

**TRADING FOR TEA:
A STUDY OF THE ENGLISH EAST INDIA
COMPANY'S TEA TRADE WITH CHINA AND THE
RELATED FINANCIAL ISSUES, 1760-1833**

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ABSTRACT

The East India Company played a vital role in British commercial expansion and European-Asian economic links in the early modern period, and its business activities covered many regions of the East, including China, the most populous nation on earth. The general structure and development of EIC's Chinese trade had been studied, but, details of the Company's tea trade with China, the most important and profitable branch of the Company's commercial affairs after the late eighteenth century, remain to be explored. In particular, the issue of its management of tea procurement from China remains largely unstudied. This thesis thus examines the EIC's tea trade with China and the related financial issues in 1760-1833, the heyday of the Company's Chinese tea trade.

Because Canton was the only Chinese port open for the international maritime trade after 1760, the Company's trade in China was in effect a trade with Canton. The Canton Commercial System which shaped the Ch'ing Empire's foreign trade policy had another major feature, that is, only a handful of merchants, the Hong merchants, could deal with foreigners. Accordingly, transactions with the Hong merchants in order to procure tea for home demand became one of the Company's priorities in its Canton trade. This research thus investigates in detail the tea transactions between the EIC's supercargoes and the Hong merchants. In particular, the different tea-purchasing methods adopted by the Company are examined. Special attention is also paid to the system of quality control which presents a picture of how the Company developed an efficient system of tea purchases and struck a balance between organising an adequate supply for British consumption and maintaining quality.

While developing an efficient tea-purchasing system, the EIC was also struggling to obtain enough funds to finance its tea trade without the needs to continue shipment of a large amount of silver bullion from Britain. The Company finally succeeded in making use of its increasing bargaining power and adopted a trucking system through which British manufactures were exported to Canton in exchange for tea. Indian sources of revenue and the private intra-Asian trade also played a crucial role in the Company's funding of its enlarged tea trade at Canton. The creation of these different flows of fund and their importance are in turn discussed in this thesis.

This study also examines financial relationships between the EIC and the Hong merchants, and especially the strong position gained by the Company. Moreover, the condition of the EIC China trade after the beginning of the nineteenth century is highlighted because by then the dual-monopoly pattern of the Anglo-Chinese trade was facing a challenge. These different areas of discussion provide a comprehensive study of the Company's tea trade with China after the 1760 which helps us more fully to appreciate the EIC's position in the European-Asian commercial links in the early modern period.

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LIST OF ABBREVIATIONS

Add. MSS:	Additional Manuscripts
BL:	British Library
BPP:	British Parliamentary Papers
CC:	Canton Consultations
CL:	Court Letters
FO:	Foreign Office
FR:	Factory Records
<i>FWIHC</i> :	Fort William – India House Correspondence and Other Contemporary Papers Relating Thereto
IOR:	India Office Records (British Library)
MISC:	Miscellaneous
OIOC:	Oriental and India Office Collections
PRO:	Public Records Office
RPC:	Royal Philippine Company
SC:	Secret Consultations
VOC:	Vereenigde Oost-Indische Compagnie (Dutch United East India Company)

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INTRODUCTION

THE EAST INDIA COMPANY'S TRADING FOR TEA

0.1 Objectives of the Study

For several centuries before mercantilism gave way to a free-trade policy in the nineteenth century, chartered trading companies were a vital factor in the extension of English overseas commerce and acted as an important dynamic of British global expansionism. The English East India Company (hereafter the EIC, or the Company) established in 1600 was one of the most influential of those companies.¹ Having been granted the monopolistic privilege to conduct bilateral trade between England and the East for more than two centuries,² the EIC's position in British commercial expansion and European-Asian economic links in early modern history has long been regarded as being of the greatest importance.

Soon after the EIC was established, the Company made efforts to build trading links with several different areas in the Orient from the African coasts to the Pacific-Asian regions, with the main target being the East Indies where it sought to gain a share of the spice

¹ The 'East India Company' was not the formal and full title of the company, but a shortened and popular name. The full title of the Company, chartered by Queen Elizabeth I in 1600, was 'The Governor and Company of Merchants of London Trading into the East Indies'. The Company's formal title became 'The United Company of Merchants of England Trading to the East Indies' in 1709 after the 1600-founded company merged with another newly-established firm which also received the privilege to trade in the Orient. (The new Company was incorporated in 1698 with a formal title of 'The General Society of Traders to the East Indies' and was generally known as the 'London Company' to distinguish it from the old Company.) For the English chartered trading companies in the early modern period, see P. Griffiths, *A Licence to Trade – the History of English Chartered Companies* (1974); & R. Robert, *Chartered Companies – and Their Role in the Development of Overseas Trade* (1969).

² The EIC received the monopolistic privilege to trade with the East covering the areas between the Cape of Good Hope and the Strait of Magellan. Its monopoly was renewed periodically until its special trading

trade.³ Afterwards, the Company concentrated its commercial activities on the Indian subcontinent as it endeavoured to purchase commodities such as indigo and cotton textiles.⁴ The Company succeeded in building up close commercial links with the Indonesian archipelagoes and South Asia during its earlier years, but a well-organised and regular trade with China, the most populous economy in the Orient, did not occur until the early decades of the eighteenth century.⁵ However, within half a century, trade with the Chinese Empire emerged as the most important element in the EIC's commercial affairs, with the most significant change in the nature of the Company's business being the development of a booming trade in China tea.

When, at the beginning of the seventeenth century, the EIC began to join other European pioneers to conduct trade with the East through the Atlantic Ocean and the Indian seas, tea was not among the commodities that the Company sought to purchase. Indeed, people in the British Isles were not aware of this commodity until it was first introduced in London in the middle of the 17th century. Through re-exportation from the Continental Europe, tea first appeared in some coffee shops in London. Thus, with the rise of tea consumption in Britain, in the late 1660s the EIC started to purchase tea in the East on its own account.

privileges with India and China were removed by the Parliament in 1813 and 1833 respectively.

³ Here, the 'East Indies' indicates today's Indonesian Archipelagoes.

⁴ W. Foster's *England's Quest of Eastern Trade* (1933) provides a brief introduction to the EIC's efforts at building commercial links with eastern economies in the early seventeenth century. For a study of the EIC's early commercial history, see also J. Keay, *The Honourable Company: A History of the English East India Company* (1991); P. Lawson, *The East India Company: A History* (1993).

⁵ The EIC's first long-standing factory in China was established in 1715. A discussion of the origin of the

In the beginning, the EIC's tea trade developed slowly due to the Company's inability to gain access to the ports of China, then the only nation in which tea was produced. The trade later on began to grow substantially when a direct trading link with China was established in the last years of the seventeenth century. In the second decade of the eighteenth century, the Company also established a permanent factory at Canton. These factors enabled the EIC to purchase tea more easily and helped to expand the Company's tea trade considerably; the quantity of tea importation from China surpassed one million pounds in 1721. It continued to grow in the following decades so that the total quantity of Chinese tea imported into Britain by the Company rose to nearly 4,000,000 lbs. in 1755. The trade was even more striking in the second half of the century and in the early nineteenth century. The amount of tea imported had reached twenty million pounds in weight in 1795, and it approached thirty million pounds in the 1820s.⁶ This dramatic rise of the EIC's tea trade with China during the eighteenth century was in response to the changing habits of the British public. The emergence of the habit of tea-drinking in eighteenth-century Britain was so influential that tea became the single most important of the Company's trade products.⁷ The tea trade with China then remained of the greatest significance to the Company's commercial activities until the end of its monopoly in the trading season 1833-1834.

EIC's trade with China can be seen in Chapter Two.

⁶ The figures for the years before 1760 are based on K. N. Chaudhuri, *The Trading World of Asia and the English East India Company 1660-1760* (1978), pp. 386, 538, and for the later period, from the British Parliamentary Papers (hereafter BPP), Accounts and Papers: 1845, Vol. 46, No. 91. The figures from Chaudhuri are total quantities of tea imported into Britain by the EIC, but the figures from the BPP are merely the amount imported by the Company and sold in its season sales which means the total quantity of tea imports would be even bigger.

⁷ The importation of tea reached approximately 6,000,000 lbs. in 1760 and it alone accounted for nearly 40 per cent of the EIC's total imports from the East in the year (Chaudhuri, *The Trading World of Asia*, p. 539).

Despite the importance of the China tea trade in the EIC's business history and in Britain's early modern commercial history, few academic works in English have deeply researched how the East India Company's tea trade with China was conducted. Of course, L. Dermigny's *La China Et L'Occident – Le Commerce A Canton Au XVIII Siecle 1719-1833* (1964) remains the most comprehensive study of the English Company and other contemporary European merchants' trade with China in the eighteenth century and early nineteenth century, but it has only been published in the original French. It may also be pointed out that some earlier studies in English can be found regarding Britain's trade with the Chinese Empire in the EIC's years. For example, J.B. Eames's *The English in China* (1909) discussed in detail the British commercial contact with China and their activities in the empire, covering the years from the early seventeenth century to the nineteenth century. Other works, such as E. H. Pritchard's *Anglo-Chinese Relations during the Seventeenth and Eighteenth Centuries* (1929) and *The Crucial Years of Early Anglo-Chinese Relations, 1750-1800* (1936) examined the commercial development and diplomatic relations between Britain and China in the seventeenth and eighteenth centuries. Then M. Greenberg's important study *British Trade and the Opening of China 1800-42* (1952) focused on the British commercial activities with China in the early nineteenth century. These works provide us with valuable overviews of the political and commercial interaction between Britain and China during the years of the East India Company, but none of them offers a detailed study of the Company's tea trade with China.⁸

⁸⁸ There are some other English works which can be found in the study of Anglo-Chinese commercial intercourse from the beginning of early modern period onwards. For example, C. S. See's *The Foreign Trade of China* (1919), W. E. Soothill's *China and the West* (1925) and A. J. Sargent's *Anglo-Chinese Commerce and Diplomacy* (1907).

The subject of the EIC's tea trade with China has been examined by some studies. In F. P. Robinson's *The Trade of the East India Company: from 1709 to 1813* (1912), there was a brief chapter singling out the EIC's tea trade development with China covering the whole eighteenth-century, but no information was provided concerning how the tea transactions were carried out between the EIC and Chinese merchants. Similarly, although C. N. Parkinson, in *Trade in the Eastern Seas 1793-1813* (1937), gave a brief description of the EIC's Chinese tea trade, he did not examine how the Company carried out their tea procurement in China. Containing much primary information and data relating to the EIC's trade with China from the seventeenth century to the nineteenth century, H. M. Morse's five-volume work *The Chronicles of the East India Company Trading to China 1635-1834* (1926-29) is very valuable indeed. However, it should be pointed out that Morse's work is based on a selection of the EIC's documents, and more importantly, a large percentage of the content was simply copied down from the EIC's own records. Because it did not undertake any analysis of the issues concerning the EIC's management of its tea purchases in China and how the Company dealt financially with the Chinese merchants, Morse's *Chronicles* can be properly regarded as a source book rather than a complete academic study of the subject.

A chapter focusing on the EIC's tea trade is presented in K. N. Chaudhuri's *The Trading World of Asia and The English East India Company 1660-1760* (1978), still the most extensive study of the EIC's commercial history in the earlier period. The work, however, did not cover the years following 1760, a period that was the golden age of the Company's tea trade with China. In addition, although the book described the

development of the Company's tea trade and singled out the main features of the trade in the first half of the eighteenth century, it did not consider in detail how the EIC's tea transactions were actually carried out in China. In his *Rival Empires of Trade in the Orient 1600-1800* (1976), H. Furber extended his studies on the EIC's Asian trade up to the end of the eighteenth century and discussed the tea trade's vital role in the British domination of the European trade with China. But again he offered little explanation of the Company's tea procurement mechanisms.

In recent years many valuable books in English concerning the English East India Company have been published. The majority of these studies, however, either present a general history of the EIC in which the China trade is mentioned very briefly,⁹ or they focus on the Company's economic activities in Indian subcontinent and related British political issues.¹⁰ That British and Indian scholars have paid more attention to the EIC's contact with India is understandable because the Indian subcontinent once played a significant role in the history of the British Empire. In addition, the lack of detailed works on the Company's Chinese tea trade, and especially its management of tea procurement in China, might be linked to the fact that most western academics are unable to make use of Chinese literature and source materials. A few scholars able to consult

⁹ Such as, A. Farrington, *Trading Places – The East India Company And Asia 1600-1834* (2002); J. Keay, *The Honourable Company – A History of The English East India Company* (1991); P. Lawson, *The East India Company – A History* (1993); & A. Wild, *The East India Company – Trade and Conquest from 1600* (1999).

¹⁰ See e.g. H. V. Bowen, *Revenue and Reform – The Indian Problem in British Politics 1757-1773* (1991); P. J. Marshall, *Problems of Empire: Britain and India, 1757-1813* (1968); *East India Fortunes: The British in Bengal in the Eighteenth Century* (1976) & *Trade and Conquest - Studies on the rise of British Dominance in India* (1993); C. H. Philips, *The East India Company 1784-1834* (1940); L. S. Sutherland, *The East India Company in Eighteenth-century Politics* (1952). Even some of the most recent works such as H. V. Bowen, et al (eds.), *The Worlds of the East India Company* (2002); S. Chaudhury & M. Morineau (eds.) *Merchants, Companies and Trade – Europe and Asia in the Early Modern Era* (1999) do not touch

both English and Chinese materials have, in recent years, produced some valuable works in English relating to the Chinese international tea trade and the Anglo-Chinese trade and financial relations in the eighteenth and nineteenth centuries. However, they mainly focus on the development of Sino-British trade in the years after the East India Company withdrew from the Chinese market. Even though the EIC's involvement in China's tea export and the development of Chinese tea industry were discussed in these studies, the issue of the Company's management of its tea procurement from China again remained untouched.¹¹

If a fuller understanding of the EIC's Chinese tea trade is to be gained, it is necessary not only to examine the trade development of the commodity, but also how the tea transactions were conducted. In relation to this point, H-C Mui's and L. H. Mui's invaluable book *The Management of Monopoly – A Study of the East India Company's Conduct of its Tea Trade* (1984) can be regarded as a pioneering work directly linked to the East India Company's conduct of its tea trade. This study not only analyses the quantities and features of different sorts of tea imported into Britain, but also examines how the Company conducted its tea sales and distribution in London. The issue of the supervision of the EIC's Court of Directors over the tea trade with China is also explored. Yet, the study still fails to provide much information on how the EIC managed its tea procurement in China.

the issue of EIC's tea trade with China.

¹¹ For example, R. Gardella, *Fukien's Tea Industry and Trade in Ch'ing and Republican China: The Developmental Consequences of a Traditional Commodity Export* (1976); & *idem.*, *Harvesting Mountains: Fujian and the China Tea Trade, 1757-1937* (1994). See also K. L. Wong, 'Anglo-Chinese Trade and Finance 1854-1914', unpublished Ph.D. thesis, University of Leicester (1976); & G-T. Zhuang, *Tea, Silver, Opium and War: The International Tea Trade and Western Commercial Expansion into China in 1740-1840* (1993).

In order to appreciate more fully the tea trade under the operation of the East India Company, it is necessary to evaluate the Chinese end of the EIC's tea transactions, that is, how its tea purchases and related financial dealings with the Chinese tea providers were carried out in China. K. T. Chen's paper 'Transactions Practices in China's Export Tea Trade, 1760-1833' (1989)¹² is perhaps the first research focused upon the tea exporting practices in China during the Company's years. This study provides some valuable information which covers the tea transactions between the EIC and the Chinese merchants, but it also leaves several essential issues to be explored. These include a detailed description of the Company's tea-purchasing payments mechanism, the tea-quality control criteria and methods, and the financing of its tea investment, as well as the effect of the EIC's monopolistic role in the trade. This present study therefore seeks to examine the EIC's conduct and management of its tea transactions with the Chinese merchants and the related financial issues in the hope that a better understanding can be gained of the structure and development of the East India Company's China tea trade.

Evaluating the English East India Company's commercial dealings provides a means of examining the impact of cross-cultural economic and social contacts between the West and the East in early modern period. It also allows for analysis of English overseas trade development in the Orient in the context of the global extension of British commercial activities. Accordingly, just as research already carried out has gradually brought to light the bilateral interactions between Britain and the economies around the Indian Ocean through the EIC's operation, an exploration of the Company's commercial activities in

¹² This article was presented in the *Second Conference on Modern Chinese Economic History*, held in 1989 in Taipei, Taiwan.

China, in which the tea trade played the central part, between 1760 and 1833, will present us with a clearer view of the later years of the Company's business activities in the East. This will enable us to better understand Anglo-Chinese commercial interactions and effects on both sides during the EIC's era, and enable us more fully to appreciate the Company's role and position in early modern economic history.

0.2 Research Structure and Central Issues

To study the EIC's tea trade with China, it is essential to understand the Euro-Asian, especially the Anglo-Chinese, commercial nature in the early modern period. It should be noted that although the Euro-Asian maritime trade was conducted on a bilateral basis, the transactions were carried out exclusively in the East, for Asian merchants did not operate beyond the Indian Ocean. Commercial links within the long-distance oceanic trade between West Europe and the Orient were thus created by Europeans who came to trade in the East. Accordingly, because the Chinese merchants who provided tea for the Company seldom travelled abroad for business, the EIC's tea procurement took place exclusively in China's sea-ports.¹³

Unlike the trade in the Indian sub-continent and the Indonesian archipelagoes which developed rapidly in the early seventeenth century, the Company initially found it difficult to gain access to any Chinese port to buy tea and other commodities such as raw silk and porcelain. This was mainly caused by uneasy political conditions, which led to

¹³ The Company would occasionally purchase tea in the Indo-China areas to which some Chinese junks brought tea, but the quantity was quite limited.

the Chinese authorities adopting a closed-door policy towards foreigners. The removal of foreign trade embargo only took place in very last years of the seventeenth century after a series of revolts were suppressed and the remaining pro-Ming armies were eradicated by the newly-founded Ch'ing regime who opened the ports of South China to foreigners for trade.

The free access to several ports of southern China as well as the subsequent decades of peace and prosperity in China enabled the EIC to establish direct and stable commercial links with China. However, accompanied by a growth in the British demand for tea, the first half of the eighteenth century also saw an increase in port charges and the imposition of more trade regulations upon the foreign trade the Chinese customs officials. Being unhappy with the increasing trading barriers, and also being desirous of selling more British commodities, such as woollens, in an attempt to provide funds for tea, the Company became eager to gain access to more Chinese ports or even to travel inland for business. This prompted the EIC's Canton Council in the 1750s to send representatives to the Ch'ing Imperial Court seeking to create a better environment for trade. Unexpectedly, the Chinese response to the Company's attempts to extend the trade through direct negotiations with the Ch'ing authorities was the introduction of more restrictive trade regulations.

Gradually shaped by a series of measures towards foreign trade and merchants over decades of the first half of the eighteenth century, an exclusionist foreign trade system,

regarded by western historians as the Canton Commercial System,¹⁴ was finally crystallised and legalised in the late 1750s. There are two main points to be made about this system: firstly, Canton, located at the southern end of mainland China was chosen as the single port for maritime overseas trade, which meant that foreigners were not allowed to trade in any other port. Secondly, all foreign trade was confined to a few licensed merchants – the so-called ‘Hong Merchants’ – who were held responsible for the delivery of port charges and customs duties paid by the foreign traders to the customs mandarins.¹⁵

This new system meant that the EIC in China could only purchase tea at Canton, and through the Hong merchants. The following discussion of the tea trade issues, thus, focuses primarily upon the ways in which the Company dealt with the Canton Hong merchants in order to procure tea. Research into other areas of the EIC’s commercial dealings demonstrates that as its Asian trade expanded, the Company developed an advance contract system to be used in the cotton textile trade and salt industry in its Indian Presidencies.¹⁶ This was to ensure both quantity and quality control in its purchases; and the Company later applied this method to the silk and tea trade with China.

Based on an agreement relating to the time of the tea’s arrival at Canton from the growing areas, as well as the price and quantity, the EIC made contracts with the Hong merchants

¹⁴ See e.g. Greenberg, *British Trade and the Opening of China, 1800-42*; & Wakeman, ‘The Canton Trade and the Opium War’, in K. N. Fairbank (ed.) *Cambridge History of China* (1978), Vol. 10, Part I.

¹⁵ See Chapter One for a detailed discussion of the creation and features of the Canton Commercial System.

¹⁶ See e.g. B. Barui, *The Salt Industry of Bengal: 1757-1800* (1985); K. N. Chaudhuri, *Trade and*

to deliver tea for the ensuing season. In order to ensure that the trade proceeded smoothly, the EIC delivered money to the Hong merchants beforehand, and in turn the Hong merchants advanced money to tea-men who travelled inland to procure tea from tea-growers. In order to gain a clear understanding of this transaction process, this thesis aims to establish the full extent of the network of tea transactions between the EIC, the Hong merchants, tea-men and tea-growers. To appreciate fully the tea trade mechanism between the EIC and the Chinese merchants, the study also attempts to explore some of the following questions. For instance, how did the supercargoes manage to obtain enough tea to fill the orders of the Court of Directors for the home market when the domestic demand for the commodity rose substantially? Also, were the same purchasing methods applied to every sort of tea? Additionally, because a couple of different modes of tea procurement were adopted by the EIC, this study will ask what proportion of tea was procured by each of the different methods? Moreover, how did the Company supercargoes judge the quality of tea, how did they conduct quality control, and were the methods of tea procurement and quality-control efficient? Finally, this thesis will seek to establish whether the EIC used its monopoly to gain advantages while dealing with the Chinese merchants?

Apart from the general efficiency of the purchasing system and method, another area of importance relating to the East India Company's tea trade with China was its financing of the trade. Despite the EIC having created effective methods of tea procurement at Canton and having benefited from being the only authorised tea supplier in Britain, the Company failed to deliver sufficient British products to China to cover the cost of its tea

investment. Consequently, a clear trade imbalance had long existed between Britain and China, with a sizeable balance favour on the Chinese side. The trade deficit had thus to be balanced by the shipment of a considerable amount of silver bullion to China. Greenberg thus observed that 'this lack of effective demand on the part of China brought with it the fundamental problem of the [British] old China trade, its one-sided balance'.¹⁷ For this issue, A. Wild, cited from C. N. Parkinson, also noted, somewhat sarcastically, 'What did it [the East India Company] export from England? Courage. And what did it import from China? Tea.'¹⁸

Because the EIC's trade with China had to be balanced by exports of precious metals from Europe, it is necessary to understand the international payments mechanism in this period. Although Europeans' early attempts failed to open a direct sea route to the Orient through the western directions, the discovery of the New World had a major impact on the European trade with Asia during the following centuries. Because western European nations ran a merchandise trade deficit with the Oriental countries, the Spanish American precious metals which flowed into Europe were, in turn, re-exported to the East in exchange for various oriental products, such as spices, cotton textiles and tea. The European increase in money supply based on the exploitation of American bullion therefore contributed to the development and expansion of European-Asian trade and bilateral commercial interaction. More importantly, by deploying American resources in the trade with the Asian countries, the English East India Company and other European traders drew Europe, America and Asia together into a system of independent economic

¹⁷ M. Greenberg, *British Trade and the Opening of Trade* (1951), p. 5.

¹⁸ C. N. Parkinson, *Trade in the Eastern Seas 1793-1813* (1937). It was cited in A. Wild's *The East India*

relations which paved the way for the emergence of a world economy based upon global commercial networks.

Nevertheless, the continuous outflow of silver bullion exported to the East by the EIC became a political and financial issue of great importance in England. During much of this period mercantilist economic policy aimed at the accumulation of specie, and thus the unfavourable balance of trade which resulted in the net outflow of treasure from England through trade with the Eastern nations incurred serious concern and criticism at home.¹⁹ A fundamental question facing the Company in its trade with China was, therefore, how to finance tea investment without the need to draw out a large amount of treasure from home. In dealing with this, several solutions were considered. In order to generate funds, the Company made efforts to sell more home produce, such as woollens and metals, to China through bargaining with the Hong merchants. Moreover, in order to gain access to the inland and northern Chinese market where woollen goods would be more welcome, the EIC also tried to negotiate with the Chinese authorities in an attempt to change the nation's commercial system by opening northern ports to foreign traders. After the EIC began to obtain territorial and fiscal authority over areas of the Indian subcontinent in later 1750s, the sale of Indian commodities to China also became resources for the Company's purchase of tea. The British Indian Presidencies' direct financial support, i.e. surplus silver shipped to Canton, was also welcomed by the Canton supercargoes. In addition, abundant treasure in the Philippines, which came from Spanish America, regularly figured in the supercargoes' calculations as a potential source

Company – Trade and Conquest from 1600 (1999), p. 34.

¹⁹ For this issue, see e.g. Adam Smith's *Wealth of Nation* (1776), especially Chapter VII: Colonies.

of valuable funds for tea procurement. Finally, another essential source of funds for the purchase of tea emerged from the intra-Asian trade carried out by the so-called ‘country traders’.²⁰ As the country traders’ Indo-Chinese opium trade developed, the revenue accrued from sales created a new and important source of funds for tea trade. To appreciate how the Company managed to finance its China remittance to ensure that the tea trade was conducted smoothly, each of these source of funds will be examined. An overall structure of the funding mechanism and the contribution of different sources of funds will then be presented.

Apart from the evaluation of the funds used to finance the tea purchases, the financial relations between the EIC and the Chinese Hong merchants will also be studied. That many Hong merchants suffered severe financial problems is made clear in the archives of both the British East India Company and the Chinese government.²¹ Because most of the Hong merchants lacked the capital to conduct trade in a large scale, they had to depend heavily on the money advanced to them by the Company. Quite often, they had to face serious extortion from Chinese officials that placed them, at times, under considerable financial pressure. In this situation, the East India Company became the Hong merchants’ creditor and provided them with loans to pay for the fees required by the Chinese government and officials. In this study, the extent to which the Hong merchants’ financial weakness affected the EIC’s China trade will be examined, as will the extent to which the Company made use of its financial advantageous position to increase its bargaining power, thus benefiting its tea trade in Canton.

