S. to escape from domestic economic and political uncertainties in the mid-1930s. In addition, the silver policy of the United States in the mid 1930s resulted in the increase of Chinese investment in the U.S. Chinese interests concentrated more on common and preferred stocks and bonds which arrived respectively at 43 million US dollars and 10 million US dollars. Chinese direct investment arrived at 5 million US dollars which only accounted for 0.26 percent

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475 In fact, the amount of Chinese foreign investment in the United States was not minimal when it was compared against other third world countries rather than developed countries. China’s 1929 amount was equal to that of Japan and even larger than Denmark, Sweden and slightly lower than Italy. However, it should be noted that in the 1937 statistics, residence rather than nationality is the test of foreign ownership which meant that the investors must reside in foreign countries. Hence, it is reasonable to judge that the investment of overseas Chinese in the U.S. was not counted as foreign investment. However, the 1937 statistics could not exclude the investments of United States citizens residing abroad. In addition, Hong Kong and Taiwan should have been counted in the final amount.

476 In addition to Canada, Britain, France, Netherlands, Switzerland, other Europe countries and Latin America, the rest of world accounted 3.9 percent of the total foreign investment in the U.S. in 1934. See U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, “Foreign Investment in the United States,” Washington. D. C., 1937.


of the total foreign direct investment in the U.S.\textsuperscript{479}

Notably, the 1937 statistics for the first time isolated Hong Kong from China. The direct investment of Hong Kong in the U.S amounted to US$436,000. By 1937, the total Japanese investment in the U.S amounted to 48 million US dollars which was roughly equal to that of China. However, 41 million US dollars of the Japanese investment was direct investment. This amount was close to that of many developed countries like France and Germany. It meant that Japanese multinationals were more active in the U.S market in the middle 1930s. Regrettably, it is unclear which Chinese enterprises contributed the 5 million direct investment.\textsuperscript{480}

In the 1941 statistics, Chinese-owned assets in the United States soared to US$356,400,000 which made up 2.7 percent of the total foreign-owned assets regardless of whatever types (direct investments, common stocks or bonds). Among Chinese-owned assets, corporations owned the majority part which amounted to US$283.7 millions while individuals and Chinese government had US$38 million and 27.1 million respectively. Independently, the assets which Hong Kong held in the United States summed up to US$84.3 million.\textsuperscript{481} The majority of Chinese-owned assets were bullion, currency, deposits, and the United States securities which totally summed up to US$292,300,000.

A total of 2815 United States enterprises were controlled by persons in foreign countries by June 14 1941. The foreign direct investment in 1941 was valued at US$2,312,000,000. Chinese controlled forty-seven United States enterprises with a total value


\textsuperscript{480} Actually, the original materials for Department of Commerce to get this number were abolished. So it is quite hard to trace back the names of these Chinese companies from the American side. I am indebted to Professor Mira Wilkins who pointed this to me.

of US$16,700,000. Fourteen Chinese-controlled enterprises were branches and sole proprietorships with a value US$2,400,000. Thirty-three Chinese-controlled enterprises were corporations with a value of US$14,300,000. In terms of industrial distribution, Chinese direct investment was concentrated on public utility and transportation (US$5.2 million), Finance (US$6.2 million) and trade (US$3.8 million). Regrettably, there is no directory left for the 47 Chinese-controlled enterprises.

There are no statistics about Chinese direct investment between 1945 and 1949. It is reasonable to predict a rise of Chinese direct investment in this period. After 1945, the Sino-U.S economic relationship was unprecedentedly strengthened. The U.S. became the sole capable foreign investor in China. Chinese imports from the U.S. averaged over 60 percent of the total between 1946 and 1948. Chinese export to the U.S averaged over 30 percent-40 percent of the total in the same period. There was a general optimistic attitude among Chinese entrepreneurs about investing in the U.S. after the Second World War. Generally, Chinese direct investment in the United States was not large in the