²⁰ The country traders were those merchants, including other European traders who settled in India, and native Indians and Parsei, who were involved in the trade between India and other Asian areas.

When considering the effect of the EIC's bargaining power over the tea trade, there is also a need to examine the influence of the Company's monopolistic position upon the tea procurement at Canton and its supply for the British public. To deal with the subject, difference on the price and quality of teas provided by the Company tea and those provided by other western traders will firstly be noted. Whether the ways of tea procurement conducted by the EIC differed from other free foreign traders at Canton will also be discussed. In considering this issue, it should be noted that apart from the EIC, the American traders were the other major tea purchasers at Canton in later years. Most importantly, American tea trade with China was conducted on a free-trade basis. Accordingly, a comparison of American tea transactions at Canton with those of the EIC provides a good means of assessing the impact of the Company's monopoly on the tea trade. Indeed, the Americans later became the EIC's major rivals at Canton and their competition in the tea trade drew the Company's purchasing system under threat. This study will, therefore, look at the issues that the Company was facing in the final years of its China trade.

0.3 Source Materials for the Study

In any study of the EIC's commercial links with China, the best source materials are provided by the Company's own documents which are located in the *India Office Records* (hereafter IOR).²² These vast records provide abundant information about the Company's direct contact with China as well as its tea transactions and financial dealings with the

²¹ For a discussion of these issues, see Chapters Four and Five.

²² The India Office Records (IOR) are located in the Oriental and Indian Office Collections which are well preserved in the British Library. For the content of the IOR, see M. Moir, *A General Guide to the Indian*

Hong merchants. The British Parliamentary Papers (hereafter BPP) are another important primary source which contain the official documents recording the Anglo-Chinese commercial relations and trading statistics through the conduct of the East India Company. Largely based on the EIC's records, and with year-by-year information, H. B. Morse's *The Chronicles of the East India Company trading to China 1635-1834* (1926-29) can also be treated as important source books for this study. For the study of European trade with China in the eighteenth century, L. Dermigny's *La Chine Et L'Occident – Le Commerce A Canton Au XVIII Siècle 1719-1833* (1964) cannot be ignored.

Several studies written by the EIC's officers and supercargoes or contemporary British diplomats also repay close examination. For example, P. Auber's *China, an Outline of its Government, Laws and Policy* (1834), J. R. Morrison's *A Chinese Commercial Guide* (1834) and R. M. Martin's *China; Political, Commercial, and Social* (1847) provide information to supplement our understanding of the Ch'ing regime's trading policies and measures towards the EIC, and of the Company's commercial activities in China.²³ J. Phipps's *A Practical Treatise on the China and Eastern Trade* (1835) was another valuable contemporary work examining the Anglo-Chinese trade through the conduct of the EIC. Other works, such as R. Wissett's *A Compendium of the East India Affairs* (1802), W. Milburn's *Oriental Commerce* (1813) and J. Macgregor's *Commercial Statistics* (1844-50, especially Vol. IV and V) all contain useful data regarding the trade between Britain and China and the tea trade.

Office Records (1996).

²³ Auber and Morrison were once the EIC's servants, while Martin was a British consular official in China

A. Dalrymple's series *Oriental Repertory* (1791-97) and S. Ball's works *Observations on the Expediency of Opening a New Port in China* (1817)²⁴ and *An Account of the Cultivation and Manufacture of Tea in China* (1848) as well as R. Fortune's books *Three Years' Wandering in the Northern Provinces of China* (1847) and *A Journey to the Tea Countries of China* (1852) describe in detail the different sorts of tea as well as the tea transactions and transportation from the growing areas to Canton. *The Chinese Repository*, a periodical published in Canton during the 1830s and 1840s, offers information on the last years of the EIC's China trade. Others materials, such as J. Crawford's *Chinese Monopoly Examined* (1830) and R. M. Martin's *The Past and Present State of the Tea trade of England, and the Continents of Europe and America* (1832) and *The Edinburgh Review* have valuable information on the Company's monopoly influence upon the price, quantity and quality of tea purchase at Canton. In examining the British Indian Presidencies' role in the finance of the EIC's trade with China, the Indian Records series *Fort William- India House Correspondence* is an important source. In addition, J. Matheson's *The Present Position and Prospects of the British Trade with China* (1836) studied the development of British trade with China in the early 1830s from the viewpoint of private traders.

In order to appreciate fully the British East India Company's tea trade with China, however, Chinese literature must also be consulted. The Ch'ing publications and official documents provide information on the commercial links between Britain and China and the relations between the EIC and the Hong merchants from the Chinese perspective. For

and later a member of Her Majesty's Legislative Council at Hong Kong.

²⁴ Reprinted in R. Murphey (ed.) *Nineteenth Century China: Five Imperialist Perspectives* (1972).

instance, 清代外交史料 *Ch'ing-tai wai-chiao shih-liao* (Documents on Foreign Affairs of the Ch'ing Dynasty) and 清會典事例 *Ch'ing hui-tien shih-li* (Collected Statutes of the Ch'ing Dynasty with cases and precedents) give us information on the Chinese commercial and foreign policy and the Anglo-Chinese diplomatic relations in the Ch'ing period. 達衷集 *Ta Chung-chi* (Collected Letters and Ordinances)²⁵ and 國朝柔遠記 *Kuo-ch'ao jou-yuan chi* (Records of the Ruling Dynasty's Graciousness to Strangers) also provide us with the Chinese official view towards the EIC and other foreign traders.²⁶ In addition, 粵海關志 *Yueh-hai-kuan Chih* (A Gazetteer of the Kwang-tung Maritime Customs)²⁷ and 史料旬刊 *Shih-liao hsun-kan* (Historical Materials Relation to the Ch'ing Period, published every ten days) record the EIC's activities in Canton and the Chinese governments' involvement in settling the Hong merchants' foreign debts. L. H. Fu's *A Documentary Chronicle of Sino-Western Relations 1644-1820* collects many Ch'ing official documents and publications which cover the imperial edicts relating to the foreign trade regulations.²⁸ Some short letters written in Chinese by the Hong merchants to the EIC's supercargoes in Canton can be found in London's Public Record Office (PRO) and these offer a brief description of the tea transactions from the viewpoint of the Chinese merchants.

There are also some theses that are worth consulting. For instance, A. B. White's thesis 'The Hong Merchants of Canton' (1967) and K. T. Chen's 'The Insolvency of the Chinese

²⁵ The book of 達衷集 (*Ta Chung-chi*) is a collection of Ch'ing official documents, by 許地山 *Hsu Ti-Shan*, regarding the issue of foreign affairs, and these are to be found in the Oxford University Library.

²⁶ Written by 王之春 *Wang Chih-ch'un* (1895).

²⁷ Edited by 樑廷枬 *Liang T'ing-nan* (1839).

²⁸ Compiled, translated and annotated by L. S. Fu, this work is published in English in 1966.

Hong Merchants, 1760-1843' (1990) examined the Hong merchants' financial difficulties and relations with foreigners.²⁹ W. E. Cheong's thesis 'Some aspects of British trade and finance in Canton with special reference to the role of Anglo-Spanish Trade in the eastern seas 1784-1834' (1962) gave us an idea of how the EIC made use of the financial resource of the Philippines to support its China trade.³⁰ F. Bakhala's 'Indian opium and Sino-Indian trade relations 1801-1858' (1958) and D. K. Basu's 'Asian merchants and western trade: a comparative study of Calcutta and Canton 1800-1840' (1975) then studied the opium trade and its importance in the Indian-Chinese trade in the first half of the nineteenth century.³¹ Although K. L. Wong's 'Anglo-Chinese trade and finances 1854-1914' (1976) focuses mainly on the second half of the nineteenth century, the British trade with China in early decades of the century was also examined in this study. R. P. Gardella's 'Fukien's Tea Industry and Trade in Ch'ing and Republican China: The Developmental Consequences of a Traditional Commodity Export' (1976) then studied the development of the Chinese tea industry and exports and its importance in the national economy. Finally, D. Eyles's thesis 'The abolition of the East India Company's monopoly, 1833' (1955) discussed the EIC's final years of commercial activity in China.³²

²⁹ White's 'The Hong Merchants of Canton' is a unpublished thesis of University of Pennsylvania (1967), while Chen's *The Insolvency of the Chinese Hong Merchants 1760-1843*, originally a Ph.D. thesis of University of Yale, was published in 1990 by the Institute of Economics, Academia Sinica in Taipei, Taiwan.

³⁰ Cheong's 'Some aspect of British Trade and Finance in Canton' is an unpublished thesis of University of London (1962).

³¹ Bakhala's 'Indian opium and Sino-Indian trade relations' is a Ph.D. thesis of University of London (1985), while Basu's 'Asian merchants and western trade' is an unpublished Ph.D. thesis of the University of California, Berkeley (1975).

³² Wong's 'Anglo-Chinese trade and finances' is a unpublished thesis of the University of Leicester (1976); while Gardella's 'Fukien Tea Industry and Trade' is a Ph.D. thesis of the University of Washington (1976), with Eyles's 'The abolition of the East India Company's monopoly' being a unpublished Ph.D. thesis of the University of Edinburgh (1955).

0.4 Organisation of the Thesis

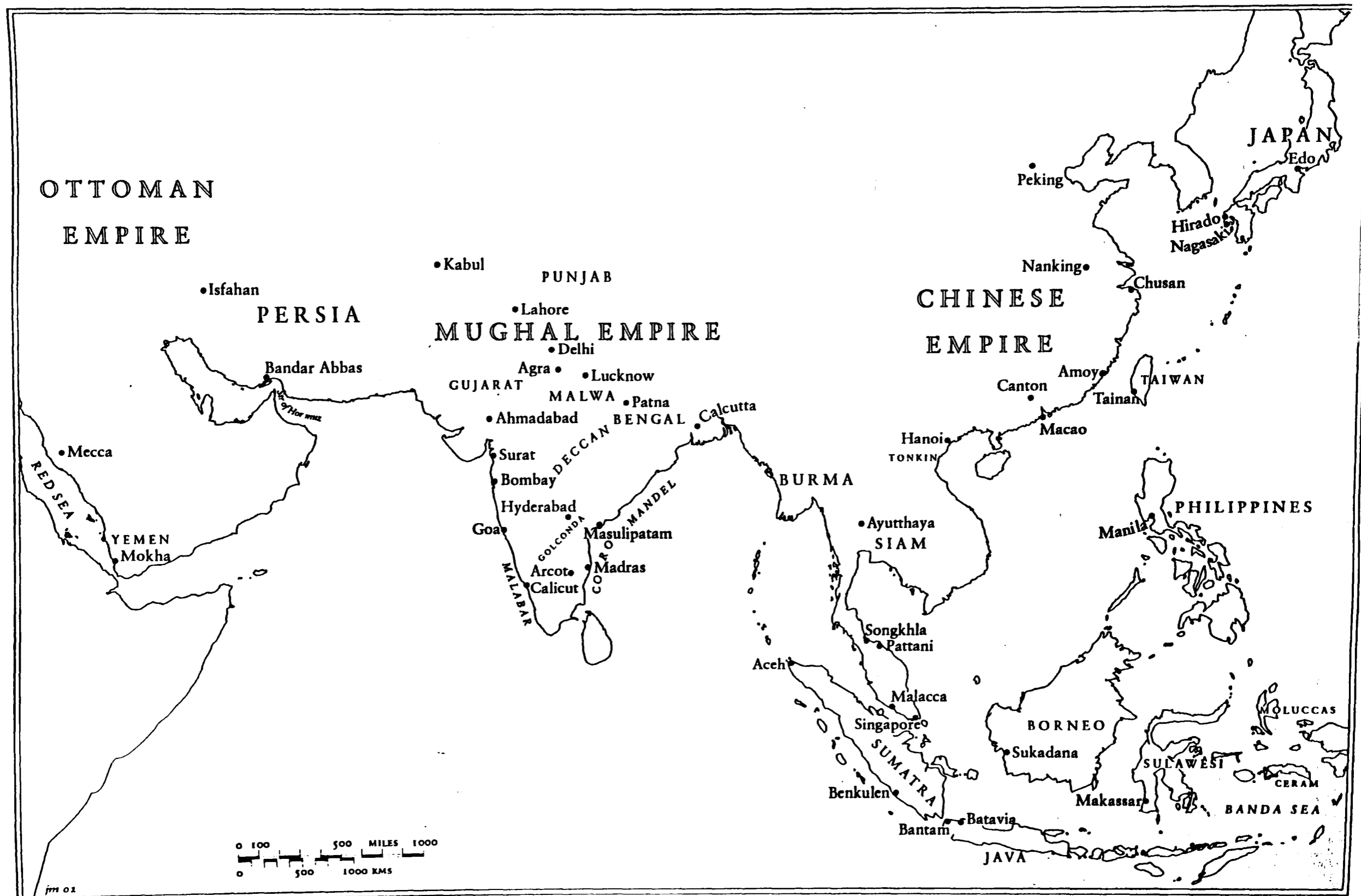
The structure of the thesis is as follows. Chapter One will consider the general nature of the trade between the West and the East, with reference to the development of the EIC's commercial activities in the Orient. Accompanied by a brief discussion of the international payments system of the early modern period, this provides a macro-economic view of the Company's position in the Euro-Asia trade. Subsequently, a brief history of the EIC's commercial links with China will be presented and the Chinese commercial system will be studied. In this section, the so-called 'Canton Commercial System' will be considered, as will its effects on the EIC's activities in China. These discussions will be set against the background of the Company's tea trade with China.

The second chapter will begin to consider the EIC's tea trade with China. Chapter Two first offers an overall view of the development of the EIC's Chinese tea trade and discusses how the British government's policies and measures, such as the Commutation Act of 1784, influenced the trade and British consumer behaviour on tea. Then a network of tea transactions among the different groups of Chinese merchants who were involved in the trade will be presented and this will help to examine the cost and profit of the Company's China tea trade. In Chapter Three and Chapter Four, the EIC's financing of its tea trade with China is explored. It first points out the long-standing problem of Company's merchandise trade imbalance with China. The study then addresses British attempts to create a better trading environment through sending embassies to negotiate with the Chinese Imperial Court. The issue of the East India Company's efforts to sell more British produce in Canton is also examined. Our discussion then focuses on how

the EIC gradually created additional sources of funds in Asia to pay for the expanding tea investment. This will include the extent to which the Company's Indian Presidencies and the country traders as well as the Spanish treasure from Philippines were all involved in the EIC's payment of its tea trade. Finally, an overall structure of the funding system and the contribution of different flows will be produced.

Chapter Five focuses on the EIC's management of its tea procurement at Canton. The Company's methods and procedures of tea purchases from the Chinese Hong merchants will first be analysed. Then the EIC's tea-quality control system will also be examined in detail. Chapter Six is concerned with the financial relationship between the EIC and the Chinese merchants and examines the extent to which the Company benefited in the tea trade from its financial superiority over the Hong merchants. Since the attack on the EIC's China trade monopoly became more intensive after Indian markets were thrown open to British traders, Chapter Seven seeks to study the effects of the EIC's monopoly on the tea trade, in terms of price and quality, and offers an evaluation of whether the EIC's monopoly played a positive or negative role for the British consumer in the Chinese tea trade. The development and problems during the last years of the Company's China trade monopoly will also be examined. Finally the conclusion draws together the discussions and arguments regarding the EIC's tea trade with China and the related financial issues during the period 1760-1833. Thus, this study will enable a better understanding of British trade with China in the eighteenth and early nineteenth centuries and the EIC's role and position in the early modern history of Euro-Asian commercial interaction and financial links.

Map 1 The English East India Company's Trading World of Asia



CHAPTER ONE

THE EAST INDIA COMPANY'S TRADE WITH CHINA: BACKGROUND AND CONTEXT

To study the English EIC's commercial dealings with China, it is necessary first to understand the nature of early modern Euro-Asian maritime trade that provides the context for Anglo-Chinese economic contact. In addition, because the EIC's tea procurement was mainly conducted in China's sea-ports, it is also essential to appreciate the Chinese commercial system as it would shape the Company's tea-purchasing method and system. This chapter discusses briefly the features of Western European maritime trade with Asia in the early modern period. It then presents an overview of the rise of the Anglo-Chinese trade and examines the Chinese foreign trade system which assists analysis of the Company's procurement of tea from China.

1.1 The Nature of Early Modern Euro-Asian Maritime Trade and the Rise of the EIC's China Trade

1.1.1 The Structure and Development of Western European Oriental Commerce during the 16th and 18th Centuries

Until the late fifteenth century, the transcontinental commerce between Europe and Asia was exclusively conducted through either the caravan trade via the overland route through the Central Asia and East Europe or through the maritime trade via the eastern Mediterranean and the Red Sea. A series of European maritime explorations at the end of the fifteenth century resulted in the 'discovery' of the American Continent as well as the

opening of the sea route to the Indian Ocean via the Cape of Good Hope. This discovery created a new chapter in the European trade with Asia.¹ Described by Adam Smith as ‘the two greatest and most important events recorded in the history of mankind’,² the European discovery of the New World and the opening of the sea route via the Cape of Good Hope to link the West with the East were indeed far-reaching. On the one hand, the exploitation of the American continent provided Europeans with abundant precious metals, which in turn helped expand western European trade with other areas, in particular with the East. As one of major patterns in the early modern Euro-Asia trade was that European demand of the Oriental goods was much larger than Asian requirement of western commodities, a considerable bilateral trade imbalance had to be balanced by silver bullion and coins, then the major exchange medium for the international trade.³ The huge influx of silver into Europe from the Spanish American thus played a vital role in the expansion of European maritime trade with Asia in the following centuries.⁴

On the other hand, the Portuguese creation of the sea route to the East via the Cape of Good Hope enabled western Europeans to reach the Eastern seas, in which they could purchase Oriental commodities directly. Importantly, they were thus able to obtain goods

¹ The intention of first maritime explorations was arguably more politics and religion oriented than economic, but a commercial purpose (i.e. the attempts to trade with the East directly) certainly played an important role in their extra-European explorations (P. Musgrave, *The Early Modern European Economy* (1999), pp. 162-3).

² A. Smith, *Wealth of Nations*, Book IV, Chapter of Colonies (1776, reprinted by Penguin Books, 1999), p. 209.

³ For a discussion of the payments mechanism of European trade with Asia in the early modern period, see K. N. Chaudhuri, ‘The Economic and Monetary Problem of European Trade with Asia during the Seventeenth and Eighteenth Centuries’, *The Journal of European Economic History*, Vol. 4, No. 2 (Fall 1975), pp. 323-358; J. Sperling, ‘The International Payments Mechanism in the Seventeenth Century and Eighteenth Centuries’, *Economic History Review*, 2nd series, Vol. XIV, No. 3 (April 1962), pp. 446-468.

⁴ For the importance of American precious metals in the early modern global trade, see A. Attman, *American Bullion in the European World Trade* (1986); W. Barrett, ‘World bullion flows 1450-1800’, in J. D. Tracy (ed.) *The Rise of Merchant Empires* (1990), pp. 224-254; & J. E. Richards (ed.), *Precious Metals*

such as spices and pepper, then leading Oriental items demanded by the Europeans, from the Indian-subcontinent and the East Indies by themselves.⁵ Following these developments, a re-export trade in the Asian spices to the rest of Europe via Lisbon and Antwerp was developed..⁶ The Spanish also successfully created another pattern of cross-continental trade in that a huge amount of American silver was first carried to the Philippines and then Asian goods such as Indian cottons and Chinese silks were shipped back to its American colonies. Although some of these Asian commodities were consumed in America locally, many of them would be in turn shipped back to Europe.⁷ With direct access to the Asian market and the ability to exploit their American colonies, the Spanish and Portuguese quickly developed influential global political and trading empires.⁸ However, during the sixteenth century – the heyday of the two Iberian seaborne empires – European maritime trade in the East was confined to only a few Asian sea-ports. Moreover, trading patterns remained simple, with the major trading articles being limited to a few items such as spices, pepper, cotton and silks. Who really revolutionised European maritime trade with Asia were those northwest European merchants who joined the Oriental trade in the early seventeenth century from when a much deeper commercial link between Europe and Asia was developed.⁹

in the Later Medieval and Early Modern Worlds (1983), Part 3.

⁵ E. R. Wolf, *Europe and the People without the History* (1982), p. 236. Pepper and spices became a necessary commodity for daily life. They were not only used as preservatives for meat and fish, but also became an important seasoning for cooking.

⁶ See H. Van Der Wee, 'Structural changes in European long-distance trade, and particularly in the export trade from south to north, 1350-1750', in J. D. Tracy (ed.) *The Rise of Merchant Empires* (1990), Ch. 1; *idem.*, *The Growth of the Antwerp Market and the European Economy* (1963), particularly Vol. II.

⁷ J. F. TePaske, 'New World Silver, Castile and the Philippines 1590-1800', in Richards (ed.) *Precious Metals in the Later Medieval and Early Modern Worlds*, pp. 425-455; & W. L. Schurz, *The Manila Trade* (1959).

⁸ C. R. Phillips, 'The growth and composition of trade in the Iberian empires, 1450-1750', in J. D. Tracy (ed.) *The Rise of Merchant Empire* (1990), Ch. 2.

⁹ B. Wates, *Europe and the Third World* (1999), p. 65.

The seventeenth century saw a rise in the northwest European nations' participation in the long-distance oceanic trade with the Orient. As their political and military superiority developed, the northwest Europeans gradually pushed the Portuguese aside in the European maritime trade with Asia, although the two Iberian empires retained control over their American colonial commerce.¹⁰ But the northwestern Europeans' triumph over the Portuguese was in part because of the development of the joint stock company which helped the chartered firms, authorised by the state to monopolise Oriental trade, to accumulate unprecedented levels of commercial power and wealth.¹¹ Indeed, unlike the pioneering Portugal, almost all north-west European nations established a monopoly trading company to trade with the East.¹² The English East India Company (EIC), chartered in 1600, and the Dutch United East India Company (known as the VOC), chartered in 1602, were two of the earliest-established trading companies, while the Compagnie des Indes Orientales, their French counterpart, was established in 1664.¹³

Since spices and pepper remained the most important of the Asian commodities purchased by Europeans in the seventeenth century, these newly-founded companies also targeted the two great regions of spice and pepper production – the islands of the

¹⁰ See C. R. Phillips, 'The growth and composition of trade in the Iberian empires, 1450-1750' & N. Steensgaard, 'The growth and composition of the long-distance trade of England and the Dutch Republic before 1750', in J. D. Tracy (ed.) *The Rise of Merchant Empire* (1990), Ch. 3.

¹¹ J. Walvin, *Fruits of Empire – Exotic Produce and British Taste, 1660-1800* (1997), pp. 7, 12-3.

¹² The Portuguese once attempted to abandon the crown monopoly in favour of a company. For example, a Portuguese East India Company was created in 1628. However, due to the poor management and inadequate capital, it foundered in 1633. Another attempt in 1645 also failed (see H. Furber, *Rival Empires of Trade in the Orient 1600-1800* (1976), p. 76).

¹³ The term 'VOC' is derived from its formal company title: the Vereenigde Oost-Indische Compagnie. For the origin of these companies and their development in the East India trade, see L. Blussé & F. Gaastra (eds.) *Companies and Trade* (1981); & Furber, *Rival Empires of Trade in the Orient, 1600-1800*.

Indonesian archipelago and the Indian subcontinent, especially its western coast areas.¹⁴ In consequence, the first half of the seventeenth century saw fierce competition for the spice trade among the chartered trading companies. In particular, there was competition between the EIC and the VOC in the East Indies, the most important area of spice supplies, with the Dutch Company being clearly the victor.¹⁵ An indicator of the Dutch relative commercial strength over the English Company in the East India trade in the period is provided by the number of ships sailing outward to Asia from the Netherlands and England, with 162 for the Dutch and only 64 for the English in the 1640s.¹⁶ There were several reasons for Dutch dominance of the eastern trade. Firstly, although the Dutch merchants had to continually ship precious metals from Europe, they also built up a stable commercial link with Japan, from which Japanese silver was obtained and used to pay for their trade in other Asian areas.¹⁷ Secondly, the VOC had in this period created a well-organised intra-Asian trading network in that its Asian footings supported each other with commodities, which in turn were sold to local natives generating a considerable profit.¹⁸

The path of development taken by the English East India Company's Asian trade in the

¹⁴ K. N. Chaudhuri, *The Trading World of Asia and the East India Company 1660-1760* (1978), p. 43.

¹⁵ See Furber, *Rival Empires of Trade*, Chapter I: Rival for the Spice Trade: The Dutch and the English; & O. Prakash, *European Commercial Enterprise in Pre-Colonial India* (The New Cambridge History of India – II.5) (1998), Chapter Five: Euro-Asian and intra-Asian: the phase of Dutch dominance 1600-1800.

¹⁶ Steensgaard, 'The growth and composition of the long-distance trade', p. 109.

¹⁷ Japan was then the second largest producer of silver in the world. The spectacular growth of the Dutch Japan trade in the period had depended on its access to Chinese silk via its Taiwan establishment. The Japanese demand for Chinese silk was huge and accordingly, the VOC could use silk in exchange for silver and gold. (See Barrett, 'World bullion flows, 1450-1800', in Tracy (ed.) *The Rise of Merchant Empires*, Ch. 7, & J. de Vries & A. V. der Woude, *The First Modern Economy – Success, Failure, and Perseverance of the Dutch Economy, 1500-1815* (1997), p. 434).

¹⁸ Furber, *Rival Empires of Trade*, p. 77. This was done efficiently based on Batavia being the headquarters in the Dutch Asian trade that the goods obtained by its outlying footing from the Indian Ocean to Formosa and Japan were first drawn to Batavia and then redistributed to other Asian ports or shipped back to Europe.

first half of the seventeenth century was different. Although a few footholds, such as Bantam, were established in the East Indies, the EIC failed to get direct access to the major areas of spice supplies, such as the Spices Isles. Because of the Dutch dominance in the areas, and especially after the EIC's failure to capture Banda in 1619 and the Amboyna massacre in 1623, the English gradually shifted their main attention from the East Indies to India where spices were also produced, although its Bantam establishment remained until 1682.¹⁹ The English Company also attempted to build up trade links with the Pacific-Asian nations, such as Japan and China, but the attempts were in vain. Partly because of the hostility of the VOC who had already built a commercial base in Japan and partly because the EIC could not provide the commodities which the Japanese demanded in exchange for silver and gold, the Company's trade with Japan did not develop well. As a result, the operation of its factory at Hirado only lasted for one decade and was closed in 1623.²⁰ In addition, mainly because of political uncertainty in China and the influence of the Portuguese in Macao, the East India Company's attempts to open a trade with China in the early decades of the seventeenth century were also in vain. The EIC's trade with the South Asia was much more successful. Indeed, the Indian sub-continent was one of only a few Asian areas where the EIC successfully built up trading bases in the early seventeenth century.²¹ However, the Company's overall commercial

¹⁹ Amboyna was a port in the Spice Island. For the Amboyna massacre, see e.g. O. Prakash, *European Commercial Enterprise in Pre-Colonial India* (1998), pp. 107, 130; Eames, *The English in China* (1909), p. 12.

²⁰ IOR: G/12/11, pp. 22-3; G. K. Goodman, *The Dutch Impact on Japan* (1967), Ch. II: The Dutch at Hirado. For the EIC's commercial activities with Japan, see also A. Farrington, *The English Factory in Japan 1613-1623* (1991).

²¹ In 1611 the English Company set up a factory at Masulipatam, located at the west coast of India, and one year later another post was established at Surat. Followed by the success on the western coast of India, the EIC's trade with the south (the Coromandel coast) and east coasts of the subcontinent also grew. For instance, a regular trade with Bengal started in early 1630s and by 1639 Madras was acquired from a local Hindu chief and a factory was soon established. See Bassett, 'The Trade and the English East India

and financial situation was a precarious one. During the middle of the seventeenth century, the EIC was on the verge of dissolution and it maintained only three factories in Asia: Surat, Madras and Bantam.²²

The EIC's gloomy future changed in the second half of the seventeenth century. The transformation began with the creation of a joint-stock company in 1657 and this, together with the financial support of Bank of England later on, brought the Company stronger capital resources which laid a foundation for the growth and expansion of its Asian trade in the eighteenth century.²³ Moreover, the state's commercial and maritime policy ensured that Dutch competition was confined by a series of Navigation Acts in the 1650s and 1660s.²⁴ Indeed, the years from the last decades of the seventeenth century onwards saw English trade with Asia grow quickly. In addition to these factors, dramatic increase in the Company's Asian trade in the late seventeenth century and the early eighteenth century can be attributed to its successful operation in India.²⁵ Although the English exclusion from the spice trade of East Indies came into effect after Bantam was lost to the Dutch in 1682, the relative importance of the spice trade in the European trade with Asia in this period was already diminishing. For the EIC, cotton and silk piece goods had gradually been replacing spices as the Company's most important purchases in

Company in the Far East 1625-85', *Journal of the Royal Asiatic Society* (April 1960), p. 39; Wolf, *Europe and the People without History*, p. 240.

²² For details of the development of the EIC's trade in India, see B. Krishna, *Commercial Relations between India and England 1601-1757* (1924).

²³ L. Neal, *The Rise of Financial Capitalism* (1990), p. 118; Furber, *Rival Empires of Trade*, pp. 89, 128.

²⁴ E. Pritchard, *Anglo-Chinese Relations during the Seventeenth and Eighteenth Centuries*, p. 62. The Navigation Acts in 1651, 1660, 1661 and 1663 confined all English trade from East India to Company's ships. They were directed against the Dutch, and aided the English trading units in outstriking its maritime rivals.

²⁵ Furber, *Rival Empires of Trade*, p. 92.

Asia from the middle of the seventeenth century.²⁶ The years after 1660s also saw a gradual geographical shift in favour of southern and eastern India, and settlements on the Coromandel coast developed in response to the growth of the Company's textile trade.²⁷ A modest settlement at Calcutta was also established after 1690 which helped the Company to expand its trade in Bengal.²⁸ With the replacement of Persian silk with Bengal silk, the supplementing of Sumatra with Malabar pepper and, more importantly, the growth of exports of cotton piece goods from Bombay and Madras, the EIC narrowed its gap with the VOC in the East India trade.²⁹

Indeed, the first half of the eighteenth century saw the eclipse of the VOC's supremacy and the growth of the EIC's trade with Asia. These developments were closely related to the rise of British influence in India and the different attitude between the EIC and the VOC towards the intra-Asian trade. The VOC's policy of forbidding private intra-Asian trade by their servants led to the growth of other European private trade in the East, a process assisted by the Dutch Company's servants who could make private fortunes this way.³⁰ By contrast, the EIC permitted its servants to conduct privilege trade between India and other Asian ports on their own accounts and later on it even allowed other private traders to involve themselves in the intra-Asia trade.³¹ This policy increased

²⁶ Chaudhuri, *Trading World of Asia and the East India Company 1660-1760*, pp. 96-7.

²⁷ Chaudhuri, *ibid.*, pp. 50-3, 96-9; & *idem.*, *Trade and Civilisation in the Indian Ocean*, p. 92.

²⁸ Wolf, *Europe and the People without Asia*, pp. 240-1.

²⁹ Furber, *Rival Empires of Trade*, p. 92. Bombay was originally a colony of Portugal. In 1661, the island was ceded to England as a dowry of Catherine Braganza, sister of Portuguese king, to marry English King Charles II. It was however not until 1664 that Bombay formally became an English possession. Soon after that, it was ceded to the EIC and later emerged as one of the most important foothold for the Company in India (Parkash, *European Commercial Enterprise in Pre-Colonial India*, p. 150).

³⁰ Furber, *Rival Empires of Trade*, p. 142.

³¹ For the rise of the English private trade in the Indian Ocean, see I. B. Watson, *Foundation for Empire – English Private Trade in India* (1980).

British commercial power in the East and it, accompanied by the growth of British political and economic influence in India, gradually paved the way for the British to replace the Dutch in the dominance of European maritime trade with Asia. Nevertheless, the story behind the decline of the Dutch supremacy and the rise of British maritime and commercial power in the East is not complete without mention of the rise of tea consumption in Britain and the EIC's obtaining of Indian territory, which hand in hand stimulated the growth of the Company's trade with China.

Apart from Asian textile goods, this period also saw some beverages such as coffee, chocolate and tea being imported from outside Europe, originally as trading speculations.³² From the last decades of the seventeenth century, the tea drinking habit began to spread among the British public gradually which later became a feature of social life in Britain. Indeed, accompanied by the British colonisation of the West Indies where sugarcane was produced, tea from the East and sugar from the New World thus came together to create a new fashion in Britain, that is drinking tea.³³ The rise of tea-drinking habit in Britain in the last years of the seventeenth century also coincided with China's opening its maritime trade to foreigners.³⁴ Being able to get access to the Chinese market to buy silks, porcelains and tea directly, the following decades saw the rapid growth of the European trade with China, and this largely helped to strengthen the fashion for Chinoiserie among the European upper-class circles. This, accompanied by silver having

³² For the origin of the European importation and consumption of Asian beverages such as coffee and tea, see D. Forrest, *Tea for the British – The Social and Economic History of a Famous Trade* (1973); J. W. Wills, 'European Consumption of Asian Production in the Seventeenth and Eighteenth Centuries', in J. Brewer and R. Porter (eds.) *Consumption and the World of Goods* (1993).

³³ Walvin, *Fruits of Empire*, p. 23. For the rise of sugar importation into Britain from its American colonies, see *ibid.*, Ch. 8.

³⁴ China opened its door for Europeans to trade in the mid-1780s. See the next section for a detail.

a relative high value against gold in China when compared to other areas encouraged foreigners to bring silver here in exchange for gold, caused a considerable amount of silver bullion importation into China.³⁵ Indeed, with the increasing demand for Chinese articles by Europeans and the Americans who also joined the China trade after 1780s, the Chinese Empire drew in a huge quantity of precious metals which were originally exploited and produced in Spanish America.³⁶ Based on Dermingy's estimate, Wolf calculated 'the amount of silver flowing into China between 1719 and 1833 at between 306 and 330 million piasters, representing one-fifth of all silver produced in Mexico, and perhaps as much as 20 per cent of all European stocks of silver' in the corresponding period.³⁷

As the largest tea purchaser among the western traders, the EIC without doubt played an important role in delivering the Spanish American silver bullion and coins into China. However, because tea emerged as the single most important item exported from China by the western traders, and also the majority of Chinese tea purchased by the Europeans was consumed in Britain, the growing tea trade created an environment which increasingly

³⁵ The gold-silver exchange rate in the seventeenth and eighteenth centuries was 1: 12.5 to 1:14 in Spain, 1:9 in Goa, compared to 1:5.5 to 1:7 in Canton (Chuan, 'The Import of American Silver into China during the 16th-18th Centuries', p. 24).

³⁶ For the issue, see e.g. H. S. Chuan, 'The Import of American Silver into China during the 16th-18th Centuries', in the *Second Conference on Modern Chinese Economic History* (Taipei, 1989), Vol. I: 23-30; see also his articles written in Chinese, 'The Inflow of American Silver into China from the late Ming to the Mid-Ch'ing Period' (明清間美洲白銀的輸入中國), *The Journal of the Institute of Chinese Studies of the Chinese University of Hong Kong* (中國文化研究所學報), 2 (1) (Hong Kong, 1969); 'A Second Study of the Inflow of American Silver into China from the late Ming to the Mid-Ch'ing Period' (再論明清間美洲白銀的輸入中國), *Essays in Commemoration of the Eighteenth Birthday of Professor Tao His-sheng* (陶希聖先生八秩榮慶論文集) (Taipei, 1979), pp. 164-173; 'A Third Study on the inflow of American Silver into China from the Late Ming to the Mid-Ch'ing Period' (三論明清間美洲白銀的輸入中國), in 全漢昇 Chuan Han-sheng, *中國近代經濟史論叢* (Collected Essays on China's Modern Economic History) (1996), pp. 19-29.

³⁷ Dreaming, *Le Commerce A Canton Au XVIII 1719-1833*, pp. 739-40; & E. R. Wolf, *Europe and the People without History*, p. 255.

favoured the English Company in the European trade with China.³⁸ As will be seen in the next chapter, although heavy taxes were imposed on the importation of tea from which the British governments received a considerable amount of revenue, this measure also encouraged the smuggling of tea into Britain from Europe. The final removal of a heavy duty on tea in the mid-1780 made the illicit trade unprofitable, which in turn paved way for the EIC to dominate European trade with China in the last years of the eighteenth century.

The striking development of the EIC's China trade and the British dominance of European trade with Asia were also closely linked with the Company's involvement in Indian territory and the increasing significance of the intra-Asian country trade in the last decades of the eighteenth century. The increase of British power in India and the expansion of its intra-Asian private trade, as argued by Furber, played an important role in the rise of British commercial power in Asia. Indeed, the phenomenal rise of tea trade in the second half of the eighteenth century coincided with the EIC's expansion of its activities in India. The real growth of the Company's political power took place after the battle of Plassey in 1757. In 1765 the EIC was granted the *diwani* of Bengal by the Mughal Empire, an event which paved the way for the beginning of British rule in India.³⁹ The subsequent success of its military and commercial struggles in India, against local rulers and other western rivals, led to the dominance of the Company's political and economic power in the Indian Ocean among the Europeans.⁴⁰ By using Indian resources

³⁸ Furber, *Rival Empires of Trade*, p. 125.

³⁹ The grant of 'diwani' in Bengal meant that the EIC received right to collect the revenues of the Bengal province.

⁴⁰ For example, Britain's defeat of France in the Seven Years War (1756-63) led to the British dominance of

to finance its China trade in the late eighteenth century, the EIC created an upsurge in both the tea trade and the British intra-Asian trade, with each acting as stimulus for the other.⁴¹

The rise of British power in India and the rapid expansion of the EIC's tea trade with China in the last decades of the eighteenth century came as the maritime and commercial strength of the Dutch and French declined in Asia. A few years after the British established dominance over other Europeans on the Indian subcontinent, the French East India Company was dissolved in 1769. A new French chartered company was later established in 1785, but it only lasted for five years and by 1790 its monopoly right was taken away. Overwhelmed by a huge debt, the VOC was also liquidated and taken over by the Dutch state in 1792, thus ending the Dutch East India Company's long years of influential commercial activities in Asia.⁴² With other great European monopoly companies withdrawing their competition in the 1790s, the 'company era' of Euro-Asian trading pattern which covered the full seventeenth and eighteenth century came to an end.⁴³ By the end of the eighteenth century, after almost two centuries of struggles with its commercial rivals, the British Company was the only remaining great East India Company in the European-Asian maritime trade.⁴⁴ The Euro-Asian maritime commercial world following the last years of the eighteenth century was, thus, defined by a cross-continent oceanic trade between West Europe and Asia which was dominated by the

the Indian subcontinent. For the development of British rule in India, see Marshall, *East Indian Fortunes: The British in Bengal in the Eighteenth Century*; & Furber, *John Company at Work: A Study of European Expansion in India in the Late Eighteenth Century*.

⁴¹ Prakash, *European Commercial Enterprise in Pre-Colonial India*, pp. 286-97.

⁴² *Ibid.*, pp. 79-80.

⁴³ Furber, *Rival Empires of Trade*, p. 183.

⁴⁴ There were still few minor European chartered companies in Asia, but most of them, such as the Danish.

British Company, with the China tea trade being its most important and profitable commercial activity.

1.1.2 Early English Contact with China

The Company's development of the lucrative tea trade with China was, however, a long struggle. Indeed, the Company was never satisfied with the trading environment provided by the Chinese authorities. English attempts to open trade with China, the most populous nation in the East, can be traced back to before the establishment of the East India Company in 1600. In 1596, three English ships set out for China, with a letter from Queen Elizabeth I prepared for the Chinese Emperor, and asking for trade privileges.⁴⁵ But unfortunately this expedition ended in disaster when it encountered a storm, which prevented the ships from reaching the destination.⁴⁶ The EIC's first contact with China was in 1613, when the Company established a footing at Hirado in Japan which served a base for attempts to open trade with the Chinese empire.⁴⁷ Through the Japanese channel, the EIC received some sugar candy, chinaware and raw silk, which had been shipped to Japan by Chinese junks.⁴⁸

Swedish and Prussian Companies, chiefly played their roles like individual British traders.

⁴⁵ Sargent, A.J., *Anglo-Chinese Commerce and Diplomacy* (1907), p.2. For the letter of Queen Elizabeth I to the Chinese Emperor, see R. M. Martin, *China; Political, Commercial, and Social*; (1847), Vol. I, pp. 1-2.

⁴⁶ Eames, J. B., *The English in China* (1900), pp. 7-8; Morse, H. B., *The Chronicles of the East India Company trading to China*, Vol. I (1926), p. 6; Pritchard, E. H., *Anglo-Chinese Relations during the Seventeenth and Eighteenth Centuries* (1929), p. 46.

⁴⁷ Macgregor, J., *Commercial Statistics* (1850), Vol. V, p. 32; Pritchard, E. H., *The Crucial Years of Early Anglo-Chinese Relations 1750-1800* (1936), p. 113; Sargent, *Anglo-Chinese Commerce and Diplomacy*, p. 2.

⁴⁸ Farrington, A., *The English Factory in Japan 1613-1623* (1991), Vol. II, pp. 132-6, 212.

The Japanese factory, however, failed to provide a sound base for the Company's China trade and the English trade in Japan did not develop well, mainly because of the determined hostility of the Dutch who had already built a commercial base in Hirado.⁴⁹ More importantly, because the English Company could not provide the Japanese with commodities such as silk to exchange for silver, the scale of bilateral trade remained very limited.⁵⁰ As a result, only a few years later the EIC decided to abandon Japan as a prospective commercial area and the factory was closed down in 1623.⁵¹ At that point, the EIC supercargoes in Japan had to acknowledge that they had only 'small hopes' of establishing trade with China.⁵²

The withdrawal of the Japanese factory in the third decade of the seventeenth century ended the Company's desire to trade with China through Japan. But during the following decades, several ships were sent to China directly from the EIC's other Asian footholds, especially from India and Indonesia. In 1635, for example, the *London* was sent to Macao from the Company's factory in Surat and in 1644 the *Hind* was also sent to Macao from Surat.⁵³ Unfortunately, these efforts to obtain access to the China trade were in vain, partly due to the hostility of the Portuguese who had already established a stronghold in Macao, and partly due to uneasy political conditions in China.⁵⁴ Then the

⁴⁹ IOR: G/12/11, pp. 22-3.

⁵⁰ Bassett, D. K., 'Trade of the English East India Company, 1623-84', *Journal of The Royal Asiatic Society* (1960); Wolf, *Europe and the People without History* (1997), p. 240. Hirado was the only Japanese port open for foreigners to trade at that time.

⁵¹ Chaudhuri, K. N., *Trade and Civilisation of in the Indian Ocean* (1985), p. 95.

⁵² Farrington, *The English Factory in Japan 1613-1623*, Vol. II, p. 932.

⁵³ Morse, *Chronicles of the East India Company*, Vol. I, pp. 31-2; Pritchard, *The Crucial Years of Early Anglo-Chinese Relations*, p. 113. For details of the ships in the service of the East India Company, see Farrington, A., *Catalogue of East India Company Ships' Journal and Logs 1600-1834* (1999); & Sutton, J., *Lords of the East – the East India Company and its Ships* (1981).

⁵⁴ IOR: G/12/11, pp. 24-26.

EIC's contacts with China ceased for many years in the middle of the century, a period when China suffered serious domestic disturbances resulting from the military conflict between the Ming Regime and the Manchurians from the northeast of China. This struggle for supremacy finally resulted in the overthrow of the Ming Dynasty by the Manchurian invaders who set up the Ch'ing Empire.⁵⁵ Apart from the uneasy political condition of China, the civil wars which took place in England, together with the financial weakness of the Company, also prevented the Company from making any progress on its China trade.⁵⁶

The Company's commercial position was stabilised, however, when new charters were received from Cromwell in 1657 and Charles II in 1661; the re-organisation of the EIC into a joint-stock company also helped to improve its poor financial condition. Under these more favourable circumstances, and with its settlements in India thriving, the EIC's hope of gaining access to trade with China grew again during the third quarter of the seventeenth century. In 1664, the EIC's ship *Surat* was despatched from Bantam to Macao, hoping to open its trade with China, but unfortunately, the Portuguese again threw obstacles in the way of the Company.⁵⁷ Then in the same year, an attempt was made by the Company to prosecute the trade with Canton. However, the EIC ship left the port without conducting any trade because of Portuguese opposition and, more importantly, because the Ch'ing local authority required heavy measureage and

⁵⁵ The Manchurian king was crowned the Chinese emperor in 1644 and from that year, the Ch'ing Dynasty started, but it took the newly-found Ch'ing regime some years to unify and rule over the whole of China.

⁵⁶ Pritchard, *The Crucial Years of Anglo-Chinese Relations*, p. 113; *idem.*, *Anglo-Chinese Relations in the seventeenth and eighteenth centuries*, pp. 53-4, 58.

⁵⁷ Morse, *The Chronicles of East India Company's Trading to China 1600-1833*, Vol. p. 33; See, C. S., *The Foreign Trade of China* (1919), p. 49.

impositions.⁵⁸

Without favourable conditions for the EIC's trade in Macao and Canton, the Company turned its eye to Taiwan, hoping to purchase Chinese produce via the island. When the Ming Dynasty was overthrown and the newly-founded Manchurian Ch'ing regime conquered almost all parts of mainland China, the Ming-loyal pirate-merchant leader *Cheng Cheng-kung* 鄭成功 (better known to western historians as *Koxinga* 國姓爺) managed to take control of the coast areas of Fukien province, such as Amoy, and he later obtained Formosa (i.e. Taiwan) as anti-Ch'ing base, forcing out the Dutch in 1661.⁵⁹ After the death of Koxinga, his son, *Cheng Ching* 鄭經, who succeeded his father as the quasi-king of Formosa, welcomed the opportunity to trade with Europeans from whom arms were provided.⁶⁰ Unsuccessful in its attempts to trade with mainland China, the EIC turned to contact with the Cheng administrations. In 1670 the English ships *Crown* and *Bantam* sailed from Bantam to 'Taiwan',⁶¹ but both ships were lost on the voyage.⁶² In the next year, the vessels *Experiment* and the *Return* set out from England and arrived at the port of 'Taiwan' in 1672 and soon a Company's factory was established there, enabling the ship *Flying Eagle* to be sent from Bantam in 1675.⁶³

⁵⁸ IOR: G/12/11, p. 30, [Year 1664]. The Ch'ing administration took over Canton in 1653.

⁵⁹ The Dutch had colonised the west coast of Taiwan Island for around four decades (1624-1661) before being ousted by Koxinga in 1661.

⁶⁰ 曹永和 Ts'ao Yung-ho, '英國東印度公司與臺灣鄭氏政權' (The English East India Company and the Cheng Regime in Taiwan), 中國海洋發展史論文集 (Collected Essays on the Development of China's Maritime History), Vol. 6, pp. 389-405.

⁶¹ In this period, Europeans called Taiwan *Formosa*; the geographical term 'Taiwan' did not indicate the whole island but the capital of Formosa – nowadays Tainan City, a main city of Taiwan located at the southwest coast of the island.

⁶² Farrington, *Catalogue of East India Company Ships' Journals and Logs 1600-1834*, pp. 45, 141.

⁶³ Bassett, 'Trade of the English East India Company, 1623-84', pp. 150-1; Morse, *The Chronicles of the East India Company*, Vol. I, pp. 41-49; Pritchard, *The Crucial Years*, p. 114; and *idem.*, *Anglo-Chinese Relations*, p. 67.

The EIC also received permission from the Cheng government to trade at Amoy and in late 1670s a factory was established there.⁶⁴ With its easier access to inland China, the trade at Amoy developed well and it was later made the chief station for the EIC's direct trade with the Chinese, and Taiwan was subordinated to it.⁶⁵ In addition to efforts to gain access to the Chinese market through Formosa and Amoy, the EIC also attempted to create an indirect commercial link with China by establishing a presence nearby. In 1672, for instance, a factory was established in Tongking, located at the north of present Vietnam, as a base for an indirect trade with China.⁶⁶

The attempt to create a bridge for the Anglo-Chinese trade through Tongking was, however, not very successful because the Company did not find it a good market for porcelain and silk, and neither did the English goods sell well here.⁶⁷ Moreover, the EIC's trade at Taiwan and Amoy was not only brief, but also failed to offer the Company substantial assistance in extending its China trade. Although the quasi-king of Formosa invited foreign traders, he soon established a monopoly on sugar and hides, two of the island's principal products. Gradually finding it difficult to receive fair treatment over trade, the EIC's Court of Directors finally ordered the factory at Taiwan to be closed down in February 1681.⁶⁸ The position for the factory at Amoy was no better. Although

⁶⁴ According to Macgregor (*Commercial Statistics*, Vol. IV, p. 33), the Amoy factory was set up in 1679, but Pritchard (*The Crucial Years*, p. 114) indicated that it was established in 1676.

⁶⁵ Morse, *The Chronicles of East India Company*, Vol. I, p. 46. For the EIC's commercial activities at Amoy and Taiwan in detail, see Chang, H. J., et. al. (eds.) *The English Factory in Taiwan 1670-1685* (1995, published by the National Taiwan University).

⁶⁶ For the Company's trade at Tongking, see Eames, *The English in China*, pp. 30-40; Morse, *The Chronicles*, I: 36-40; Pritchard, *The Crucial Years*, p. 114 & *Anglo-Chinese Relations*, p. 67.

⁶⁷ Because the development of the EIC's trade with Tongking was unsatisfactory, the factory was finally withdrawn in 1697.

⁶⁸ Eames, *The English in China*, p. 34; Morse, *The Chronicles*, Vol. I, p. 46. For the Company's trade with Taiwan, see also D. Massarella, 'Chinese, Tartars and "Thea" or a Tale of Two Companies: The English

Amoy was on the mainland, most of China was already under the rule of the Manchu regime, later forbidden to trade with Amoy, then still under the control of Cheng Ching. By 1681, the Company's business at Amoy was also suspended due to the conquest of the port by the Manchurians.⁶⁹

The Manchurian conquest of China and the pro-Ming Cheng's establishment of the control of Formosa had different effects upon the English Company and its Dutch rival. In contrast to the English, who traded with the Cheng administration alone, the Dutch had built up a trading link with the Manchu regime. In 1666-67, for instance, a treaty was ratified between the Chinese Ch'ing Empire and Holland which permitted the Dutch to trade at a number of ports of South China.⁷⁰ By contrast, because they feared trade with Ch'ing China would displease the Cheng administration and thus damage its trade in Amoy,⁷¹ the English Company lost the chance to create direct and regular trade relations with China. Thus, it was noted by Morse that 'The English had put their money on the wrong horse, supplying *Koxinga* with arms, while the Dutch had been led by circumstances to support the Manchu Emperor.'⁷²

As the discussion above indicates the Company's attempts at creating a direct commercial link with China or nearby territories was a complete failure in the first three quarters of the seventeenth century. Nevertheless, it should be noted that although the EIC failed to

East India Company and Taiwan in the Late Seventeenth Century', *Journal of the Royal Asiatic Society* (third series), Vol. 3, Part 3 (September 1993).

⁶⁹ See, *The Foreign Trade of China*, p. 50; Pritchard, *Anglo-Chinese Relations*, p. 68.

⁷⁰ Macgregor, *Commercial Statistics*, Vol. V: 2-3.

⁷¹ See, *The Foreign Trade of China*, p. 51.