482 The 1941 statistics defined “control” on the basis of the ownership of 25 percent or more of the voting stock of corporations and similar interests in partnerships and other organizations.
483 Less than US$50,000.
485 Wilkins indicated that the insurance and banking industries had relatively complete statistics on the federal level. Between 1913 and 1929, two “Chinese” insurance companies owned branched in the U.S. One was the North China Insurance Co., Shanghai, started in the Untied Kingdom in 1863, then reestablished in China by the same British interests in 1903. It first entered the United States in 1912 to do marine business and fire insurance in 1919. Another one was the Yang-Tsze Insurance Association, Shanghai which was established in 1862 in Shanghai. Both the two companies were headquartered in Shanghai but were controlled by British interest. The Chinese Merchants Bank, Ltd., of Hong Kong opened in New York in 1921, was the first “Chinese Bank” in New York. Lo N. Lau, graduated from Cornell University headed the New York office. Bank of Canton, Ltd, Hong Kong, established its New York agency in 1922 headed by Ginarn Lao who graduated from Lehigh University. See Wilkins, The History of Foreign Investment, 57, 163, 168-172.
486 For the import, following the U.S., Great Britain, India, and Southeast Asian countries were other supplier. The number for the export includes the consideration that nearly one-third of Chinese export to Hong Kong was re-exported to the U.S and Europe such as tung oil, hog bristles, mineral ores, metals, and egg products. Southeast Asian countries was second largest acceptant of Chinese export. See Yu-kwei Cheng, Foreign Trade and Industrial Development of China, 180-182.
Republican era. This is understandable since Chinese was a latecomer of industrialization. Foreign direct investment was an important economic characteristic of Southeast Asia in the twentieth century. The attitudes of colonial governments in Southeast Asia towards foreign investment were quite open and liberal through the nineteenth and early twentieth century. By 1939, according to a Japanese survey, Chinese investment in Southeast Asia amounted to more than US$1 billion: 320 million in Dutch Indonesia, 250 million in British Malaya, 240 million in Thailand, 120 million in French Indochina and 100 million in American Philippines. These amount of investment enabled Chinese to be one of the leading investors in each Southeast Asian countries. Chinese foreign investment was concentrated in commerce which accounted for 45 percent of total Chinese investment in Southeast Asia. Finance and agriculture respectively made up 17 percent and 22 percent, while mining and manufacturing basically made up 16 percent. However, the existing statistics have not distinguished the investment of overseas Chinese (residing in Southeast Asia) from the investment of Chinese enterprises from China.

Up to now, one survey done by Callis in 1942 is virtually the single comprehensive

488 The policies of Dutch government blended economic liberalism with ethical aspiration. The Ethical policy, initiated in 1901, aimed to uplift the life standard of the indigenous peoples. The entry of non-Dutch foreign investors was liberal except certain mining industries. No tariffs or trade restriction applied in Indonesian market until the early 1930s. Britain undertook similar liberal policies in Malaya and Singapore. Britain kept its intervention into the social and economic life of overseas societies to a minimum. The United States, with great openness and optimism, also imposed few restrictions on the investment from other countries in Philippine. Thailand was not colonized by any Western powers. Before 1932, its policy toward foreign investment was also liberal. See Ibid., 61-95.
489 Ibid., 21-22.
490 According to Callis’s calculation, China was the second largest investor in Philippines only behind the U.S, the second in Malaya only behind Britain, the absolute biggest investor in Thailand. See Helmut G. Callis, Foreign Capital in Southeast Asia, Reprint of the 1942 ed. (New York: AMS Press, 1978), 21, 57, 69.
491 George L. Hicks, ed. Overseas Chinese Remittances from Southeast Asia 1910-1940 (Singapore: Select Books, 1993), 199.
estimate of foreign investment in Southeast Asia. Callis’s statistics about Chinese investment in Southeast Asia is rather sparse and incomplete, which could not help us to differentiate these two types of Chinese investments.492 In the Philippines, due to the breakout of the Sino-Japanese war, considerable Chinese capital flew into the Philippines in the late 1930s. Between 1937 and 1939, 50 new Chinese corporations were registered with a capital of 1.5 million pesos surpassed only by the new registrations of American and the Philippines companies. The Bank of Communication, owned by Chinese Nationalist government, established a branch office in Manila in 1939.493 In the Dutch East Indies, Chinese investment was also in the leading place only after Dutch and Britian according to a 1937 statistics.494 The University of Leiden established a database of registered corporate enterprises between 1914 and 1940. The number of Chinese corporate enterprises registered in Dutch East Indies was respectively 521 in 1914, 693 in 1930, and 396 in 1940. They respectively made up 18.7 percent in 1914, 24.6 percent in 1930, and 18.3 percent in 1940 of the total registered corporate enterprises in the Dutch East Indies. It is certain that most of these registered Chinese corporations were established by local overseas Chinese and headquartered in the Dutch East Indies, but there is possibility that some of them were Chinese multinationals.495