⁷² Morse, *The Chronicles*, Vol. I, p. 47.

open trade directly with China, the Company in the period was still able to acquire Chinese goods, such as silk, porcelains and tea in the East. Just as the Dutch Company (VOC) often conducted its Chinese trade by an indirect route via Batavia, the EIC purchased Chinese silk, porcelains and tea through Bantam where Chinese traders or other Asian merchants brought Chinese commodities by junks.⁷³ The Company's factory at Bantam thus played a significant position in its seventeenth-century China trade. Although the Dutch had dominated the East Indies trade since the early seventeenth century, the EIC retained its factory at Bantam until 1682, when it was lost to the VOC.⁷⁴ The Company's factory at Bantam had been the Company's most important factory east of India until 1682 because it not only was able to supply substantial quantities of pepper, but it also acted as the headquarters of the EIC's trading activities in the Pacific-Asia region. It was from here that the English activities in Siam, Tongking, Formosa, China and Japan were directed.⁷⁵ Indeed, without Bantam to superintend its Pacific-Asian trade, the EIC's Court ordered the control of the China trade to be transferred to Surat, although 'the arrangement had its inconvenience owing to the distance of Surat from China compared with Bantam.'⁷⁶ Nevertheless, as the above discussion demonstrated, Bassett was right to challenge the many scholars who had argued that after the abandonment of the Hirado factory and the Amboyna Massacre of 1623, the EIC had no base in East India from which to conduct its China trade.⁷⁷

⁷³ Chaudhuri, *Trade and Civilisation in the Indian Ocean*, p. 94.

⁷⁴ In August 1682, there was a dispute between the old king and his son in Java. The English supported the old king, while the Dutch supported the son. After his victory, the young king gave the Dutch a footing at Bantam, while the English factories were driven out. (see, e.g. Macgregor, *Commercial Statistics*, IV: 332).

⁷⁵ Bassett, 'Trade of the English East India Company in the Far East, 1623-84', p. 37.

⁷⁶ IOR: G/12/11, pp. 36-7.

⁷⁷ Bassett, 'Trade of the English East India Company', pp. 36-37. For the arguments that after the abandonment of the Hirado factory and the Amboyna Massacre of 1623, the EIC had no base in East India from which to conduct its China trade, see e.g. Pritchard, *Anglo-Chinese Relations*, p. 50; Robinson, *The*

Map 2 The Geography of Ch'ing China (the areas within the Great Wall)



Source: C. N. Li, *The Political History of China, 1840-1928* (1956)

The EIC's long struggle to establish a direct trade link with China and secure access to the Chinese market entered a new phase after 1684. Immediately after the conclusion of a series of civil wars in south China and the capture of Formosa (in 1783),⁷⁸ the Manchurian Ch'ing government in 1784, through an edict from the emperor Kang-Hsi (康熙), opened a number of ports in south China, such as Canton, Amoy and Ningpo, to all foreign merchants.⁷⁹ No sooner did China decide to reopen trade with foreigners than maritime-customs offices were set up in four southern provinces – Kwang-tung (Canton is the capital), Fu-kien (Amoy is in this province), Che-kiang, and Kiang-su in 1685 (see Map 2).⁸⁰ Shortly after the Ch'ing regime opened its ports for foreign trade, the Company successfully resumed its trade at Amoy.⁸¹

The EIC also tried to build up direct trade links with other ports, especially with Canton, a harbour-city which had played an exclusively important role in Chinese foreign and maritime trade. In fact, before China officially opened Canton to Europeans and set up a

Trade of the East India Company from 1700-1813, pp. 5-6.

⁷⁸ The Manchu regime conquered Taiwan in 1683. From then on, Formosa became a part of the Chinese Ch'ing Empire under the dominion of the Manchu regime, and so it remained until it was ceded to Japan in 1895.

⁷⁹ From 1684 the European merchants were allowed to trade at a number of Chinese ports in Fukien, Chekiang and Kwangtung provinces (see, e.g. Hsü, I C. Y., *The Rise of Modern China* (2000), p. 139).

⁸⁰ It is interesting to note that although maritime-customs offices were historically set up in the four south provinces at that time, no official documents remain to indicate in which areas the customs offices were located. The locations for the customs office thus remain debatable. Some works written in a later time recorded that the maritime customs set up in 1685 were at Macao in Kwang-tung province, Chang-chou Fu in Fu-kien, Ningpo Fu in Che-kiang, and Yun-t'ai-shan in Kiang-su (see, e.g. Fu, *A Documentary Chronicles of Sino-Western Relations, 1664-1820* (1966), p. 61, "Maritime Customs Established in Four Provinces". However, according to Peng's research, they were Guangzhou (i.e. Canton) rather than Macao, Chuan-chou Fu (Amoy under its administration) rather than Chang-chou Fu and Sung-jiang (Sung-kiang) rather than Yun-t'ai-shan in which the maritime customs were set up. (see Peng Tse-I 彭澤益, '清初四樞關地點和貿易量的考察' ('A Study on the Places and Amount of Trade of Four Customs for Monopoly in the Early Ch'ing Dynasty'), 社會科學戰線 (Social Science Front (Quarterly, published in China)), 1984, Vol. 7, No. 3 (27).

⁸¹ Milburn, *Oriental Commerce*, Vol. II, p. 532; See, *The Foreign Trade of China*, p. 50; Wissett, *A Compendium of the East India Affairs*, Vol. II, p. 50.

customs office there in 1685, unsuccessful attempts were made by the EIC in 1673 and 1683 to establish a factory there.⁸² The EIC successfully gained access to trade in Canton after 1685, although the first English factory was actually established by the new East India Company in 1699.⁸³ Because of this successful entry to the China trade, the old East India Company and the new Company carried on a bitter competition for several years.⁸⁴ The fierce competition between them did not come to an end until 1708 when two companies merged, although an agreement for the union was signed in 1702 and in that year one ship was jointly sent to Ningpo and Chusan, both in the Che-kiang Province.⁸⁵

The years after the union of the old and new companies saw a new phase of British trade in China. Firstly, tea gradually grew to be the main commodity demanded by the EIC, although silk products and porcelains remained important. Secondly, although extortion demanded by local officials against foreign traders was prevalent among every Chinese port open for foreign trade, Amoy and Chusan appeared to have made more and irregular exactions upon the traders than did Canton.⁸⁶ Consequently, the Company gradually abandoned its factories in other ports in favour of Canton. The factory at Amoy was closed in 1707 despite its being closer to the tea-growing countries than to other ports, and in 1710 the factory at Chusan was also withdrawn, although the EIC occasionally still sent ships to trade at the two ports during the following decades.⁸⁷

⁸² Pritchard, *The Crucial Years*, p. 114.

⁸³ *Ibid.*

⁸⁴ For the two companies' competition over the China trade, see, for example, Morse, *The Chronicles*, Vol. I, pp. 122-126; Pritchard, *Anglo-Chinese Relations*, p. 77.

⁸⁵ IOR: G/12/11 (1702), p. 44.

⁸⁶ For the issue, see Morse, *The Chronicles*, Vol. I, pp. 132-4; Pritchard, *Anglo-Chinese Relations*, p. 78.

⁸⁷ For example, after the Amoy Factory was closed in 1707, the EIC's ships revisited the port several times,

In contrast, soon after the union of the old and new companies, and especially from 1715 onwards, the United Company sent ships to visit Canton regularly where the Company mainly imported silver bullion in exchange for raw silk, porcelain and tea.⁸⁸ In the meantime, a commercial agreement, concluded between the supercargoes of the EIC and the superintendent of maritime customs (known as the *Hoppo* by foreign traders)⁸⁹ in Canton, gave the Company the right to trade in Canton without any restriction.⁹⁰ The rise in the significance of Canton trade for the EIC was such that the Company later even established a regular council of supercargoes at Canton which laid the basis for the system of English trade at Canton for the following decades.⁹¹

such as in 1714, 1735 and 1744, with a vessel being sent to Ningpo in 1736. For these ventures, see Eames, *The English in China*, pp. 58-9, 70-73; Morse, *The Chronicles*, I: 130-4; Pritchard, *Anglo-Chinese Relations*, p. 79 & *The Crucial Years*, p. 114; See, *The Foreign Trade of China*, pp. 55-57.

⁸⁸ IOR: G/12/11 (1715), p. 51; Chaudhuri, *Trade and Civilisation in the Indian Ocean*, p. 94.

⁸⁹ The term 'Hoppo' was derived from the Ch'ing government's Ministry of 'Hoo-Poo' (戶部) which was responsible for collecting taxes and duties (Wong Po-shang 黃菩生, '清代廣東貿易及其在中國經濟史上之意義' ('The Historical Significance of Kwangtung Trade Under the Ch'ing Dynasty'), 嶺南學報 (Lingnan Journal), Vol. III, No. 3 (May 1934), p. 175).

⁹⁰ The Hoppo agreed to the supercargoes' stipulations and the regulations included a free trade with all Hong merchants without restriction, freedom to purchase all sorts of provisions and necessities for their factory and ships, etc (for the agreement and regulations, see P. Auber, *China, an Outline*, pp. 153-4; Morse, *The International Relations of the Chinese Empire*, pp. 64-5; See, *The Foreign Trade of China*, pp. 52-3).

⁹¹ Furber (*Rival Empires of Trade in the Ocean 1600-1800*, p. 127) & W. E. Cheong (*Hong Merchants of Canton – Chinese Merchants in Sino-Western Trade, 1684-1798* (1997), p. 108) noted that the regular council of the EIC's supercargoes was inaugurated in 1715. But according to J. B. Eames, (*The English in China*, p. 64), a 'Standing Council' of the supercargoes was not formally constituted until 1721.

1.2 The EIC Monopoly and the Canton Commercial System

1.2.1 The origin of the Canton Hong Merchants

With the gradual abandonment of the EIC's other bases in China during the early decades of the eighteenth century, Canton emerged as the chief base for the Company's China trade. Those Chinese merchants at Canton who carried out foreign trade with the East India Company and other European merchants in the eighteenth century and early nineteenth century were always referred to the 'Hong Merchants' in the EIC's documents and other contemporary western literature.⁹² Nevertheless, it should be noted that when China began to open trade to foreigners in the middle of 1680s, there was no single monopolistic group of Chinese merchants in each port dealing with the foreign trade. At that time, however, there existed at Canton some business firms or shops, named "Ya-hang" (牙行) serving as brokers, between inland Chinese businessmen and maritime traders (including Chinese and foreigners).⁹³ When Canton was opened to foreigners, and a maritime-customs office was set up there, the Chinese government ordered these *Ya-hang* to deal with foreign traders and these intermediaries were called "Shih-san-hang" (十三行) which means "Thirteen Hongs", i.e. thirteen firms or thirteen Factories.⁹⁴

⁹² For the EIC's own records, see IOR: G/12 & R/10. For the contemporary works, see e.g. R. Morrison, *A Chinese Commercial Guide* (1834); W. C. Hunter, *"Fan Kwae" at Canton before Treaty Days, 1825-44* (1888) & Auber, *China, an Outline of its Government, Laws, and Policy* (1834).

⁹³ K. T. Chen, *The Insolvency of the Chinese Hong Merchants, 1760-1843* (1990), p.4.

⁹⁴ 張汝霖, 澳門紀略, 上卷 (N. L. Chang, *A Brief Records of Macao* (1751, reprinted in 1800)), Vol. I, p. 163; 梁廷珪 Liang Tin-lang, 粵海關志, (*A Gazetteer of the Kwang-tung Maritime Customs* (1839)), 卷二十五: 行商 (Ch. 25: Hong Merchants), p. 1; 彭澤益 Peng Tse-I, '清代廣東洋行制度的起源' ('The Origin of the Kwangtung Hong-Merchant System in the Ch'ing Dynasty'), 歷史研究 (Historical Studies, published in China), 1957, No. 1), p. 21. The Chinese word '行' (pronounced as 'hang' in Chinese Mandarin) is applied to 'any place of business' (Hunter, *'Fan Kwae' at Canton before Treaty Days 1825-1844*, p. 21) or any business firm or shop. It is pronounced as 'hong' in Cantonese and because Canton was the chief port for the foreign trade in the EIC's years, 'hong' (rather than 'hang') being commonly

In 1686, a year after the Kwang-tung (Canton is the capital of the province) maritime-customs office was set up, the Canton administration divided these broking houses into two group: “yang-huo-hang” (洋貨行) and “chin-ssu-hang” (金絲行).⁹⁵ Those firms which purchased and sold foreign goods were called “yang-huo-hang”, while other shops which dealt with domestic trade (e.g. trade with fellow country merchants from other Chinese ports) belonged to “chin-ssu-hang”.⁹⁶ It should be noted here that the measure which divided merchants’ business into foreign trade and domestic coastal trade, and especially separated a group of merchants to take part in the business of foreign trade and made the foreign trade a professional business, was unprecedented in Chinese business history.⁹⁷

By the early years of the Chinese Emperor *Chien-lung* (乾隆),⁹⁸ there was a group of merchants at Canton called ‘yang-hang’ (洋行) in charge of the business of foreign trade and the other group of traders named “Hai-nan-hang” (海南行) dealt with domestic

pronounced by local Chinese merchants was later used by foreigners to regard the Chinese business firms at Canton. Moreover, “shih-san” (十三) means thirteen. However, the numbers of these ‘ya-hang’ were not certainly thirteen and the reason why the early Chinese documents called them ‘Thirteen Hong’ remain unclear and debatable among Chinese scholars. For the origin of the term “Thirteen Hong” see, e.g. 梁嘉彬 Liang Chia-pin, 廣東十三行考 (A Study of the Kwangtung Thirteen Hong (1937)); 彭澤益 Peng ‘清代廣東洋行制度的起源’ (‘The Origin of the Kwangtung Hong-Merchant System’), and *idem.*, ‘廣州十三行續探’, 歷史研究, 一九八一年第四期 (‘Another Look at the Thirteen Factories in Guangzhou (Canton)’, Historical Studies, 1981 (4)).

⁹⁵ 彭澤益 Peng, ‘清代廣東洋行制度的起源’ (Peng, ‘The Origin of the Kwangtung Hong-Merchant System’), p. 15.

⁹⁶ The word “yang” (洋) in Chinese means oceanic or foreign and “huo” (貨) means commodities; “Yang-huo” (洋貨) thus indicates foreign goods. The term “chin-ssu” (金絲) in Chinese literally means golden silk. However, it commonly referred tobacco leaf during the seventeenth century. It is unclear why those hong at Canton who dealt with domestic trade were called the ‘chin-ssu-hang’ (金絲行) (see Chen, *The Insolvency of the Chinese Hong Merchants*, p. 370).

⁹⁷ 彭澤益, ‘清代廣東洋行制度的起源’ (Peng, ‘The Origin of the Kwangtung Hong-Merchant System’), pp. 15-6.

⁹⁸ *Chien-lung* (乾隆) was the Ch’ing Emperor who ruled China over the years 1736-96.

coastal trade. For example, in the sixteenth year of *Chien-lung* (i.e. 1751) there were twenty *yang-hang* and eight *hai-nan hang* at Canton.⁹⁹ Because these two groups of merchants had almost the same functions of the of ‘yang-huo-hang’ and ‘chin-ssu-hang’. Peng has pointed out that those firms called ‘yang-hang’ were derived from ‘yang-huo-hang’, while those ‘chin-ssu-hang’ was later renamed as ‘Hai-nan-hang’.¹⁰⁰

Despite the titles being changed, the division of the Chinese merchants at Canton into two groups in charge of the business of foreign and domestic trade respectively remained unchanged until 1760. By then, three sub-groups of firms had emerged at Canton to meet the rapid development of its foreign trade. First, nine ‘yang-hang’ received permission from the Canton authority to create a merchant guild with a monopolistic power in charge with the long-distance trade (that is to trade with the Europeans). This group of merchants was called “wai-yang-hang” (外洋行).¹⁰¹ The remaining other hong were limited to dealing with the traders from Indo-China areas, especially Thailand, were called ‘peng-kang-hang’ (本港行).¹⁰² In addition, the original ‘Hai-nan-hangs’ were renamed as ‘Fu-Ch’ao-hang’ (福潮行) and they took charge of the trade with the nearby Chinese coastal areas.¹⁰³

⁹⁹ 梁廷珪, 粵海關志 (Liang, *A Gazetteer of the Kwang-tung Maritime Customs*), Ch. 25: Hong Merchants, p. 11.

¹⁰⁰ Peng, ‘The Origin of the Hong-Merchant System’, pp. 16-7.

¹⁰¹ The word wai (外) in Chinese means ‘outside’ or ‘far away’ and therefore wai-yang (外洋) means ‘high-sea’ or ‘long-distance foreign’.

¹⁰² The word peng (本) means ‘home’ and kang (港) indicates ‘port’ or ‘harbour’.

¹⁰³ Fu (福) indicates the Fu-kien province, and Ch’ao (潮) refers the county Ch’ao-chou (潮州) which is located in the east of Kuang-tung province. The ‘Fu-Ch’ao hang’ (福潮行) thus refer to the business firms dealing with the domestic coastal maritime trade near Canton. For the divisions of Canton’s Hongs into three groups, see, e.g. Chen, *The Insolvency of the Chinese Hong Merchants*, pp. 6-7; 梁廷珪, 粵海關志 (Liang, *A Gazetteer of the Kwang-tung Maritime Customs*), Ch. 25: Hong Merchants, pp. 10-11; 彭澤益, ‘清代廣東洋行制度的起源’ (Peng, ‘The Origin of the Kwangtung Hong-Merchants System’), p. 17.

This structure remained unchanged until 1795 when the so-called ‘peng-kang-hang’ was abolished by the Kwang-tung authorities because some of these hangs were incapable of paying back their debts to Thai merchants. By 1800 the business with the Siamese was also taken over by those *wai-yang-hangs*.¹⁰⁴ Accordingly, it is clear that it was the group of firms called ‘yang-hang’, later named ‘wai-yang-hang’ at Canton, which the EIC and other European merchants came to deal with. Because the yang-hang merchants became the only group of Chinese individuals with whom the Company had contact, a shortened and corrupted name ‘hang merchants’, or more commonly ‘Hong merchants’, was employed by foreign traders. Thus, when ‘Hong Merchants’ are mentioned hereafter, this indicates the Chinese ‘yang-hang’ or later ‘wai-yang-hang’ merchants who had dealings with the EIC.

1.2.2 The Formation of the Security-Merchant System

From the discussion above, it is clear that the so-called Hong merchants were the chief individuals in Canton with whom the EIC and other European traders dealt. In the beginning, foreign traders paid the customs duties and port charges either through the Chinese Hong merchants or directly to the Canton Customs Administration. Later on, however, the Canton authority found out that the duties and charges were frequently overdue or unpaid. Consequently, a security-merchant (保商) system was introduced. First, in 1720 part of the yang-hang merchants, with official patronage, united and

¹⁰⁴ Liang, *ibid.*, pp. 11-4; Peng, *ibid.*, p. 17.

organised a guild, called the Co-Hong by the EIC.¹⁰⁵ Receiving the exclusive right to deal with foreigners, the guild was commissioned to collect the ordinary customs duties for the Canton authority and paid fees and charges for the foreign traders. The guild was dissolved one year later mainly because of protests from foreign traders and other Hong merchants.¹⁰⁶

From 1736, however, the Chinese government began to require all foreign merchants to engage one of the Hong merchants for each ship to stand as security for their prompt payment of the customs duties. Because it compelled foreign traders to do their business with those few Hong merchants who were security for their ships, the foreigners strongly objected. However, despite their objection, the security system continued. It was finally institutionalised in 1740s and then became well established in the early 1750s.¹⁰⁷ In 1745, for example, the Hoppo of Canton was appointed by the Imperial Court to select five hongists from twenty or so Hong merchants as security merchants.¹⁰⁸ In 1754 all Hong merchants were eligible to be security merchants entrusted to the collection of customs duties and responsible for commercial transactions with foreigners.¹⁰⁹ Through such arrangements, the Chinese Ch'ing government could secure the collection of

¹⁰⁵ IOR: G/12/11 (1720), pp. 57-8. The name of *Co-hong* was diverted from the Chinese term Kong-hang (公行), meaning the public hall.

¹⁰⁶ Auber, *China, a Outline*, p. 155; I. C. Y. Hsü, *The Rise of Modern China* (2000), p. 145; Morse, *The International Relations of the Chinese Empire* (1910), p. 65.

¹⁰⁷ Cheong, *Mandarins and Merchants: Jardine Matheson & Co., a China agency of the early nineteenth century* (1979), p. 16; Chen, *The Insolvency of the Chinese Hong Merchants*, p. 8; Morse, *The Chronicles*, I: 260; Pritchard, *The Crucial Years*, p. 116.

¹⁰⁸ Pritchard, *Anglo-Chinese Relations*, p. 82; Wakeman, 'The Canton trade and the Opium War', in Fairbank (ed.) *The Cambridge History of China, Vol. Ten: Late Ch'ing 1800-1911*, Part I, pp. 163-4.

¹⁰⁹ Hsu, *The Rise of Modern China*, p. 145; 梁嘉彬 Liang Chia-pin, 廣東十三行考 (Liang, *A Study of the Kwangtung Thirteen Hongs*), Part II, pp. 98, 127.

revenues with the minimum of difficulty.¹¹⁰ Later, several other edicts were also issued by the Chinese Government to consolidate the security merchant system. These decrees declared that first, every time when a foreign ship arrived, and before it entered the port of Canton, a Hong merchant qualified to be the security merchant had to be chosen by foreign merchants to be responsible for their customs duties. Second, these Hongist Securities were also responsible for any crimes committed by the foreign merchants, including supercargoes, officers and sailors.¹¹¹

This period not only saw the gradual increase of regulation on trade with foreigners, but it also coincided with the growth of other impositions and restrictions on foreign trade and merchants. For instance, in 1703, a new levy, in addition to the ordinary customs duties, was imposed at Canton in the form of a three per cent *ad valorem* charge on the value of sales and purchases. It was increased to four per cent in the next year and was then raised again to six per cent shortly after 1718. As mentioned earlier, there were many irregular and heavy impositions and difficulties levied on the trade in Amoy and Chusan which finally obliged the EIC to forsake these ports. However, the following decades also saw the gradual increase of impositions on trade in Canton, and in 1727 the EIC remonstrated against the growing burden.¹¹² In spite of this protest, an additional duty of ten per cent *ad valorem* was laid on all exported goods in 1728.¹¹³ By way of a protest against this new surtax and other impositions, the Company again presented a petition to the Canton

¹¹⁰ Chen, *The Insolvency*, p. 8; Morse, *The Chronicles*, I: 247, V: 100.

¹¹¹ IOR: R/10/FR/4, 9 July 1755, pp. 26-9; see also Morse, *The Chronicles*, V: 36-44; Pritchard, *Anglo-Chinese Relations during the Seventeenth and Eighteenth Century*, p. 116 and the same author, *The Crucial Years*, p. 126.

¹¹² IOR: G/12/11 (1727), p. 67.

¹¹³ *Ibid.*, p. 69, Year 1728.

customs administration demanding that the EIC's supercargoes should have the liberty to buy and sell with whom they pleased, and that no exactions and new impositions should be laid on both the Chinese merchants and the Company.¹¹⁴ Despite the Company's petition, however, the additional duty of ten per cent on all the produce sold to the foreigners remained effective and it was only abolished in 1736 as an act of grace on the accession of the new emperor *Chien-lung*.¹¹⁵

Even so, the EIC's efforts to remove the measurement fees imposed on the entry of a ship to Canton proved in vain. Only one year later, in 1737, a charge of 1950 taels was imposed on each ship.¹¹⁶ The following decades also saw several extortions emerging, and port charges and customs duties were increased.¹¹⁷ Consequently, through these arrangements, the foreign trade system of Canton became a machine for raising revenue.¹¹⁸ In response, the EIC's supercargoes constantly remonstrated against the charges.¹¹⁹ In the early 1750s the Company presented petitions, through the Hong merchants, to the Hoppo at Canton including a request for the abolition of the security system and a request that British merchants should get free access to high officials.¹²⁰ These protests, however, were all ineffectual. Consequently, by the middle of 1750s,

¹¹⁴ IOR: G/12/27, 16 June 1728, pp. 10-12.

¹¹⁵ Auber, *China, an Outline*, p. 162; Morse, *The International Relations*, p. 66.

¹¹⁶ IOR: G/12/11 (1737), p. 81. Payments in Ch'ing China were made, not by counting of coins, but by weight. The standard of value was the *tael*, an amount of silver equivalent to six shillings and eight pence of English money (6s. 8d.) or £1/3 (Gill, *Merchants and Mariners of the 18th Century*, p. 37). For the discussion of Chinese currency in the Ch'ing Dynasty, see, e.g. Morse, 'Currency in China', *Journal of the North China Branch of the Royal Asiatic Society* (1908), pp. 1-60; F. King, *Money and Monetary Policy in China 1845-1895* (1965); and for the rates of exchanges between the Chinese currency and other currencies, see, e.g. Morrison, *A Chinese Commercial Guide* & Milburn, *Oriental Commerce*, Vol. II.

¹¹⁷ IOR: G/12/11, p. 91, Year 1747.

¹¹⁸ Pritchard, *The Crucial Years*, pp. 133-7.

¹¹⁹ Auber, *China, an Outline*, pp. 162-174; Morse, *The Chronicles*, Vol. V, pp. 9-10 & *The International Relations*, p. 66; IOR: G/12/11, p. 94, Year 1752.

¹²⁰ Morse, *The Chronicles of the East India Company*, V: 9-10; Pritchard, *The Crucial Years*, p. 123.

after long years of struggle and efforts to change the existing trading environment at Canton, the EIC realised that other attempts had to be made if they wanted to develop their China trade further. The two most promising plans considered by the Company's supercargoes in Canton were, firstly, to search for and open a second port for trade, especially a port in which tea and silk were easily provided. Secondly, if the first plan proved to be ineffective, they would appeal directly to the Emperor and the Court in Peking, asking to change the existing foreign trade barriers at Canton.¹²¹ As a result, several missions, led mainly by James Flint, were undertaken in the late 1750s.

1.2.3 James Flint and the Creation of the Canton System

The EIC's new efforts to change their trading condition began in 1755 when the *Earl of Holderness* was sent to Ningpo. Led by Samuel Harrison and James Flint, the venture successfully re-established and opened the Company's trade in the Che-kiang province, an area through which it was easier to get access to tea and silk countries than it was from Canton.¹²² With a successful re-opening of trade at the port of Che-kiang, the EIC's Canton Council planned to concentrate all their silk purchases in Ningpo during the next two seasons.¹²³ These years also saw a dramatic reduction in the number of EIC's ships anchoring at Canton, from 27 in 1754 to only 7 in 1757.¹²⁴ The reduction in the number

¹²¹ E. L. Farmer, 'James Flint versus the Canton Interest (1755-1760)', *Paper on China*, Vol. 17, December 1963, pp. 38-66.

¹²² Morse, *The Chronicles*, Vol. V, pp. 26-27. Mr. Harrison was agent of the Company at Canton and James Flint was an EIC servant who also served as an interpreter.

¹²³ Farmer, 'James Flint versus the Canton Interest', p. 45; Morse, *The Chronicles*, Vol. V, pp. 26-7.

¹²⁴ The number of the EIC's ships which called at Canton was 27 in 1754 and it reduced to 22 in 1755, 15 in 1756 and only 7 in 1757. For detail, see A. Farrington, *Catalogue of East India Company Ships' Journals and Logs 1600-1834* (1999); see also Sutton, *Lords of the East: The East India Company and its Ships* (1981), pp. 162-68; & Morse, *The Chronicles*, Vol. I, pp. 307-13, Vol. II, pp. 436-51.

of the EIC's ships calling at Canton was mainly caused by the outbreak of the Seven Years' War in Europe, but naturally it caused great concern to the local authorities in Canton. Because of the fear that the EIC's trade with China would be diverted towards the northern ports, thus undermining the interests of the Canton administration, especially its revenues, the Canton customs office in 1757 petitioned the Imperial Court to double the customs duties at Ningpo.¹²⁵ Consequently, a high rate of the customs duties was soon imposed, together with other regulations, at the port of Ningpo.

The petition received a quick and positive response from the Court, which might be attributed to a bribe of 2,000 taels given to the high-ranking officers in Peking by Canton officials.¹²⁶ However, it was certainly in connection with the issue of the 'Canton interest'.¹²⁷ When tea and raw silk were exported from Canton, they first had to be carried overland from the producing regions to Canton which, with many inland revenue customs on the way, always produced a considerable revenue for both the local Government and the Imperial Court. By contrast, if the tea and silk trade were switched to Ningpo, the Central Government was worried that their customs revenue would be substantially reduced.¹²⁸ Accordingly, in order to prevent the Company and other European merchants from trading at those ports in Che-kiang province, the Imperial Court ordered that all European ships entering either port of the province should deliver up all their arms, guns, ammunition and sails, and more importantly, pay double duties

¹²⁵ 王之春 Wang Chih-ch'un 國朝柔遠記 *Kuo-ch'ao jou-yuan chi* (Records of the Ruling Dynasty's Graciousness to Strangers), 卷 (Ch.) 5, f. 8.

¹²⁶ Farmer, 'James Flint versus the Canton Interest', p. 47.

¹²⁷ *Ibid.*, p. 39.

¹²⁸ IOR: R/10/Factory Records/4 (hereafter R/10/FR/4), 23 July, 1757, pp. 10-1.

both on imports and exports.¹²⁹ Similar measures were also imposed at the ports in other provinces, such as Amoy, which indirectly discouraged the EIC from trading at any Chinese port other than Canton.¹³⁰ By the end of 1757, after Flint's second visit to Ningpo, the Chinese Government even issued a decree that all Europeans should not be allowed to trade with the port.¹³¹

To test the new ruling, the Company ship *Success*, again led by James Flint, was sent from Canton to Ningpo in the middle of 1759.¹³² However, this proved a failure because the Che-kiang administration insisted that European trade was not allowed, and Flint was ordered to leave the port and return immediately to Canton.¹³³ Unable to trade in Che-kiang, Flint headed from Ningpo directly to Tientsin (a major port-city in north China as the front-door of the capital), in the hope that he would change the foreign trade system through direct contact with the Chinese Court.¹³⁴ After bribing of local officials with money and gifts, Flint succeeded in presenting a petition to the Governor-General of Chih-li, *Fan Guan-cheng* (方觀承), complaining about the irregular and heavy extortion imposed upon foreigners in Canton.¹³⁵ Through the Chih-li 'Tsongtoc' (i.e. Governor-General), Flint's petition finally reached the Imperial Court in Peking. Then the Emperor ordered the Governor-General of the Kwang-tung and Kwang-si Provinces, *Li Shih-yao* (李士堯), to provide him with detailed information and also conducted an investigation

¹²⁹ *Ibid.*, p. 11; Eames, *The English in China*, p. 86; Morse, *The Chronicles*, Vol. V, p. 54.

¹³⁰ IOR: G/12/11 (1757), pp. 99-100.

¹³¹ 史料旬刊 *Shih-liao hsun-kan* (Historical Materials Relating to the Ch'ing Period), f. 115 (天一一百十五).

¹³² Pritchard, *The Crucial Years*, p. 130.

¹³³ 史料旬刊 *Shih-liao hsun-kan* (Historical Materials Relating to the Ch'ing Period), No. 6, f. 198 & No. 24, f. 306; Farmer, 'James Flint versus the Canton Interest', p. 50.

¹³⁴ For Flint's expedition, see Hsu, *The Rise of Modern China*, p. 142; Morse, *The Chronicles*, I: 307; Pritchard, *The Crucial Years*, pp. 128-9.

concerning the issues of the Canton customs office's impositions and the Hong merchants' debts to foreigners. The result was that the Hoppo of Canton *Li Yung-piao* (李永標) was held responsible for these troubles, and consequently, he was removed from his post.¹³⁶

Flint's petition to the Ch'ing Imperial Court resulted in the Canton Hoppo being punished, but the developments that followed did not bring the EIC a favourable trading environment. Not only did the EIC's expectation of a better trading environment at Canton fail to materialise, but the regulation of foreign trade in Canton became even worse, with a series of imperial edicts being enacted which established a rigid system of foreign trade and placed restrictions upon foreigners. These included a new decree issued on 7 November 1759 prohibiting trade at any other Chinese ports, and this made Canton the only port open for foreign trade.¹³⁷ Historians thus regard foreigners' maritime trade with China between 1759 and 1842 as the Canton trade period.¹³⁸ Indeed, new regulations and restrictions, including the confinement of foreign trade to Canton, meant that the Flint mission was a failure. Moreover, the Chinese government decided to

¹³⁵ For a summary of the Flint's Petition, see Farmer, 'James Flint versus the Canton Interest', p. 53 & Pritchard, *The Crucial Years*, p. 130.

¹³⁶ For these issues, see 史料旬刊 *Shih-liao-hsün-k'an* (Historical materials published every ten days), No. 4, pp. 114-5; 許地山 Hsü Ti-shan 達衷集 *Ta Chung-chi* (Collected Letters and Ordinances), pp. 127-9; 王之春 Wang Chih-ch'un 國朝柔遠記 *Kuo-ch'ao jou-yuan chi* (Records of the Ruling Dynasty's Graciousness to Strangers), 卷 (Ch.) 5, f. 17.

Farmer, 'James Flint versus the Canton interest', pp. 53-5.

¹³⁷ For these edicts, see Fu, *A Documentary Chronicle of Sino-Western Relations*, pp. 215, 219 & 222; Hsu, *The Rise of Modern China*, p. 142. There were two exceptions to the rule that foreign traders had to resort only to Canton. The Portuguese were not allowed to trade elsewhere except Macao, while no other foreigners were legally permitted by the Chinese to trade at Macao. Amoy, a much more substantial port giving access to the tea-growing province of Fu-kien, was opened to Spanish trade only although they seldom visited the port (see Greenberg, *British Trade and the Opening of China*, pp. 46-7).

¹³⁸ E. g. Chang Te-ch'ang 張德昌, '清代鴉片戰爭前之中西沿海通商' ('Maritime Trade between China and the West before the Opium War in the Ch'ing Dynasty'), 清華學報 (*Ch'ing-hua Journal*), 10 (1), 1935,

punish him because he had revisited Ningpo in 1759 and this was regarded as defiance of the Emperor's edict stipulating that no Europeans were allowed to trade at the port. This resulted in his being detained near Macao for three years soon after he returned to Canton. The punishment also stipulated that on his release, Flint was banished from China.¹³⁹

Flint's punishment was heavy, but the explanation given in the EIC records that this was because of his visiting Ningpo without permission might not be the full story. The issue of Flint's violation of the Chinese Imperial Court's order that foreigners were not allowed to trade in Ningpo can be traced in several Ch'ing official documents.¹⁴⁰ But Flint's venture to Tientsin was also highlighted in Chinese officials' memorials and reports, and this was certainly a major reason for the Chinese government's imposing new rules towards foreigners. For example, in his report to the Court written in 1759, Li Shih-yao (李士堯), then the Governor-General of Kwang-tung and Kwang-si Provinces, pointed out Flint's 'evil intention' of sailing to Tientsin, in order to obtain trading privilege from the Chinese authority through revelations about the corruption in the Canton customs office.¹⁴¹ The historian Edwards also argued that a stricter commercial attitude towards foreigners was because Flint's petition to the Imperial Court violated a fundamental rule

p. 96.

¹³⁹ IOR: G/12/11 (1759), p. 106; R/10/FR/4, 29 December 1759, pp. 171-2; 史料旬刊 *Shih-liao hsun-kan*, No. 24, p. 307; 王之春 Wang Chih-ch'un 國朝柔遠記 *Kuo-ch'ao jou-yuan chi*, Ch. 5, ff. 17, 21; & Edwards, 'The Old Canton System of Foreign Trade', in Li (ed.) *Law and Politics in China's Foreign Trade*; See, *The Foreign Trade of China*, p. 58.

¹⁴⁰ See e.g. 史料旬刊 *Shih-liao hsun-kan* (Historical Materials Relation to the Ch'ing Period, published every ten days), No. 3, p. 91 (天); No. 6, p. 198 (天). In Chinese documents, James Flint was called Hung Jen-hui (洪任輝) or Hung Jen (洪任).

¹⁴¹ 史料旬刊 *Shih-liao hsun-kan*, No. 24, p. 307, a memorial in reply to the Court by Li Shi-yao written in 1759.

of traditional Chinese foreign relations which prohibited foreigners' having direct contact with the Emperor and high-ranking officials.¹⁴² This argument is reasonable because punishments were also imposed upon the Chinese who translated Flint's petition from English into Chinese.¹⁴³ Soon after Flint was detained, the translator was beheaded.¹⁴⁴ Edwards' argument thus helps us explain why Flint had to be punished.

After the Flint missions, the Chinese government issued more edicts concerning the behaviour of foreigners at Canton. They stipulated that foreign trade had to be conducted through the Hong merchants and that the transactions between the Chinese merchants and the foreigners should be confined to the areas surrounding the foreigners' factories.¹⁴⁵ Moreover, during the trading season, foreign merchants could only live in their factories and they were not allowed to go beyond designated areas. After the trading season, foreigners were not allowed to stay in Canton, they had either to sail home or go to Macao and remain there until next season began.¹⁴⁶ Therefore, the Flint mission not only failed to achieve its objective to create a favour trading environment, but, by contrast, resulted in a stricter restriction being imposed upon the British commercial activities in China.¹⁴⁷

¹⁴² Edwards, 'The Old Canton System of Foreign Trade', p. 361.

¹⁴³ The translator was 'Lin Huai' (林懷) (Farmer, 'James Flint versus the Canton Interest', p. 55).

¹⁴⁴ IOR: G/12/11, p. 106, Year 1759; R/10/FR/4, 29 December 1759, pp. 171-2.

¹⁴⁵ All the foreigners' factories were gathered side by side at a certain small area at Canton near the Hong merchants' 'Thirteen Hongs'.

¹⁴⁶ There were some other rules e.g. that prohibited foreign women and firearms from entering Canton, and Chinese merchants were not allowed to go into debt to foreigners. For these rules in detail, see IOR: R/10/FR/4, April 12, 1760, pp. 11-17. See also Fu, *A Documentary Chronicle*, pp. 224-6; Hsu, *The Rise of Modern China*, pp. 150-1; Morse, *The international Relations of China*, pp. 69-71.

¹⁴⁷ Chen Dong-lin 陳東林 & Li Dan-hui 李丹慧, '乾隆限令廣州一口通商政策及英商洪任輝事件述論' ('A Discussion on the Emperor Qian Long's (Ch'ien-lung's) Policy of the Opening of Trading Port, Guangzhou (Canton), to Foreign Traders and the Incident of British Trader James Flint (Hong Renhui)'), *歷史檔案* (Historical Archives), No. 1, 1987, p. 98.

The Flint missions indicated that the Company mistakenly believed that the unreasonable impositions imposed on them in Canton would be removed, and that a better trading environment could be provided if the case was made known to the Chinese emperor. The result that a stricter trade restriction was imposed also revealed the incompatibility of the EIC and the Chinese central government's attitudes towards foreign trade.¹⁴⁸ For the Company, the creation of a favourable trading environment in China was one of its priorities. However, what the Chinese government was really concerned about was nothing to do with the development of its foreign trade, but the protection of its empire from foreign penetration and the assurance that a considerable revenue could be collected without much trouble. In this way, Canton, geographically situated in extreme southern corner of the empire, with a long history in carrying out on trade with foreigners, was chosen to be the single port opened for foreign merchants.

It was, therefore, the Ch'ing Imperial Court's need to ensure the least trouble from foreigners, and the Canton authority's fear that the valuable revenue from foreign trade would be destroyed, that led to the confinement of foreign trade to Canton, as well as other restrictions being imposed.¹⁴⁹ The imposition of those new trade regulations and restrictions finally led to the establishment of what is known as the 'Canton Commercial System' in western literature.¹⁵⁰ However, the creation of the Canton System was only completed in 1760 through the formation of a merchant guild called "kung-hang" (公行),

¹⁴⁸ Farmer, 'James Flint versus the Canton Interest', pp. 38-9.

¹⁴⁹ Pritchard, *The Crucial Years*, pp. 128-9.

¹⁵⁰ There was no Chinese official documents in Ch'ing period describing the foreign trade system in the eighteenth century as the 'Canton Commercial System'. This term was invented and used in later western academic works (e.g. Greenberg, *British Trade and the Opening of China 1800-42*) to indicate the Chinese commercial system adopted after 1750s making Canton the single port open for the foreign merchants to

which is referred to in the EIC's own records and other western literature as "Co-hong" or 'Cong-hong'.¹⁵¹ As only the Hong merchants were allowed to deal with foreign traders, they thought it proper to combine themselves into an association which could give them stronger bargaining power with foreigners. Supported by the Hoppo and the Governor-General in Canton, a Co-hong was consequently established in August 1760.¹⁵² Thereafter, only members of the Co-hong had authority to trade with foreigners and the guild also virtually identified the Hongists as the security merchants. Accordingly, because the creation of the merchant guild served to regulate and consolidate its monopoly, the formation of the Co-hong signified the permanent establishment of the Hongist-security system.¹⁵³

Although some of the trade regulations were later changed, the Canton Commercial System retained approximately the same features for nearly a century; indeed it extended into the period after the EIC's trading privilege with China was ended in 1834.¹⁵⁴ As a result, the backcloth of Anglo-Chinese commercial relations in the years 1760-1833 was provided by overlapping features of Britain's mercantilist system and China's

carry out their maritime trade with China. See also Edwards, *The Old Canton System of Foreign Trade* (1977), p. 363.

¹⁵¹ *Kung* in Chinese Mandarin means 'official' or 'public' and it is pronounced as *Co* or *Cong* in local dialects. The term 'Kung hang' or 'Co-hong' (or Cong-hong) thus indicates a business guild.

¹⁵² As mentioned earlier, at the end of 1720 the Hong merchants united themselves into a corporate body which formed a guild to provide a joint bargaining power and set their own prices on the goods against foreign traders, although it was only short-lived which only last for one year. It is thus indicated in several western works that the formation of an association in 1760 was in fact the second Co-hong made by the Hong merchants (see, e.g. Morse, *The Gilds of China*, pp. 6-7; Pritchard, *The Crucial Years*, p. 116). It should also be noted that despite being named "Co-hong" by western scholars, Peng Tse-I 彭澤益, ('清代廣東洋行制度的起源' ('The Origin of the Kwangtung Hong-Merchant System'), p. 17) argued that no Chinese documents called the 1720's one 'Co-hong' as the western works did (e.g. Auber, *China, an Outline*, p. 155; Morse, *The International Relations*, p. 65).

¹⁵³ Chen, *The Insolvency of Chinese Hong Merchants*, pp. 1 & 11.

¹⁵⁴ The system was abolished only until 1842 by the Nanking Treaty accrued from the so-called 'Opium War' between Britain and China.

exclusionist policy.¹⁵⁵ Accordingly, E. H. Pritchard described this as “a dual monopoly”,¹⁵⁶ represented on the Chinese side by the group of Hong merchants and by the East India Company on the British side, with Canton being the single port in which the tea trade was conducted.

1.2.4 The EIC's Trading Structure and Administration at Canton after 1760

One of the central features of the Canton Commercial System was the confinement of foreign trade to Canton itself. However, when a Company ship arrived in China, it did not sail straight into the port of Canton, but was first anchored at Macao. On reaching Macao, a Chinese pilot was taken on board to guide the ship up to Canton and a ‘chop’ was granted to the vessel, as a permit to trade in China.¹⁵⁷ Then when the ship arrived off the islands of Bocca Tigris (The Bogue),¹⁵⁸ it was boarded by a Chinese officer ‘for the purpose of examining the chop’. Two customs-house officials were also sent on board to check the ships and to prevent smuggling, and they remained with the vessel until they reached Whampoa, where the port of Canton was located (see Map 3).¹⁵⁹

¹⁵⁵ Cheong, ‘Canton and Manila in the Eighteenth Century’, in *Studies in the Social History of China and South-East Asia* (1970), pp. 227-8.

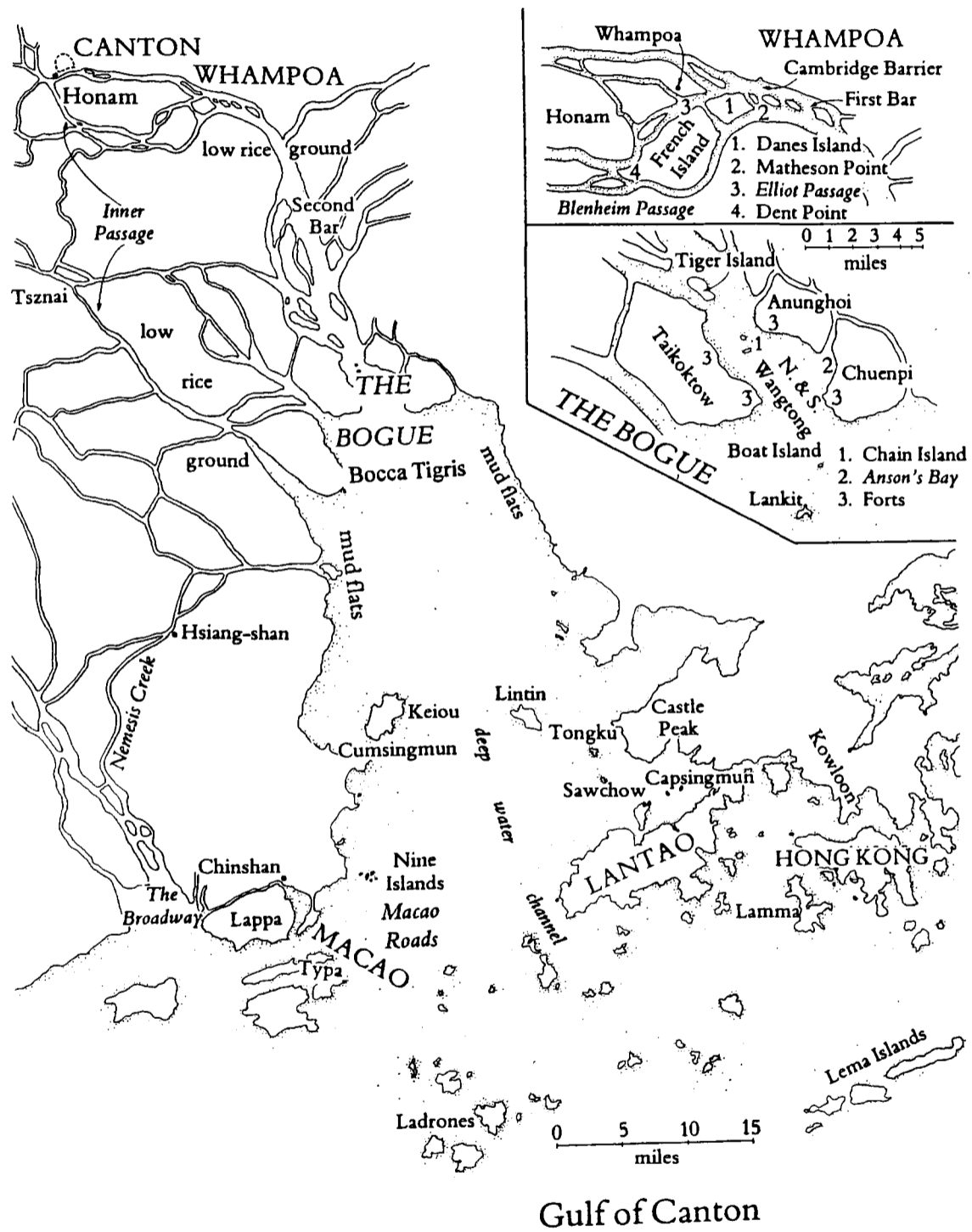
¹⁵⁶ Pritchard, *The Crucial Years*, p. 139.

¹⁵⁷ The ‘chop’ was a licence or a permit, issued by Chinese officials, to allow the vessel to sail up to Canton to trade.

¹⁵⁸ Bocca Tigris (The Bogue) is located midway between Macao and Canton. Chinese soldiers were garrisoned here. ‘Bogue’ is a corruption of the Portuguese word *bocca*, meaning ‘mouth’. Bocca Tigris thus means ‘a tiger’s mouth’. See W. C. Hunter, *The ‘Fan Kwae’ at Canton: Before Treaty Days 1825-1844* (1888), p. 12.

¹⁵⁹ IOR: G/12/12, Memoir of the East India Company’s Intercourse with China 1518-1832, Part II, p. 435; C. Gill, *Merchants and Mariners of the 18th Century* (1961), pp. 29-30. Whampoa is located at the suburb

Map 3 The Gulf of Canton (The Pearl River Estuary)



Source: P. W. Fay, *The Opium War, 1840-1842* (1975)

When the EIC ship arrived at Canton harbour, it was first measured by the Canton Hoppo officials who decided the port charge to be imposed, based on the ship's size. Then the Company had to select a Hong merchant to act as security. No business was allowed until these procedures were completed. In order to start business immediately, the EIC's commercial ships always followed the Chinese rules. If any foreign warships came to Canton, they were required to anchor alongside Lintin Island.¹⁶⁰ But if they decided to sail up to Whampoa, they would be treated as commercial ships and they also had to be measured by the Canton customs officials.¹⁶¹ Any violation of the regulation would result in the Chinese government's threatening to stop trade. In April 1765, for example, the British warship H.M.S *Argo* arrived at Whampoa from Calcutta with ten lakhs of rupees on board as payments for tea contracts. However, because the captain refused to allow his ship to be measured, the Canton authorities ordered trade with the British Company to be stopped. Later, the Canton Council wrote to the captain indicating that the tea trade would be seriously affected because of his actions and it was only in July after the Captain allowed the *Argo* to be measured that the EIC's trade in Canton was resumed.¹⁶²

After their ships were measured, the EIC supercargoes had to choose a Hong merchant to secure each vessel. Each of the Hong merchants, in theory, had the privilege to trade with the EIC and other European traders, but not all of them became security Hongists. As indicated in Table 1.1, for example, in 1760 there were ten Hong merchants were in

of Canton (south of Canton) where big vessels anchored.

¹⁶⁰ Lintin Island is a small island at the Gulf of Canton not far from Macao and Hong Kong (see Map 3).

¹⁶¹ Pritchard, *The Crucial Years*, p. 220.

¹⁶² *Ibid.*, pp. 220-1; Morse, *The Chronicles*, Vol. V, p. 128-9.

business and only three of them acted as security merchants. In 1785, five out of ten merchants became Hongist securities.