492 George L. Hicks also discusses the overseas Chinese investment in Southeast Asia. His studies focus on Chinese investment basically before 1930. He does not distinguish the investment of overseas Chinese (residing in Southeast Asia) from the investment of Chinese enterprises from China. See Ibid., 191-9.
494 Ibid., 34.
495 The Leiden database gives quite much information about each individual enterprise including name of the firm, year of incorporation, types of activities, nominal and paid-up equity, location of headquarters, branches offices and names of directors and local administrators. This paper has not referred to this database. However, this database may be a good starting point for future work about Chinese multinationals in Dutch East Indies. It should be also noted that this database covered 1888 to 1940. In addition, the branches of Chinese multinationals may not be registered as incorporated enterprises in the Dutch East Indies, so Chinese multinationals may be included but not limited to this
In addition to the United States and Southeast Asia, Chinese investment in Japan, Korea and European countries was more difficult to estimate. For the Korean case, in 1882, the Sino-Korea Trade Regulations permitted Chinese trade with Korea, which stimulated the warm of Chinese merchants to do business in Inchon and Seoul. The new oceanic route developed by the China Merchants Steam Navigation Company in 1880s and 1890s stimulated the internationalization of Chinese enterprises.\(^{496}\) The majority of Chinese merchants in Inchon came from Shandong. Some big Shandong shops purchasing British cotton goods in Shanghai for resale to Inchon, like Shuang Sheng Tai and Yu Zeng Xiang, established branches in Inchon.\(^{497}\)

For the Japan case, since Japanese opened its ports in the 1850s, quite a few Chinese merchants from Guangdong and Shandong had entered Kobe, Osaka and Nagasaki. Many of these merchants established their independent shops in Japan and undertook international trade through Chinese commercial networks in East Asia and Southeast Asia. In addition, many of them were sent by their head office in China to establish a branch in Japan for procurement. The latter pattern of business could be considered early Chinese multinationals. These multinationals depended both on formal organizational relationship and informal Chinese overseas networks. For example, Chinese merchants in Kobe and Osaka were quite different in the early twentieth century. The Osaka-based Chinese

\(^{496}\) These new overseas routes included Shanghai to Luzon in the Philippines; Shanghai-Nagasaki-Kobe; Shantou-Singapore (1874); Shanghai-Inchon (1888). Yuan Shikai, the Director-General Resident in Korea of Diplomatic and Commercial Relations, approved the Shanghai-Inchon route at the request of Chinese merchants in Inchon who guaranteed the company 12,000 taels worth of freight annually. The ships of CMSNC went from Shanghai to Inchon every twenty days with a stop in Zhifu (Yantai in Shandong). See Furata kazuko, “Inchon Trade: Japanese and Chinese Merchants and the Shanghai Network,” in Commercial Networks in Modern Asia, S.Sugiym and Linda Grove, eds., 71-72.

\(^{497}\) See “Zhifu (Yantai) Shops with Branches or Business connections in Japan, Korea or Vladivostok”, in Furata Kazuko, “Inchon Trade,” 79-81. Kazuko has not distinguished which shops had branches abroad.
merchants were willing to make anticipatory purchases of Japanese cotton textiles by remittance from their head office in North China, while Kobe-based merchants were more independent and traded on a self-supporting accounting system and on a commission basis.  

Most branches of Chinese enterprises in Korea or Japan were not incorporated and were in small scale. Hence, it is quite hard to compile their direct investment in Korea and Japan. An incomplete statistics in 1931 showed that no Chinese-owned branches in Japan as of January 1931. But it did show that two Chinese-Japanese joint venture with Japanese control existed in Japan by 1931. The two joint ventures were one in wool industry and one in cotton industry. Chinese capital amounted only to 158,000 yens which were 0.4 percent of the total joint venture capital.

For Chinese multinationals and Chinese direct investment in Europe, the information is more fragile. Britain has long been the most important trade partners with China since the Opium War in the 1840s to the early twentieth century. However, until 1963, British government began to systematically compile foreign direct investment in Britain. Before 1963, very few historical statistics about foreign direct investment in Britain existed. Geoffrey Jones should be credited for his compiling a databank which included 125 foreign direct investments in manufacturing in Britain between 1850 and 1940. He has not included sales or marketing branches or financial enterprises in this

500 The overseas Chinese in Britain was not such strong a reason as that in Southeast Asia. The number or the social status of overseas Chinese in Britain seemed lower than that of Chinese in Southeast Asia. See Gregor Benton, “Chinese Transnationalism in Britain: A longer History,” in Identity: Global Studies in Power and Culture, 10:3 (2003), 347-75.
Another statistics constructed by Fletcher and Godley identified 95 foreign companies which invested in British retailing. It is understandable that Chinese enterprise found no place in both these lists. At this very beginning of Chinese multinational studies, we can only propose that the overseas branches of Chinese multinationals may most likely appear as sales or marketing companies or trading companies or banks.

Generally, the statistics about Chinese foreign direct investment is rather incomplete. Since foreign host countries gave us quite fragile information about Chinese direct investment and few details about Chinese multinationals, we have to investigate more case studies of Chinese multinationals from the Chinese side.

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