Table 1.1 The numbers of the Hong merchants at Canton, 1760-1833 and of those who secured English ships, shown in ()

Year	Numbers	Year	Numbers	Year	Numbers	Year	Numbers
1760	10 (3)	1779	8 (5)	1798	9 (8)	1817	11 (11)
1761	10 (3)	1780	8 (5)	1799	8 (8)	1818	11 (11)
1762	10 (n.a.)	1781	6 (n.a.)	1800	8 (8)	1819	11 (11)
1763	10 (n.a.)	1782	10 (4)	1801	8 (8)	1820	11 (11)
1764	10 (4)	1783	10 (7)	1802	10 (8)	1821	11 (9)
1765	10 (n.a.)	1784	11 (7)	1803	10 (8)	1822	11 (9)
1766	10 (n.a.)	1785	10 (5)	1804	12 (9)	1823	11 (10)
1767	10 (n.a.)	1786	9 (8)	1805	11 (9)	1824	10 (10)
1768	10 (4)	1787	8 (8)	1806	11 (9)	1825	10 (9)
1769	10 (n.a.)	1788	8 (8)	1807	12 (10)	1826	9 (9)
1770	10 (n.a.)	1789	7 (7)	1808	13 (10)	1827	9 (8)
1771	10 (n.a.)	1790	7 (6)	1809	13 (9)	1828	8 (7)
1772	9 (8)	1791	7 (5)	1810	12 (7)	1829	7 (6)
1773	9 (6)	1792	12 (6)	1811	10 (7)	1830	13 (10)
1774	9 (3)	1793	9 (n.a.)	1812	10 (9)	1831	10 (10)
1775	9 (5)	1794	9 (7)	1813	10 (10)	1832	12 (9)
1776	8 (6)	1795	10 (9)	1814	10 (10)	1833	12 (11)
1777	8 (6)	1796	9 (9)	1815	11 (11)		
1778	9 (5)	1797	9 (9)	1816	11 (11)		

Sources: Chen, *The Insolvency of the Chinese Hong Merchants* (1990), pp. 13-17; Cheong, *Mandarins and Merchants: Jardine Matheson & Co., a China agency of the early nineteenth century* (1979), p. 26; 彭澤益 Peng Tse-I, '清代廣東洋行制度的起源' ('The Origin of the Kwangtung Hong-Merchant System in the Ch'ing Period') (1957), p 21.

Of some importance here is the question of who had the qualifications necessary to become a security merchant. It can be noted that those who became security merchants had to be appointed by the Canton authorities, although no specific qualification was stipulated in any Chinese government orders. The only criterion for the nomination of security merchants to be found in Chinese documents is that they should be 'honest, just,

diligent and financially sound'.¹⁶³ Whether being 'honest, just and diligent' were decisive factors for being chosen as a security merchant is a matter for debate. But because they were particularly responsible for foreign traders paying customs and other duties to the government, only those who had a sound financial condition and were relatively wealthy could be security merchants. Accordingly, Cheong describes those security-Hongists as 'capital merchants' and refers to the security-merchant system as the 'capital merchants system'.¹⁶⁴ Nevertheless, in later years when a much higher number of EIC vessels visited Canton, it became too difficult for only a tiny number of senior merchants to secure all the Company ships. Consequently, most of the Canton Hong merchants were appointed to be securities for the foreign ships, and they took the job in rotation.¹⁶⁵

After the security merchant was chosen and the port charges were paid, trade could commence. The EIC's business season at Canton started in around July or August when its first ships rode the summer monsoon towards Canton and arrived at the port via the South China Sea. Other vessels might visit Canton in September and October, but they seldom came after November because the changing direction of the monsoon made it difficult for them to sail to Canton from the south. After conducting transactions with the Chinese Hong merchants and loading tea, silk and other commodities, the captains of the Company's ships then applied for permission to depart. The homeward voyage would generally begin in December or January because the vessels could be carried south by the

¹⁶³ 梁廷珪, 粵海關志, 卷二十五: 行商 (Liang, *A Gazetteer of the Kwang-tung Maritime Customs*), Ch. 25, pp. 2, 17 & Chen, *The Insolvency of the Chinese Hong Merchants*, p. 10.

¹⁶⁴ See Cheong, *The Hong Merchants of Canton*, especially in Chapter Two.

¹⁶⁵ IOR: G/12/12, p. 435.

winter monsoon. The EIC's business activity at Canton might continue after February, but seldom went beyond March, for the changing direction of the wind prevented any further southward sailing during the spring and summer time.¹⁶⁶

After the departure of EIC's ships and supercargoes, the Company's trading season in China ended. In the early years, supercargoes left Canton after the EIC's ships had departed. But later the length of time which the supercargoes stayed in Canton became slightly longer in each season as the Company began to conduct the co-called 'winter contracts' or winter purchases of tea and raw silk.¹⁶⁷ When the amount of tea required in Britain increased considerably during the last decades of the eighteenth century, the supercargoes remained behind to conduct contract negotiations for the ensuing season. Thus the supercargoes might continue to stay in Canton until March or April (or even May if necessary) as they conducted tea contracts for the coming season. Afterwards, they went to Macao and stayed there until the EIC's vessels visited Canton again. When the supercargoes left, the Company was obliged to leave their treasure in Canton in the care of senior Hong merchants.¹⁶⁸

In order to respond to the changing environment of its China trade, the East India Company also adjusted and changed its trading administration at Canton. In earlier

¹⁶⁶ See Gardella, R. P. *Fukien's Tea Industry and Trade in Ch'ing and Republic China: The Developmental Consequences of a Traditional Commodity Export* (1976), pp. 73-74; Parkinson, C. N. *Trade in the Eastern Seas 1793-1813* (1937), p. 90; Sasaki, M. (佐佐木正哉) (ed.) 鴉片戰爭前中英交涉文書 (The Documents of the Sino-British Negotiation prior to the Opium War) (1967), p. 87.

¹⁶⁷ At the end of the trading season, the EIC supercargoes would conduct contracts or purchases of tea and silk to be delivered or loaded in the ensuing season. Because the sorts of purchases or business contracts was conducted at the end of the season, *i.e.* in winter time, they were thus called 'winter purchases' or 'winter contracts'. See Chapter Three and Chapter Five for details.

¹⁶⁸ Milburn, *Oriental Commerce*, Vol. II, Chapter XXXVIII: China, p. 469.

times, when the EIC vessels arrived at Chinese ports, each of them had made contact individually with the Chinese merchants. In addition, the Company employed different supercargoes for their different ships without any mutual connexion. As Milburn noted, sometimes there were five supercargoes in the same mission for two ships, and sometimes three supercargoes for one ship.¹⁶⁹ Indeed, China was the only case in which European companies did not establish permanent factories to deal with their trade, but left it to be conducted by individual supercargoes when they arrived in Chinese ports.¹⁷⁰ However, in the late 1715 after a commercial agreement was signed between the EIC and the Canton authorities, the Company set up a permanent factory in Canton and the EIC decided to make changes in its dealings with the *Yang-hang* merchants.

From then on, supercargoes in the Company's vessels which arrived in Canton at the same time dealt together with the Chinese merchants. Under the new system a standing council was formed and one of the supercargoes was designated as the chief to organise the whole trade, although all orders and decisions were to be signed by all supercargoes.¹⁷¹ This system remained unchanged until the 1750s when the new security-merchant system persuaded the EIC that a structural change in its administration at Canton had become necessary. In 1758, the EIC appointed all supercargoes to form a single Council to manage all of the Company's Canton trade together. This was established in order to strengthen their bargaining power and prevent foreign trade being

¹⁶⁹ *Ibid.*

¹⁷⁰ Gill, *Merchants and Mariners of the 18th Century*, p. 32; A. M. Carlos & S. Nicholas, "'Giants of an Earlier Capitalism': The Chartered Trading Companies as Modern Multinationals", *Business History Review*, Vol. 62, No.3 (Autumn 1988), p. 411.

¹⁷¹ Cheong, *Hong Merchants of Canton*, p. 108; & Morse, H. B., 'The Supercargo in the China Trade about the Year 1700', *The English Historical Review*, Vol. XXXVI (1921), p. 207.

dominated by few security Hongists.¹⁷² By 1770, when the EIC's conduct of winter purchases at Canton had become common, the Court of Directors in London decided that the supercargoes should reside in China on a permanent basis.¹⁷³ However, because they were not allowed to remain in Canton during the off-trading season, they occasionally stayed in Macao to complete their winter tea transactions and also to prepare for the ensuing season's business.

By the late 1770s when many of the Hong merchants were in financial difficulties, the EIC adopted several measures to cope with the problem, these included a change in its administrative structure in Canton. In order to create an efficient administration to cope with the issue of Hong merchants' insolvency, the Company in 1778 established a Select Committee to consist of three members (who were also supercargoes), of whom one of them was denominated the President.¹⁷⁴ The Select Committee was, however, abolished in 1781 after the Hong merchants' foreign debts were settled through arrangements with the Chinese government. Meanwhile, the original system of a general Council was restored.¹⁷⁵ In order more efficiently to handle the expansion of the tea trade that took place after the passage of the Commutation Act, the Company decided in 1785 to re-establish a Select Committee; it was later expanded to consist of a president and six other members.¹⁷⁶ However, in 1791/92, along with the standing Select Committee, a

¹⁷² *Ibid.*, pp. 108-9; Milburn, *Oriental Commerce*, Vol. II, p. 469.

¹⁷³ IOR: G/12/11, Memoir of the East India Company's intercourse with China, 1518-1832, Part I, pp. 124-5. The Court of Directors, comprised of twenty-four members, was the chief executive organ of the East India Company. For the organization of the EIC's central administration, see G. M. Anderson, R. E. McCormick, and R. D. Tollison, 'The Economic Organization of the English East India Company', *Journal of Economic Behavior and Organization*, 4 (1983), pp. 221-238.

¹⁷⁴ IOR: G/12/12, p. 436.

¹⁷⁵ See Chapter Six for a discussion of the settlement of the Hong merchants' foreign debts.

¹⁷⁶ Cheong, *Hong Merchants of Canton*, p. 109.

committee called the Select and Superintending Committee was also established for the purpose of Lord Macartney's mission to China.¹⁷⁷ The newly-founded committee consisted of three members and its chairman was also the president of the Select Committee. But it was abolished in 1794 after the end of the mission. The Select Committee then returned to play the central position in decision-making although the number of its members varied between three and five in different years 'according to the pleasure of the Court'. Afterwards, the Select Committee remained the permanent representative of the EIC in China until the end of the Company's monopoly in 1834.¹⁷⁸

After long years of struggle and competition, the East India Company finally emerged to be the leading trading firm in the early modern Euro-Asian maritime trade. Accompanied by the EIC gradually increasing its political and economic influence over the Indian sub-continent and using the accompanying financial resources to support its Asian trade, the spread of tea drinking in Britain largely stimulated the Company's trade with China. However, despite its being the most powerful European trading organisation in the East, the Company was forced to conduct its tea procurement under a Chinese exclusionist policy, which limited them to trade only at Canton, with a tiny number of the Hong merchants. It was with these restrictions that the EIC conducted its China tea trade, the most important and profitable business in the Company's commercial activities. The next chapter will discuss the development of the EIC's China tea trade in detail.

¹⁷⁷ For the mission of Lord Macartney to China, see the Chapter Three.

¹⁷⁸ IOR: G/12/12, p. 436.

CHAPTER TWO

THE DEVELOPMENTAL TRENDS AND PROFIT OF THE EIC'S CHINESE TEA TRADE: AN OVERVIEW

This chapter will give an overview of the development and growth of the East India Company's tea trade with China. As will be seen, the trade experienced remarkable growth in the eighteenth and early nineteenth centuries, in particular from the middle of 1780s when the passage of the Commutation Act helped the EIC to expand its tea trade dramatically. This resulted in the Company's domination of European trade with China. The years after the late 1780s also saw a dramatic change in consumer behaviour, as the British public began to favour more superior varieties of tea rather than the cheaper sorts that had been previously imported. With these developments, the tea trade generated a great profit for the Company and made it the most lucrative branch of the EIC's commercial activities.

2.1 The Developmental Trends of the EIC's Tea Trade with China

2.1.1 The EIC's Chinese Tea Trade prior to 1760

It is not known when Chinese tea was first introduced into England, but it is generally agreed that the first tea to reach England arrived via Dutch traders. According to some works of European economic history, Chinese tea was first imported into Western Europe by the Dutch at the end of the first decade of the seventeenth century, and in the mid-

1640s, tea arrived in England through re-exportation from continental Europe.¹ By the late 1650s, tea had appeared in some coffee shops in London.² Whether or not these imports were made by the Company is unclear, but the EIC did import tea from continental Europe in later years. In 1664, for example, the Company bought 21lb. 2ozs. of tea in Amsterdam and then presented it to Charles II.³ As noted in the previous chapter, the political condition in China in the middle of the seventeenth century were uncertain and therefore the European-Chinese maritime trade was mainly conducted in an indirect way. Accordingly, the European China tea trade in the period was based on the following pattern: teas were first brought to Batavia by Chinese junks, and then the VOC shipped them back to the Netherlands from where the Dutch merchants re-exported to other European nations, including England.⁴

This pattern was later adopted by the English East India Company. The EIC's first direct purchase of tea from the East took place in 1667 when the Company's order for the procurement of tea was issued to its agent in the East Indies. Two years later, two canisters of Chinese tea (222 lbs.) reached London from the Company's Bantam factory.⁵ The EIC in later years also imported tea via Surat and Madras.⁶ The pattern of the EIC's tea trade began to change in the middle of the 1680s when the newly-founded

¹ For these discussion, see Masfield, 'Chapter Five: Crops and Livestock', in E. E. Rich & C. H. Wilson (eds.) *The Cambridge Economic History of Europe, Vol. VI – The Economy of Expanding Europe in the Sixteenth and Seventeenth Centuries* (1967), p. 297; W. Minchinton, 'Patterns and Structure of Demand 1500-1750', in C. M. Cipolla (ed.) *The Fontana Economic History of Europe, Vol. 2 – The Sixteenth and Seventeenth Centuries* (1974), p. 126.

² F. Braudel. *Civilization and Capitalism 15th–18th Century, Vol. I: The Structures of Everyday Life* (1981), p. 251.

³ Furber, *Rival Empires of Trade in the Orient 1600-1800* (1976), p. 127; Wissett, *A Compendium of East India Affairs* (1805), Vol. II, p. 48. Furber argued that this was the first tea to reach England.

⁴ Chaudhuri, *Trading World of Asia and the East India Company 1660-1760*, p. 386.

⁵ Wissett, *A Compendium of East India Affairs*, Vol. II, p. 49; Macgregor, *Commercial Statistics*, Vol. V, p.

Manchurian Ch'ing regime opened Chinese ports to foreign traders; the following years saw the quantity of tea imported into Britain increase significantly. Compared with only a few hundred lbs. of tea imported in 1670s, the amount reached 12,070 lbs. in 1685, and then rose to 26,200 lbs. in 1689, with a figure of 38,390 lbs. in the following year.⁷ This development could be partly attributed to the EIC's successfully opening its trade at Canton, as well as Chusan and Amoy. However, as indicated in Chapter One, the Company's trade with Amoy and Chusan was later seriously affected by the irregular extortion practised by local officials. Because of restrictions on trade with Amoy and Chusan which were located in two major Chinese tea-growing provinces, the decades from 1690 saw huge fluctuations in the volume of the tea trade, with only 6,374 lbs. being imported in 1692. Although the amount imported into England rose to 121,417 pounds in weight in 1701, it then dropped down again to only 460 lbs. in 1706.⁸ Being unable to develop its business smoothly through trading with Amoy and Chusan, the EIC finally abandoned its factories at the two ports in the first decade of the eighteenth century.

Fluctuations in the volume of EIC's tea importation into Britain became less obvious in the second decade of the eighteenth century. This was largely because of the establishment of a permanent factory by the Company in Canton in 1715. Although fluctuations of tea imports remained evident in some phases, developments from the late 1710s onwards saw a steady expansion in the EIC's tea import trade, as Chaudhuri has

47; Milburn, *Oriental Commerce*, Vol. II, p. 531.

⁶ See Milburn, *ibid.*, pp. 531-3.

⁷ These figures are based on Chaudhuri, *The Trading World of Asia and the East India Company*, p. 538, Table C. 19.

demonstrated. With a rapid growth rate of the tea trade in the first half of the eighteenth century, the quantities of tea brought into Britain by the EIC amounted to over three million pounds in weight a year in the 1750s and by 1760 annual imports exceeded six million lbs.⁹ Indeed, the development of the EIC's tea trade in the four decades between 1720 and 1760 was so striking that Chaudhuri calculated that 'each decade saw an acceleration in the growth rate over the previous one', with the growth rate of the 1730s being 31 per cent over the previous decade, followed by 75 and 85 per cent in the 1740s and 1750s respectively.¹⁰

Since most of the Company tea was retained for home use, with less than one-fifths of the total being re-exported to other areas during the period 1711-1760,¹¹ the rapid growth of the EIC's tea trade can be chiefly attributed to a substantial growth in English demand for tea. Before 1690, tea represented less than one per cent of the value of the EIC's total imports from the East, and in 1717 it only approached seven per cent of its Asian imports. By the 1750s, however, the position had become much more important, with the share reaching 20 per cent, and at the beginning of the following decade it rose to no less than 40 per cent of the total.¹² Thus, the China trade became the second most import element in the Company's Asian business, after the Indian trade. The growth of the EIC's China trade can be easily reflected in the growth of the numbers of ships, and, more importantly, the total tonnage of ships, sent to China. Compared to only two or three ships trading in

⁸ *Ibid.*

⁹ For the quantity of Chinese tea imported into Britain by the EIC in each year prior to 1760, see Chaudhuri, *The Trading World of Asia and the East India Company 1660-1760*, pp. 538-9, Table C. 19.

¹⁰ Chaudhuri, *ibid.*, p. 388.

¹¹ Based on Milburn, *Oriental Commerce*, Vol. II, p. 534.

¹² Chaudhuri, *The Trading World of Asia and the East India Company*, p. 97.

the Chinese ports in the beginning of the eighteenth century, the average number of the EIC vessels visiting China reached around ten in the 1750s, with the total tonnage of ships surpassing three thousand tons, compared with less than 700 tons in the 1710s. The lack of ships sent to China in some early years helps to explain the fluctuation of the tea trade that was so apparent in the years before the second decade of the eighteenth century.¹³

2.1.2 The EIC's Tea Trade with China after 1760

The first half of the eighteenth century saw a rapid increase in British demand for tea, and a remarkable growth in the EIC's trade with China. As discussed in Chapter One, this helps us to understand why, the EIC in the 1750s became so eager to re-gain access to trade with Ningpo and Amoy, which were much closer to tea-growing regions than Canton. It is impossible to estimate the total quantity of tea which might have been purchased by the Company if the two ports had been open for Europeans, although it is reasonable to assume that the Company's tea trade with China would have expanded faster if tea had been purchased from Amoy and Ningpo. However, after 1760 trade continued to grow substantially despite the Company's procurement of tea being confined to Canton and being provided through only the Hong merchants.

¹³ For the number of EIC's ships, with total tonnage, visiting China prior to 1760, see Morse, *The Chronicles of East India Company Trading to China*, Vol. I, pp. 307-313, Vol. II, pp. 436-451, Vol. III, pp. 389-398, and Vol. V, pp. 198-207. See also Appendix II.

Table 2.1 Amount of tea exported from China by the EIC and the developmental trend in the years of 1760-1833

Season	Average of the total amount of tea exports (picul)	1760-64=100*
1760-64	42,065	100.0
1765-69	61,834	146.9
1770-74	54,215	128.8
1775-79	33,912	80.6
1780-84	55,590	132.1
1785-89	138,417	328.9
1790-94	136,433	324.2
1795-99	152,242	361.8
1800-04	221,027	525.2
1805-09	167,669	398.4
1810-14	244,446	580.8
1815-19	222,301	528.3
1820-24	215,811	512.8
1825-29	244,704	581.5
1830-33	235,840	560.4

Note: * the figures in the third column are derived from the second column (average amount of tea exports, 1760-64=100).

Source: based on 嚴中平 Yen Chung-p'ing *et al.*, 中國近代經濟史統計資料選輯 (Selected Statistical Material on China's Modern Economic History, 1955), Table 15.

As shown in Table 2.1, the average quantity of tea exported from China by the EIC in the trading season 1760-64 was around 42,000 piculs (approximately 5,600,000 lbs.).¹⁴ The average amount then reached over 61,000 piculs in the seasons 1765-69 and from the second half of the 1780s onwards, the average quantity of EIC's tea exportation from Canton exceeded one hundred thousand piculs. The trade continued to expand in the following years and by the first decades of the nineteenth century, the amount reached far more than two hundred thousand piculs in most years of the period, five times as much as in 1760-64.

¹⁴ 'Picul' (or sometimes spelled as 'Pecul' in the EIC's records) was derived from the Chinese word *Tan* (擔), which was a Chinese weight unit. A picul was approximately 133¹/₃ lbs. For the introduction of Chinese weight units, see R. Morrison, *Chinese Commercial Guide* (1834).

Table 2.2 The numbers and total tonnage of EIC's vessels trading to Canton in the years of 1760-1833

Season	Number of Ships	Size of Vessels (Tons)	
		Total	Average (each ship)
1760	9	4,491	499
1765	16	6,986	499
1770	13	6,487	499
1775	5	3,881	776
1780	12	9,239	770
1785	19	14,713	774
1790	25	18,392	876
1795	17	12,816	854
1800	20	19,135	1,063
1805	17	19,635	1,155
1810	16	18,518	1,157
1815	24	27,150	1,131
1820	23	26,100	1,135
1825	23	28,386	1,234
1830	22	28,513	1,296
1833	25	28,167	1,127

Source: based on Morse, *The Chronicles of East India Company Trading to China*, Vol. III, pp. 389-398, Vol. IV, pp. 373-282, & Vol. V, pp. 198-207.

As with the years prior to 1760, the remarkable growth of the EIC's tea exportation from Canton after 1760 was reflected in the increase of the numbers of ships, as shown in Table 2.2. Compared with an average of around only 10 EIC vessels visiting China each year before 1780, the numbers increased to over twenty ships in most seasons of the later period. The rapid development and growth of the Company's China trade is also evident from the total cargo-capacity of EIC's vessels trading to Canton, illustrated in the table. The yearly total tonnage in the last years of the eighteenth century exceeded 10,000 tons which was far larger than in earlier decades. In the nineteenth century, a period during which there was continuous expansion of tea exportation from China by the EIC, the number increased to nearly 30,000 tons. Interestingly, the standard size of a Company

ship rose apparently from the original 499 tons to 755 in the last decades of the eighteenth century and then to 1,200 tons in the next century. With the enlargement of the Company ships, they were able to sail directly to China for business although some of them still went via India.¹⁵

Table 2.3 The total quantities of tea sold by the EIC in the years 1750-1810, as well as the balance remaining for home consumption (by decade)

In the ten years	Quantity sold lbs.	Sale Amount £	Re-exported lbs.	Remaining for Home Use (lbs.)
1751-1760	25,869,753	7,236,421	3,042,432	22,857,621
1761-1770	58,587,446	14,549,985	7,627,610	50,959,806
1771-1780	60,689,483	10,518,302	12,989,442	47,700,071
1781-1790	123,471,496	19,808,496	19,882,481	103,288,715
1791-1800	200,017,212	30,647,781	27,387,772	172,629,440
1800-1810	240,438,275	38,272,303	36,093,069	204,345,206

Source; Milburn, *Oriental Commerce*, Vol. II, p. 535.

The rapid expansion of the EIC's tea exportation from Canton can in part be attributed to the Company obtaining several financial resources in India from the late 1750s onwards (to be discussed in the next chapter). But as with the earlier period, the rapid growth of the EIC's tea sales after 1760 was also stimulated to a large extent by the increase of British tea consumption at home. This can be clearly seen in Table 2.3. However, the most striking phenomenon in the development of the EIC's Chinese tea trade in the late eighteenth century was the tremendous increase in the total quantity of Company's tea sold in Britain after 1784, as shown in Table 2.4.

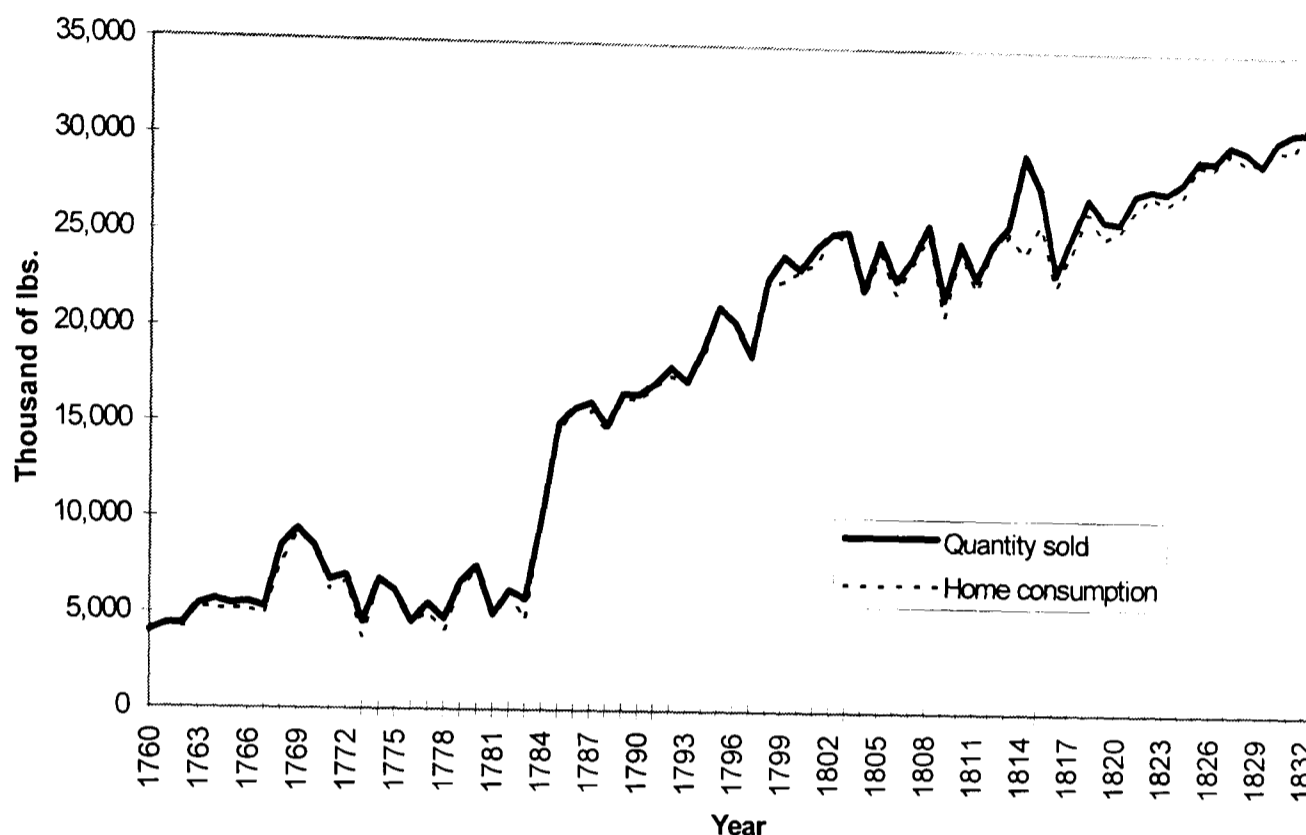
¹⁵ For details of the size and journey of each Company ship trading to China, see A. Farrington, *Catalogue of East India Company Ships' Journals and Logs 1600-1834* (1999); & J. Sutton, *Lords of the East – The East India Company and its Ships* (1981).

Table 2.4 The total quantity of tea sold in Britain by the EIC and the amount of it retained and sold for home consumption, 1760-1833 (lbs.)

Year	Sold total lbs.	Retained for home use (lbs.)	Year	Sold total lbs.	Retained for home use (lbs.)
1760	4,019,623	3,860,976	1797	18,779,391	18,658,427
1761	4,353,990	4,308,324	1798	22,785,370	22,483,258
1762	4,400,987	4,217,961	1799	24,068,922	22,775,165
1763	5,435,731	5,307,292	1800	23,365,747	23,271,799
1764	5,684,707	5,222,934	1801	24,524,110	23,730,150
1765	5,473,186	5,204,219	1802	25,275,441	25,400,294
1766	5,586,296	5,185,831	1803	25,391,319	24,877,450
1767	5,303,474	4,921,131	1804	22,358,544	22,057,046
1768	8,525,883	7,676,243	1805	24,900,567	24,266,083
1769	9,447,522	9,114,845	1806	22,877,842	22,249,485
1770	8,574,421	8,634,054	1807	24,077,209	23,819,420
1771	6,799,010	6,306,881	1808	25,821,391	25,226,642
1772	7,032,134	6,721,606	1809	21,925,745	21,065,843
1773	4,577,477	3,776,229	1810	24,910,382	24,486,408
1774	6,831,534	6,728,721	1811	23,030,708	22,454,532
1775	6,225,333	6,155,783	1812	24,830,946	24,584,402
1776	4,577,933	4,467,609	1813	25,864,626	25,409,855
1777	5,582,752	5,119,862	1814	29,578,997	24,389,501
1778	4,770,520	4,179,761	1815	27,758,155	25,917,853
1779	6,733,202	6,341,986	1816	23,358,008	22,693,992
1780	7,559,278	7,328,098	1817	25,389,739	24,605,794
1781	5,023,419	4,883,970	1818	27,336,797	26,527,531
1782	6,283,664	6,202,257	1819	26,205,068	25,241,693
1783	5,857,883	4,741,522	1820	26,067,268	25,712,935
1784	10,148,257	10,159,701	1821	27,603,023	26,754,587
1785	15,081,738	14,800,932	1822	27,850,509	27,574,025
1786	15,931,193	15,851,747	1823	27,718,611	27,093,015
1787	16,221,905	15,726,033	1824	28,298,180	27,648,295
1788	15,014,616	14,764,565	1825	29,466,820	29,232,174
1789	16,709,946	16,505,499	1826	29,371,190	29,045,852
1790	16,694,798	16,430,095	1827	30,283,912	29,931,178
1791	17,268,317	17,091,627	1828	29,943,144	29,305,757
1792	18,134,883	17,666,583	1829	29,256,717	29,495,205
1793	17,378,208	17,492,686	1830	30,574,330	30,046,935
1794	19,126,590	18,665,365	1831	30,969,852	29,997,055
1795	21,331,983	21,342,845	1832	31,049,733	31,548,381
1796	20,556,361	20,324,707	1833	32,913,840	31,829,620

Source: British Parliamentary Papers, Accounts and Papers, 1845, Vol. XLVI, No. 191.

Figure 2.1 The developmental trend of total amount of tea sold in Britain by the EIC, 1760-1833 (1000 lbs.)



Source: Table 2.4.

The dramatic expansion of the Company's tea trade from the late 1780s onwards appears even more remarkable when the data in Table 2.4 is translated into Figure 2.1. The sudden and tremendous increase of the tea trade after 1784 was linked with a sharp reduction of duties upon tea importation in Britain. Increases in consumption had caused successive British governments to load duties on tea. Starting with a duty of 2s. per lb. and 15 per cent *ad valorem* in 1704, the rate of tax on tea had been increased and modified by successive statutes.¹⁶ However, the high rate of taxation also provided a direct stimulus to the smuggling of tea into Britain from European continental nations,

¹⁶ For a discussion of the rates of duties imposed on tea trade in the eighteenth century, see for example, W. A. Cole, 'Trends in Eighteenth Century Smuggling', *The Economic History Review*, Vol. X, 2nd. Series (1957-58), pp. 395-409; Pritchard, 'The Struggle for Control of China Trading during the Eighteenth Century', *Pacific Historical Review* (1934), p. 285.

such as Holland and France.¹⁷ Each time the British government raised the tax on tea, the Company suffered a decline in its tea sales. Between 1760 and 1767, for instance, the duty on tea was 90 per cent and the Company's sales were 4,333,267 lbs. per year.¹⁸ After the Indemnity Act was passed which amounted to a reduction in duties to 64 per cent for the next five years, the yearly average volume of tea sold by the EIC for the period between 1768 and 1773 increased to 8,075,594 lbs. By 1773 new financial burdens caused the Treasury to load tea with higher duties to an average of 106 per cent, and later on the duties were raised to 114 per cent in 1783 and then to 119 per cent in 1784.¹⁹ Consequently, the Company's sales of tea in England fell to an average of 5,190,000 lbs. per annum between 1773 and the first half of 1784.²⁰ This helps to explain why the total quantity of tea imported into Britain and sold by the EIC in the period between 1770-1783 showed a tendency of decline and fluctuation, as illustrated in Table 2.4 and Figure 2.1.

Not surprisingly, the decline of the Company's tea trade because of the high duties coincided with the flourishing of illegal imports of tea into Britain from the Continent. This not only damaged the EIC's trading profit, but also adversely affected the state's revenue.²¹ In reality, the smuggling of tea into England from continental European countries had been a concern for the EIC since the 1730s. For example, the smuggling of

¹⁷ For discussion of the issue, see Cole, 'Trends in Eighteenth Century Smuggling', also Mui & Mui, 'Smuggling and the British tea trade before 1784', *The American Historical Review*, Vol. LXXIV, No. 1 (October 1968), pp. 47-49; *idem.*, 'Trends in Eighteenth-Century Smuggling Reconsidered', *The Economic History Review*, 2nd series, Vol. XXVIII, 1975, pp. 28-49.

¹⁸ Pritchard, 'The struggle for control of the China trade during the eighteenth century', p. 289.

¹⁹ Pritchard, *The Crucial Years of Anglo-Chinese Relations*, p. 146.

²⁰ Pritchard, 'The Struggle for control of China trade', p. 289.

²¹ Mui & Mui, 'William Pitt and the Enforcement of the Commutation Act', *The English Historical Review*, Vol. LXXVI, No. 3 (July, 1961), p. 448.

tea into England from Europe was an important topic of debate during the meeting of the Company's General Court in August 1732.²² Nevertheless, this continued to remain a serious issue for the EIC in the following decades; indeed the Company's directors regarded it as an evil that had to be destroyed as soon as possible.²³ The Company's attempts to remove the heavy duties and to prevent smuggling were only successful in the mid-1780s when William Pitt, the then Prime Minister, became determined to tackle the problem of the deterioration of the state's revenue. Having consulted with, and being influenced by, the EIC officials and tea dealers, such as William Richardson and Richard Twining, Pitt acted to gain Parliament's support to pass a bill that dealt with the problem of tea smuggling.²⁴ This finally resulted in the passage of the Commutation Act in August 1784 which included provisions to lower the custom and excise (*ad valorem*) duties on tea from 119 to 12.5 per cent on the price of sales by the East India Company in London.²⁵ The immediate impact was to make the smuggling of tea into Britain unprofitable and this effectively eliminated the illicit tea trade. As a result, much of the tea trade fell into the EIC's hands and the volume of its tea sales in Britain increased dramatically after 1784.

²² Chaudhuri, *The Trading World of Asia*, p. 392.

²³ For a recent study of the Company's response to the problem of tea smuggling, see H. V. Bowen, "'So alarming an evil': Smuggling, Pilfering and the East India Company, 1750-1810", *International Journal of Maritime History*, Vol. XIV, No. 1 (2002), pp. 1-31.

²⁴ William Richardson, once the EIC's deputy-accountant, was Pitt's earliest informant from the Company and was described as the 'father of Commutation plan', while Richard Twining was then the chairman of the tea-dealing organization in London. Apart from them, Francis Baring, then an MP and a director of the Company, was also an important informant of Pitt on commercial affairs. See Mui & Mui, 'William Pitt and the enforcement of the Commutation Act, 1784-1788', pp. 447-50.

²⁵ 24 Geo. III, cap. 28. In order to compensate for the loss of revenue by the reduction of tea duties, a window tax was introduced which would fall upon the wealthy. However, if the revenue receipts diminished, in spite of the introduction of a window tax, the Company was to make up the deficit. See Mui, *ibid.*, p. 448; Pritchard, *The Crucial Years of the Anglo-Chinese Relations*, p. 147; & F. P. Robinson,

Table 2.5 The quantities of tea exported from Canton by western nations, 1767/68-1810/11 (lbs.)

Years	England	Other Europe (A)	America (B)	A + B	Total
1767-68	4,580,867	12,767,605		12,767,605	17,348,472
1768-69	7,249,208	12,167,788		12,167,788	19,416,996
1770-71	9,198,059	12,891,710		12,891,710	22,089,769
1772-73	8,869,099	13,652,800		13,652,800	22,521,899
1773-74	3,885,651	13,838,200		13,838,200	17,723,851
1774-75	2,159,881	15,652,800		13,652,800	17,812,861
1775-76	3,402,415	12,841,500		12,841,500	16,243,915
1776-77	5,673,434	16,112,000		16,112,000	21,785,434
1777-78	6,392,788	13,302,700		13,302,700	19,695,488
1778-79	4,372,021	11,302,300		11,302,300	15,674,321
1779-80	4,746,206	12,673,700		12,673,700	17,419,906
1780-81	6,846,603	11,725,600		11,725,600	18,572,203
1781-82	6,857,731	7,385,800		7,385,800	14,243,531
1782-83	4,138,295	14,630,200		14,680,200	18,768,495
1783-84	9,916,760	19,072,300		19,072,300	28,989,060
1784-85	10,583,628	16,551,000	880,100	17,531,100	28,114,728
1785-86	13,480,691	15,715,900	695,000	16,410,900	29,891,591
1786-87	20,610,919	10,165,160	1,181,860	11,347,020	31,957,939
1787-88	22,096,703	13,578,000	750,900	14,328,900	36,425,603
1788-89	20,141,745	9,875,900	1,188,800	11,064,700	31,206,445
1789-90	17,991,032	7,174,200	3,093,200	10,267,400	28,258,432
1790-91	22,369,620	2,291,560	743,100	3,034,660	25,404,280
1791-92	13,185,467	4,431,730	1,863,200	6,294,930	19,480,397
1792-93	16,005,414	7,861,800	1,538,400	9,403,200	25,408,614
1793-94	20,728,705	3,462,800	1,974,130	5,436,930	26,165,635
1794-95	23,733,810	4,138,930	1,438,270	5,577,200	29,311,010
1795-96	19,370,900	2,759,800	2,819,600	5,579,400	24,950,300
1796-97	36,901,200	2,515,400	3,450,400	5,965,860	42,870,060
1797-98	29,934,100	2,714,000	3,100,400	5,814,400	35,748,500
1798-99	16,795,400	4,319,300	5,674,000	9,993,300	26,788,700
1799-00	26,585,337	1,577,066	5,665,067	7,242,133	33,827,470
1800-01	29,772,400	3,968,207	4,762,866	8,731,133	38,503,533
1801-02	38,479,733	185,533	5,740,734	5,926,267	44,406,000
1802-03	35,058,400	5,812,266	2,612,436	8,424,702	43,483,102
1803-04	31,801,333	2,132,666	2,371,600	4,501,266	36,305,599
1804-05	28,506,667	3,318,799	8,516,800	11,865,599	40,372,266
1805-06	22,810,533	1,809,466	11,702,800	13,512,266	36,322,799
1806-07	32,683,066	1,534,267	8,464,133	9,998,400	42,681,466
1807-08	25,347,733	1,144,266	6,408,266	7,552,532	32,900,265
1808-09	26,335,446	None	1,082,400	1,082,400	27,417,846
1809-10	26,301,066	None	9,737,066	9,737,066	36,038,132
1810-11	27,163,066	None	2,884,400	2,884,400	30,047,466

Source: Milburn (1813) *Oriental Commerce*, Vol. 2, P. 486.

The Trade of the East India Company (1912), p. 128.

Table 2.6 The total value of merchandise exports from Canton by western merchants, 1765-1833

Season	Total value	Britain		Other European nations		American	
	Taels (Tls.)	Value (Tls.)	%	Value (Tls.)	%	Value (Tls.)	%
1765-69	4,177,909	2,190,619	52.4	1,987,290	47.6	--	0.0
1770-74	4,362,676	2,119,058	48.6	2,243,618	51.4	---	0.0
1775-79	4,725,989	1,968,771	41.7	2,757,218	58.3	---	0.0
1780-84	5,008,263	2,083,346	41.6	2,909,053	58.1	15,864	0.3
1785-89	8,454,720	5,491,508	65.0	2,637,224	31.1	325,988	3.9
1790-94	7,348,420	5,843,714	79.5	1,063,728	14.5	440,978	6.0
1795-99	7,937,254	5,79,972	72.1	817,602	10.3	1,399,680	17.6
1800-04	10,391,797	7,556,473	72.7	798,876	7.7	2,036,448	19.6
1805-06	11,168,783	7,400,223	66.2	377,000	3.4	3,391,560	30.4
1817-19	13,770,740	8,060,271	---	n/a	---	5,710,469	---
1820-24	14,678,252	9,816,066	---	n/a	---	4,862,186	---
1825-29	14,390,108	10,215,565	71.0	58,361	0.4	4,116,182	28.6
1830-33	13,443,641	9,950,286	74.0	172,059	1.3	3,321,296	24.7

Source: 嚴中平 Yen Chung-p'ing, *et al.*, 中國近代經濟史統計資料選輯 (Selected Statistical Material on China's Modern Economic History, 1955), p. 5, Table 3.

Moreover, because tea was the chief item exported by the western merchants from China and Britain was the main destination for Chinese tea, the passage of the Commutation Act also had a considerable impact on the whole of the European tea trade with China. As can be seen in Table 2.5 and Table 2.6, between 1770 and 1785 exports from Canton by other European nations together far exceeded those of Britain. The data also shows that the peak of the continental European tea trade with China, in terms of quantity, was reached in the years of 1783-84. After this time, however, it went into a steady decline and by contrast, the British tea export trade from China began to soar after 1784. Thus, the second half of the 1780s saw the total quantities of tea exported from Canton by the EIC exceed those made by all other Europeans together. Because of this dramatic development, Mui & Mui regarded the passage of the Commutation Act as 'a turning-

point in the history of the British tea trade'.²⁶ What also worth mentioning is that despite the duty on tea being increased again after 1793 because of the outbreak of war with France, the EIC's total imports and sales of tea did not diminish but continued to rise in general. This might be attributed to the growth of tea consumption among Britons. However, a further factor contributing to the continuing rising trend of official import figures may be the decline of tea smuggling from Europe. Such a decline was the outcome of the virtual destruction of the French and Dutch Oriental trades as a result of the Napoleonic wars. These factors finally enabled the EIC to establish a virtual monopoly of the China trade among Europeans from the 1790s onwards, as also shown in Table 2.5 and Table 2.6.

Table 2.7 The total value and relative importance of different merchandise article exported from Canton by the EIC, 1765-1833 (taels, annual average value)

Seasons	Tea		Raw Silk		Nankeens		Chinaware & Others		Total exports
	Value	%	Value	%	Value	%	Value	%	Value
1765-69	1,179,854	73.7	334,542	20.9	5,024	0.3	81,879	5.1	1,601,299
1770-74	963,287	68.1	358,242	25.3	950	0.1	92,949	6.5	1,415,428
1775-79	666,039	55.1	455,376	37.7	6,618	0.5	80,279	6.7	1,208,312
1780-84	1,130,059	69.2	376,964	23.1	8,533	0.5	117,164	7.2	1,632,720
1785-89	3,659,266	82.5	519,587	11.7	19,533	0.4	238,737	5.4	4,437,123
1790-94	3,575,409	88.8	274,460	6.8	34,580	0.9	140,643	3.5	4,025,092
1795-99	3,868,126	90.4	162,739	3.8	79,979	1.9	166,572	3.9	4,277,416
1817-19	4,464,500	86.9	183,915	3.6	121,466	2.4	369,694	7.1	5,139,575
1820-24	5,704,908	89.6	194,779	3.1	58,181	0.9	407,003	6.4	6,364,871
1825-29	5,940,541	94.1	none	0.0	612	0.0	375,186	5.0	6,316,339
1830-33	5,617,127	93.9	none	0.0	none	0.0	367,600	6.1	5,984,727

Source: 嚴中平 Yen Chung-p'ing *et al.*, 中國近代經濟史統計資料選輯 (Selected Statistical Material on China's Modern Economic History, 1955), p. 5, Table 4.

²⁶ Mui & Mui, 'The Commutation Act and the Tea Trade in Britain 1784-1793', *The Economic History Review*, XVI (2), 2nd. Series, December 1963, p. 234.

In this period, the only major western rivals of the EIC on the tea exportation and China trade at Canton were the Americans who joined the trade after 1784.²⁷ The EIC's dominance of the China trade was based predominantly on tea export; indeed, after the mid-1780s, it alone constituted more than 80 per cent of the total exports from Canton, as illustrated in Table 2.7.

2.2 The EIC's Trade in Different Teas

Having established the overall pattern of growth of the EIC's tea trade, discussion now focuses on the structure of the Company's trade in different varieties of tea. The issue is important because it is too simplistic to regard the EIC's tea trade only in terms of the growth of total quantity and value. The EIC conducted trade in a variety of teas and they were purchased and sold at different prices; thus the elimination of high customs duties on tea would have different impacts on various branches of the trade.

2.2.1 The Varieties of Tea Exported from China by the English Company

Chinese teas for export were generally divided into two major groups: black tea and green tea. Generally speaking, black tea is processed with fermentation, while the green variety is non-fermentation tea. The green tea purchased by the EIC mainly came from the border-regions, covering two provinces of Che-kiang and An-hwei, while most of the black tea was grown in the Bohea Hills, located at the north-west border of Fu-kien

²⁷ For the American trade with China, see Chapter Seven.

Province.²⁸ In turn, both the black tea and the green tea purchased and sold by the EIC were divided into several different sorts. For example, Bohea, Congou, Campoi, Souchong and Pekoe were the five main sorts of black tea listed in the Company's sales in London, while others such as Singlo, Twankay, Hyson and Gunpowder belonged to the green tea category. Each type of tea might be divided further into several species. For example, Hyson tea procured by the EIC in Canton could also be divided into different varieties such as (common) Hyson, Young Hyson and Hyson Skin.²⁹ The tea traders in London also distinguished Congou into three sub-sorts, viz. common Congou, Campoi Congou and Ankay Congou; and Souchong was also divided into different species, such as common Souchong, Caper Souchong and Padre Souchong.³⁰

In some cases, the EIC might also distinguish the same species of tea according to its region of original production. This happened, for example, to the Bohea tea which was distinguished by the EIC into Canton Bohea, Fukien Bohea and Tokien Bohea because the flavour and quality could be different. In addition, in order to meet the different demands of British customers, the Company in Canton would make sure to purchase different amounts of each type of tea. For example, in some cases, the EIC supercargoes in Canton separated their orders of Bohea tea into 'first head of Bohea' (new and strong flavour) and 'common (or old) Bohea', while Congou and Hyson teas were also divided into the first sort of Congou or Hyson and the second sort of Congou or Hyson.³¹

²⁸ For the description of Chinese tea-growing districts where tea was produced for the foreigners in the eighteenth and nineteenth centuries, see R. Fortune, *Three Years' Wanderings in the Northern Provinces, including a visit to the tea, silk, and cotton countries* (1847), & also the same author, *A Journey to the Tea Countries of China* (1852).

²⁹ See p. 21 for a discussion of the differences.

³⁰ Milburn, *Oriental Commerce* (1813), Vol. II, Chapter XXVIII: China, pp. 522-523.

³¹ See e.g. IOR: R/10/FR/6, 27 January 1767, p. 74 & 2 February 1767, p. 76; 21 February 1768, p. 91.

It is, however, noteworthy that although teas were divided into many different kinds, it was believed that there was originally only one species of tea-tree.³² This view might be correct because different sorts of tea could be produced from the same tree, depending upon the soils, seasons of gathering and the manner of curing and production.³³ For instance, tea grown in the Bohea countries was gathered three or four times in a year from the same tree.³⁴ The first gathering took place in the early spring when leaf buds first came out. The tea leaves picked up in this time were called *t'ou-ch'un-ch'a-yeh* (頭春茶葉) in Chinese to indicate their being gathered at the beginning of spring time.³⁵ Afterwards, three more crops were taken from the same plant: the first one would be from the middle of April to May, the second one from the middle of June to July, and the last one was in August or to the end of September.³⁶ Because the younger the leaf, the stronger the tea, this meant that the tea picked in the early spring would be the most expensive kind.

Before discussing price, it is necessary to discuss the features of the different sorts of Chinese tea procured by the East India Company. Among the Bohea country's black teas, the leaves of the first gathering were called *Pekoe* (or *Peko*) Tea in English. The name *Pekoe* is a corruption of the Chinese *pih haou* (白毫) which means 'white-colour young

³² A. Dalrymple, *Oriental Repertory* (1791), p. 285; Fortune, *A Journey to the Tea Countries of China*, p. 273; Milburn, *Oriental Commerce*, p. 520.

³³ Milburn, *Ibid.*; J. Phipps, *A Practical Treatise on the China and Eastern Trade* (1835), p. 79. It was argued by some by some, such as R. Fortune, that even the black tea and green tea came from the identical species of tree and the difference between them only depended upon manipulation (Fortune, *A Journey to the Tea Countries of China*, p. 273).

³⁴ Dalrymple, *Oriental Repertory*, p. 286.

³⁵ PRO: Foreign Office (hereafter FO) FO/1048/14/15.

³⁶ Dalrymple, *Oriental Repertory*, p. 287; C. N. Parkinson, *Trade in the Eastern Seas 1793-1813*, p. 90.

hairs' because the young buds resemble new-born animals' white-colour hairs.³⁷ The next two crops were called *Souchong* and *Congou* (or *Congo*) respectively, while the last one was named *Bohea*.³⁸ Being made from the leaves of the second picking, Souchong is the best black tea after Pekoe.³⁹ *Souchong* was a corruption of Chinese *seaou chung* (小種) which means 'small quantity' because it could only be grown on a part of the Bohea hills where the soil was good enough.⁴⁰ The next crop after Souchong was called Congou, and this name was derived from the Chinese *kung foo* (工夫) which meant 'labour' or 'work' because it was attended with more care, when compared to other crops of tea.⁴¹

As mentioned earlier, in the London market Congou was generally divided into three sorts: common, Campoi and Ankay. Campoi could be regarded as a superior kind of Congou tea, with a more delicate flavour than the common Congou whose name is derived from the Chinese *Keën pei* (揀焙) which means 'selected for firing'.⁴² Ankay (or Ankoi) Congou was another sort of Congou named for the country where the tea was grown (corrupted from *An-ke* 安溪). The country is located at the south-western Fu-kien and its tea-trees came from the Bohea hills.⁴³ The fourth and final crop formed Bohea tea, whose name was taken directly from the hills in which it was grown.

³⁷ *Chinese Repository*, Vol. VIII, No. 3, July 1839, p. 152; Dalrymple, *Oriental Repertory*, p. 289.

³⁸ Parkinson, *Trade in the Eastern Seas*, pp. 89-90.

³⁹ Accordingly, Pekoe was sometimes regarded as the best sort of Souchong.

⁴⁰ *Chinese Repository*, Vol. VIII, p. 151; *Oriental Repertory*, p. 286.

⁴¹ Mui & Mui, *William Melrose in China 1845-1855* (1973), p. 268; *Oriental Repertory*, p. 286.

⁴² *Chinese Repository*, p. 150.

⁴³ J. Phipps, *A Practical Treatise on the China and Eastern Trade*, p. 81.

As with black tea, the green teas were also divided into several different sorts, with those most popular ones purchased by the EIC being Singlo, Twankay, Hyson, Gunpowder, etc.⁴⁴ The name of Singlo is a corruption of Sung-lo (松羅), a hill where green teas are cultivated and located in the province of An-hwei.⁴⁵ There are two gatherings of Singlo tea: the first picking is in April and May, the second one in June and each gathering can in turn be divided into a few sorts, depending on the quality of soils and the curing methods.⁴⁶ Twankay is the produce of the third picking and its name is derived from *Tun ke* (屯溪), meaning 'the valley-rivulet of Tun' which is located in the south-west of Chekiang.⁴⁷ Unlike Singlo and Twankay, the name of Hyson was not derived from where it was raised, but it was a corruption of the Chinese *he chun* (熙春), meaning 'flourishing spring' because those leaves were 'picked when the plant is in full verdure'.⁴⁸

The Hyson tea could also be distinguished into three or more sorts and there were generally two gatherings of it.⁴⁹ One sort of superior Hyson was called Young Hyson and it was usually made from the first gathering. It was named in Chinese *Yu-tsün* (雨前 Yü-ch'ien) which means 'before the rain'.⁵⁰ Another popular sort of the Hyson tea was Hyson-Skin which was called *Pa-cha* in Cantonese or *P'i-ch'a* in Chinese Mandarin (皮茶), meaning 'skin of the tea leaf'.⁵¹ The Hyson-skin Tea was called as *Bloom-Tea* in

⁴⁴ Milburn, *Oriental Commerce*, pp. 85-86.

⁴⁵ *Chinese Repository*, Vol. VIII, p. 153.

⁴⁶ *Oriental Repertory*, p. 293.

⁴⁷ *Chinese Repository*, Vol. VIII, p. 153.

⁴⁸ *Ibid.*

⁴⁹ Milburn, *Oriental Commerce*, p. 525.

⁵⁰ Mui & Mui, *William Melrose in China*, p. 268.

⁵¹ *Ibid.*

London.⁵² Compared with other kinds of Hyson, Hyson-Skin was a much inferior sort, being made from coarse, yellow and half-twisted leaves.⁵³ Gunpowder was a superior green tea and the EIC named it 'gunpowder' because of 'its resemblance to that substance'.⁵⁴ It was called *Ma-choo* (or Ma-chu) (麻珠) in Chinese which meant 'hemp pearl'.⁵⁵

In addition to these major sorts of teas purchased and sold by the EIC, there were some other kinds of Chinese tea purchased by European and American traders from Canton in the eighteenth and early nineteenth centuries. For example, one sort of black tea was called *Pouchong* (包種), meaning 'the bundle sort' which was a variety of Souchong and it was done up in small packages, while *Imperial* was a delicate kind of green tea and its Chinese name was *choo-cha* (珠茶) which meant 'pearl tea'.⁵⁶ The eighteenth century also saw the appearance of Oolong (a semi-fermented tea which originated in South Fu-kien Province). Later, this played an important role in the Chinese tea export trade.⁵⁷ In order to distinguish the different characteristics among these teas mentioned above, details are noted below in Table 2.8.

⁵² *Oriental Repertory*, P. 293.

⁵³ *Chinese Repository*, Vol. VIII, p. 153.

⁵⁴ *Ibid.*, p. 154.

⁵⁵ Mui & Mui, *William Melrose in China*, p. 269.

⁵⁶ *Ibid.*, p. 268-9; *Chinese Repository*, Vol. VIII, pp. 151, 154.

⁵⁷ R. Gardella, *Harvesting Mountains – Fujian and the China Tea Trade, 1757-1937* (1994), p. 30. The name *oo-long* means 'black dragon' in Chinese. In spite of its later becoming popular among the Chinese, it is not known whether the EIC ever purchased oolong tea from Canton. According to Hunter (*Bits of Old China*, p. 62), Oolong tea was introduced to the American market in the early nineteenth century.

Table 2.8 Names of the different sorts of Chinese tea purchased by the EIC

English Names	Chinese Names	Meaning or Origin of names
Black Tea:	紅茶 (hung-ch'a)	
Bohea	<i>Voo-yee</i> 武夷 (wu-i)	Where the tea was grown
Congou (Congo)	<i>kung foo</i> * 工夫 (kung-fu)**	Labour, work
Campoi	<i>Keën pei</i> 揀焙 (chien-peï)	Selected for firing
Ankoi	<i>An-ke</i> 安溪 (an-hsi)	Name of hill where the tea was grown
Souchong	<i>seaou chung</i> 小種 (hsiao-chung)	Small sort
Pouchong	<i>pow chong</i> 包種 (pao chung)	The bundled sort
Pekoe	<i>pih haou</i> 白毫 (pai-hao)	White hair
Green Tea:	綠茶 (lŭ-ch'a)	
Singlo	<i>sung-lo</i> 松羅 (sung-lo)	Where the tea was grown
Twankay	<i>tun ke</i> 屯溪 (t'un-hsi)	The valley-rivulet of <i>Tun</i>
Hyson	<i>he chun</i> 熙春 (hsi-ch'un)	Flourishing to indicate spring
Hyson skin	<i>pi-cha</i> 皮茶 (p'i-ch'a)	Skin of the tea leaf
Young Hyson	<i>yu-tsün</i> 雨前 (yü-ch'ien)	Before the rain
Imperial	<i>choo-cha</i> 珠茶 (chu-ch'a)	Pearl tea
Gunpowder	<i>ma-choo</i> 麻珠 (ma-chu)	Hemp pearl (its resemblance to that substance)

Note: * The contemporary or Cantonese transliteration of Chinese characters; **the Chinese Mandarin pronunciation.

Sources: *Chinese Repository*, Vol. VIII, No. 3 (July 1839), pp. 150-4, 'Description of the Tea Plant'; A. Dalrymple, *Oriental Repertory* (1791), pp. 286-9; Milburn, *Oriental Commerce*, Vol. II, pp. 521-525; Mui & Mui, *William Melrose in China 1845-1855*, pp. 268-9.

2.2.2 The Development of Trade in Different Sorts of Tea

Because stronger teas were derived from younger leaves, those teas picked in the early spring were the most superior in quality and price. For example, because Pekoe tea was made from the first gathering of leaves and was the most superior black tea, its average price in Canton and in London was the highest among all black teas. Souchong, Campoi and Congou were made from later gatherings and therefore their prices were lower than

that of Pekoe, with Bohea tea (made from the last gathering) being the cheapest sort of black tea. The sale prices of the different types of black tea can be seen in Table 2.9. As with the black tea, the green tea could also be graded in price, with Singlo, Twankay, Hyson Skin and Hyson and finally Gunpowder in an ascending order, as illustrated in Table 2.10. It can be seen from Table 2.9 and Table 2.10, Bohea, the cheapest kind of black tea, was the most popular tea up to early 1780s. From the middle of 1780s onwards, however, sales declined as Bohea was replaced by other varieties of tea, in particular Congou tea.

The expansion of the Congou tea trade was remarkable in that it increased from less than one hundred thousand pounds in weight in the 1740s and 1750s to around 730,000 lbs. in 1780, and by 1785 and 1786 it reached over 3,000,000 lbs. In contrast to Bohea, the total amount of Congou tea sold by the EIC continued to grow in the years after 1790s, and it approached twenty million pounds in 1815, with a figure of 21,209,383 lbs. in 1825. The tremendous expansion of the Congou tea trade made it the largest item in the EIC's Chinese tea trade from the late 1780s. It accounted for around two-thirds of total amount of tea sold by the Company in Britain in the first decades of the nineteenth century. The trade of Souchong, another superior sort of black tea to Bohea, can also be seen to grow quickly in the late 1780s and the 1790s, with the sale of Pekoe, the most expensive black tea, also showing a tendency to increase in the later years.

Table 2.9 The amount (A) and the average sale price (B) of different varieties of black tea sold by the EIC, 1740-1833 (selected years)

Years	Bohea		Congou		Campoi		Souchong		Pekoe		Total (lbs.)
	A lbs.	B <i>s d</i> 10ths	A lbs.	B <i>s d</i> 10ths	A lbs.	B <i>s d</i> 10ths	A lbs.	B <i>s d</i> 10ths	A lbs.	B <i>s d</i> 10ths	
1740	988,972	3. 1. 4	71,815	3. 1. 7			24,286	5.11.2			1,085,073
1745	779,702	3. 3. 2	24,759	4. 7. 6			82,435	5. 2. 9			886,896
1751	2,140,619	2. 9. 1	64,732	4. 1. 6			52,949	5. 9. 5			2,258,300
1755	1,871,736	2. 8. 0	77,511	4. 3. 9			42,649	6.10.5			1,991,896
1760	2,545,562	2.11.6	61,498	5. 4. 2			71,112	6. 4. 5			2,678,172
1765	3,584,559	3. 3. 5	194,147	4.11.6			114,576	6. 0. 2			3,893,282
1770	5,956,872	2. 9. 0	218,249	4. 5. 7			64,528	6. 1. 4			6,239,649
1775	3,343,909	2. 2. 0	339,328	4. 2. 4			96,377	5. 2. 7			3,779,614
1780	4,183,090	2. 3. 4	733,676	4. 7. 4			127,079	5. 6. 3			5,043,845
1784	4,204,991	2. 0. 8	1,587,303	4. 7. 8			266,001	5. 5. 5			6,056,295
1785	5,098,633	1. 6. 7	3,296,872	3. 8. 8			624,536	4. 9. 7			9,020,041
1786	5,229,911	1. 6. 1	3,746,001	3. 7. 6			624,563	4. 7. 1			9,600,475
1788	3,604,810	1. 6. 7	4,883,635	3. 3. 9			939,919	4. 5. 2			9,428,364
1791	4,001,314	1. 9. 2	7,091,797	3. 1. 0	195,507	4. 0. 5	1,128,963	4. 3. 9	10,175	5. 4. 2	12,427,756
1795	3,929,851	1.10.8	9,658,432	3. 1. 8	785,658	3. 5. 0	1,316,996	3. 7. 8	53,683	4. 4. 9	15,744,620
1800	2,426,340	1. 8. 9	12,308,138	3. 0. 5	1,649,078	3. 3. 2	2,296,835	3. 4. 4	22,880	5. 6. 9	18,703,271
1804	2,686,366	1. 9. 7	13,163,568	3. 0. 4	597,965	3. 2. 4	895,317	3. 5. 6	16,912	4. 9. 3	17,360,128
1810	1,420,449	1. 8. 8	16,307,708	3. 3. 3	1,520,577	3. 4. 5	704,906	3. 7. 7	64,250	4. 1. 8	20,017,890
1815	888,608	2. 3. 8	19,653,754	2.11.7	740,391	3. 5. 1	899,490	3. 7. 8	23,363	6. 7. 7	22,205,606
1820	2,231,251	2. 1. 1	16,358,824	2. 7. 1	291,748	3. 5. 7	1,268,965	3. 3. 0	133,964	4. 2. 5	20,284,752
1825	2,579,351	2. 3. 2	21,209,383	2. 7. 7	152,957	3. 2. 4	508,745	3. 1. 1	115,313	4. 1. 2	24,565,749
1830	5,607,978	1. 9. 2	18,633,573	2. 3. 3	494,118	2. 2. 1	133,487	3. 9. 7	171,553	4. 1. 4	25,040,709
1833	6,473,645	1.10.7	19,189,812	2. 1. 9	289,541	1.11.7	410,775	2. 8. 2	553,555	2.10.0	26,917,328

Source: based on BPP, 1845, Accounts and Papers, Vol. XLVI, No. 191.

Table 2.10 The amount (A) and the average sale price (B) of different varieties of green tea sold by the EIC, 1740-1833

Years	Singlo		Twankay		Hyson Skin		Hyson		Total (lbs.)
	A lbs.	B. <i>s. d.</i> 10ths	A lbs.	B <i>s d</i> 10ths	A lbs.	B <i>s d</i> 10ths	A	B <i>s d</i> 10ths	
1740	428,200	7. 1. 5					139,808	10. 5. 5	568,008
1745	1,372,448	4. 6. 5					203,999	12. 3. 8	1,576,447
1751	1,169,494	3.11.1					249,044	8. 2. 0	1,418,538
1755	1,335,835	4. 4. 0					166,332	9. 8. 6	1,502,167
1760	1,152,491	5. 8. 9					119,958	8. 7. 1	1,272,449
1765	1,378,782	5. 5. 1					117,160	10. 0. 0	1,495,942
1770	2,186,625	5. 5. 1					78,147	10. 0. 4	2,264,772
1775	2,194,725	3.11.7					175,994	8. 8. 4	2,370,719
1780	2,237,642	4. 5. 8					197,791	8.10.3	2,435,433
1784	3,023,555	3. 5. 8					561,902	6. 9. 5	3,585,457
1785	4,519,968	2.10.7					1,541,729	6. 3. 3	6,061,697
1786	2,442,597	2.11.7	1,721,299	3. 1. 8	842,152	3. 5. 7	1,462,321	6. 3. 1	6,648,369
1788	1,502,170	2. 8. 5	1,880,746	2.11.7	484,887	3. 4. 6	1,718,449	5. 9. 2	5,586,252
1791	1,211,051	2. 6. 9	1,355,848	2. 8. 7	550,853	3. 4. 9	1,722,809	5. 6. 3	4,840,561
1795	1,919,586	2. 6. 6	1,589,775	2. 7. 7	467,646	3. 0. 4	1,610,356	5. 1. 0	5,587,363
1800	226,519	3. 5. 5	2,228,174	3. 6. 5	577,021	3. 9. 5	1,630,762	4. 6. 4	4,662,476
1804	140,789	3. 0. 3	3,312,820	3. 2. 0	499,909	3. 3. 3	1,044,898	4. 6. 7	4,998,416
1810	634,703	3. 6. 0	2,820,007	3. 8. 3	535,144	3.10.8	902,638	4 11 9	4,892,492
1815			3,837,691	3. 4. 6	706,892	3. 7. 4	998,777	5. 7. 3	5,543,360
1820			4,800,042	3. 0. 4	271,253	3. 1. 4	702,221	5. 6. 6	5,773,516
1825			3,696,282	3. 5. 6	174,278	3. 5. 2	1,030,311	4. 5. 2	4,900,871
1830			4,247,180	2. 4. 1	212,916	2. 6. 4	1,073,516	4. 1. 8	1,290,679
1833			4,793,927	2. 1. 5	151,898	2. 3. 1	1,050,687	3. 6. 5	5,996,512

Source: as Table 2.9.

As with the black tea, Singlo, the cheapest kind of green tea, took the leading position in the earlier years. The situation was then changed after the Commutation Act was passed in 1784 and the quantity sold by the EIC decreased clearly in the second half of the 1780s, so that by the nineteenth century its position became less important as can be seen in Table 2.10. This happened partly because from the season 1786/87 the EIC in London separated its sales of Twankay and Hyson Skin from Singlo and thus limited the scale of the traditional Singlo trade.⁵⁸ While the traditional Singlo tea trade experienced a decline, Twankay became one of the main green teas in the EIC's auctions not long after its being sold separately in 1786/7. As illustrated in Table 2.10, from the beginning of the nineteenth century, it became the most popular green tea demanded by British consumers. The trade of Hyson tea, a superior sort of tea to Singlo, also took off in the corresponding period and became one of the major green teas in the Company's business.

From the discussion above, we find that after 1785 there was a tendency towards a decrease in consumption of the cheapest sort of teas, both the black tea and the green one. In the corresponding period, there was an increase in the consumption of more expensive varieties such as Congou, Souchong, Twankay and Hyson. This was largely due to a reduction in prices. It can, thus, be suggested that the reduction of tea prices caused by the passage of the Commutation Act not only helped the EIC expand the scale of its Chinese tea trade but also helped to encourage the British public to consume more

⁵⁸ The EIC's Court of Directors in London began its sales of Twankay and Hyson Skin separately from Singlo in 1786/87 (Mui & Mui, *The Management of Monopoly*, p. 103). However, it must not be misleading to suppose Twankay and Hyson Skin were new sorts of Singlo tea. In reality, Twankay was an independent kind of green tea and in the beginning of the 1760s it was already one of the most popular sorts of tea purchased by the EIC in Canton. See e.g. IOR: R/10/FR/4, 27 April 1760, p. 21 & 4 May 1760, p. 25.

superior sorts of tea (both black and green). This enabled the middle-level varieties of tea to occupy the key position in the EIC's tea business, with Congou being the most important single item of the Company's China trade.

2.3 The Cost and Profit of Company's Chinese Tea Trade

When studying the development of EIC's Chinese tea trade, it is also necessary to consider the Company's costs and profits. The Company's profit upon its tea trade can be calculated by comparing sale values in London with total costs, but in order to analyse the margin of profit in more detail, the prime cost, i.e. the total cost of tea purchases in China, needs to be distinguished from the cost of freight and customs payments. In the first place therefore it is necessary to understand how the tea was conveyed from the growing regions to Canton.

2.3.1 The Tea Conveyance System from Growing Regions to Canton

Chinese teas purchased by the EIC and other western merchants mainly came from the regions located in the provinces of Fu-kien (black tea), Che-kiang and An-hwei (green tea) which were approximately 1000 miles away from Canton. Because the Chinese government prohibited tea being taken to Canton by sea, the only way of transporting it from the growing regions to Canton was by inland conveyance.⁵⁹ Let us consider, for example, the black tea grown in the Bohea-mountain, located in the region bordering the

two provinces of Fu-kien and Kiang-si. After being gathered, dried and packed in chests, the Bohea black teas were first taken to the small town of Tsong-gan-hien (Ch'ung-an), from whence they were carried by porters over the Bohea Mountain and nearby hills to the village of Singtsun, in the province of Kiang-si. The tea was then carried to a larger town called Ho-keu (Ho-k'ou), on the River of Kewkeuh.⁶⁰ From here the tea was brought to Canton chiefly by water transportation, except for the crossing of the border of Kiang-si and Kwang-tung when land carriage was necessary.⁶¹

From Ho-keu, tea was first shipped to Nan-chang, the capital of the Kiang-si Province, via the River of Kewkeuh and Poyang Lake. In the provincial capital-city, tea was then sent down the River Kan to the city of Kan-chou, a major city in the south of the province. After reaching Kan-chou, tea was moved to smaller vessels and was then sent to Tayü, a town near the border of two provinces of Kiang-si and Kwang-tung. In some places, because the water was very shallow, the boats were dragged over the river. In Tayü, tea was landed and carried, chest by chest, by porters or animals over the Mei-ling Mountain to enter the Kwang-tung province.⁶² After crossing the mountain and reaching Nan-hsiung, inside the province of Kwang-tung, tea was again put into boats and carried to Shaou-chow Foo. From here, teas were re-shipped into large boats and were conveyed down by the North River to Canton (see Map 4).⁶³

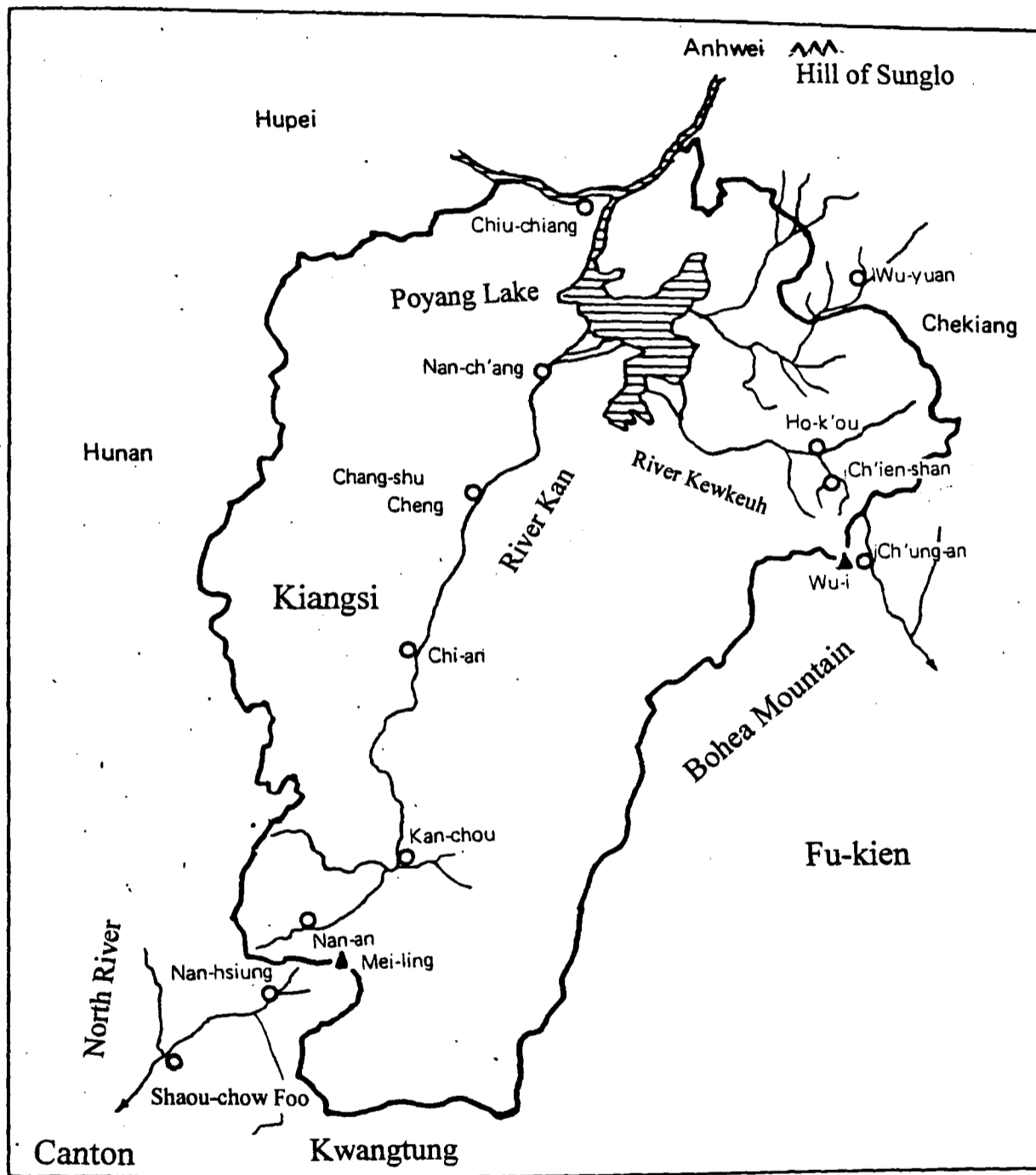
⁵⁹ K. T. Chen, 'Transaction Practices in China's Export Tea Trade, 1760-1833', p. 747.

⁶⁰ S. Ball, *An Account of the Cultivation and Manufacture of Tea in China* (1848, reprinted in 1980), p. 352.

⁶¹ *Chinese Repository*, Vol. VIII, No. 3 (July 1839), p. 144.

⁶² Ball, *ibid.*, pp. 352-3. Mei-ling is a mountain bordering the provinces of Kiang-si and Kwang-tung.

Map 4 The Route of Transporting Teas from Bohea Mountain to Kwangtung through Kiangsi Province



Source: K. T. Chen, 'Transactions Practices in China's Export Tea Trade, 1760-1833' (1989)

As for the green tea, the majority of this sort of tea purchased by the EIC was cultivated in the countries lying on the border between Che-kiang and An-hwei. From these provinces the tea was first carried by porters across the hills down to Kiang-si and then by water across Poyang Lake down to Nan-ch'ang. Afterwards, the green tea followed the same course to Canton as the black tea.⁶⁴ The boats in which tea was brought down to Canton could carry 500 to 750 chests of tea, and were usually called 'tea boats' by foreign merchants, although tea was not the only commodity they carried.⁶⁵

The above description illustrates clearly that it took much time and heavy labour to bring tea down to Canton from the growing regions. Perhaps because it was such a troublesome job, the Canton Hong merchants seldom went themselves into the tea-growing regions to deal with the growers directly, although they occasionally sent their servants or agents to enter the tea-producing districts in order to make purchases.⁶⁶ Indeed, apart from few rich Hongists (such as Puan Khequa's and Wu Howqua's families) who owned tea fields in the Bohea mountains so that they could supply their own tea for foreigners at Canton, most Hong merchants conducted their tea purchases through other dealers.⁶⁷ These tea dealers or middle-men have generally been described as 'tea merchants'; and they were often termed *tea-men* in the EIC's records.⁶⁸ The tea-men

⁶³ *Ibid.*, p. 353.

⁶⁴ For the transportation of green tea, see *Chinese Repository*, Vol. VIII, No. 3, pp. 146-7 for the detail. A brief description of transportation of teas from the growing areas down to Canton can also be seen in Chen's article 'Transaction Practices in China's Export Tea Trade, 1760-1833'.

⁶⁵ *Chinese Repository*, *ibid.*, p. 145.

⁶⁶ PRO: FO/1048/12/22, p. 1; FO/1048/12/37, p. 1.

⁶⁷ R. Gardella, *Harvesting Mountain: Fujian and the China Tea Trade, 1757-1937*, p. 35; & *idem.*, *Fujian's Tea Industry and Trade in Ch'ing and Republican China* (1976), p. 80.

⁶⁸ See e.g. Gardella, *Harvesting Mountain: Fujian and the China Tea Trade, 1757-1937*; & Mui & Mui, *The Management of Monopoly: A Study of the East India Company's Conduct of its Tea Trade 1784-1833*. Those Chinese traders who played the role of the middlemen to procure tea for the Hong merchants were

were very numerous. In contrast to there being only around ten Hong merchants in Canton in early nineteenth century, about four hundred green tea merchants visited Canton each year, although the black tea dealers were relatively fewer in number.⁶⁹

To obtain tea for the Hong merchants, the tea-men undertook their trips to the growing areas and after conducting transactions with the producers, they hired carriers to bring tea down to Canton. In some cases, the tea-men might leave the job of tea procurement to other dealers who acted as intermediates between the tea-growers and themselves.⁷⁰ After teas were brought down to Canton by the tea-men, they were first stocked in warehouses. The tea-men then contacted the Hong merchants and sold tea to them. The Hong merchants sometimes did not deal with the tea-men directly, but instead they received teas through the proprietors of warehouses who were regarded as 'tea-brokers' between the two groups of merchants.⁷¹

Finally, the Hong merchants in Canton sold tea to the EIC. The tea transactions between the Company's supercargoes and the Chinese Hongists were conducted either in the EIC's factory or the Hongists' shops or warehouses.⁷² In most cases, these Hongists first purchased tea from tea-men and then sold it to foreigners. Occasionally, the Hong merchants only played the role of brokers, passing tea from the hands of the tea-men to

sometimes termed 'tea merchants' by the EIC (e.g. IOR: R/10/Secret Consultations (hereafter SC)/6, 3 April, 1812, pp. 104-5), but more often they were described as 'tea-men' (e.g. IOR: R/10/FR/4, 29 November 1785; R/10/Miscellaneous (hereafter MISC)/2, 17 June, 1818).

⁶⁹ Gardella, *Harvesting Mountain*, pp. 35-6.

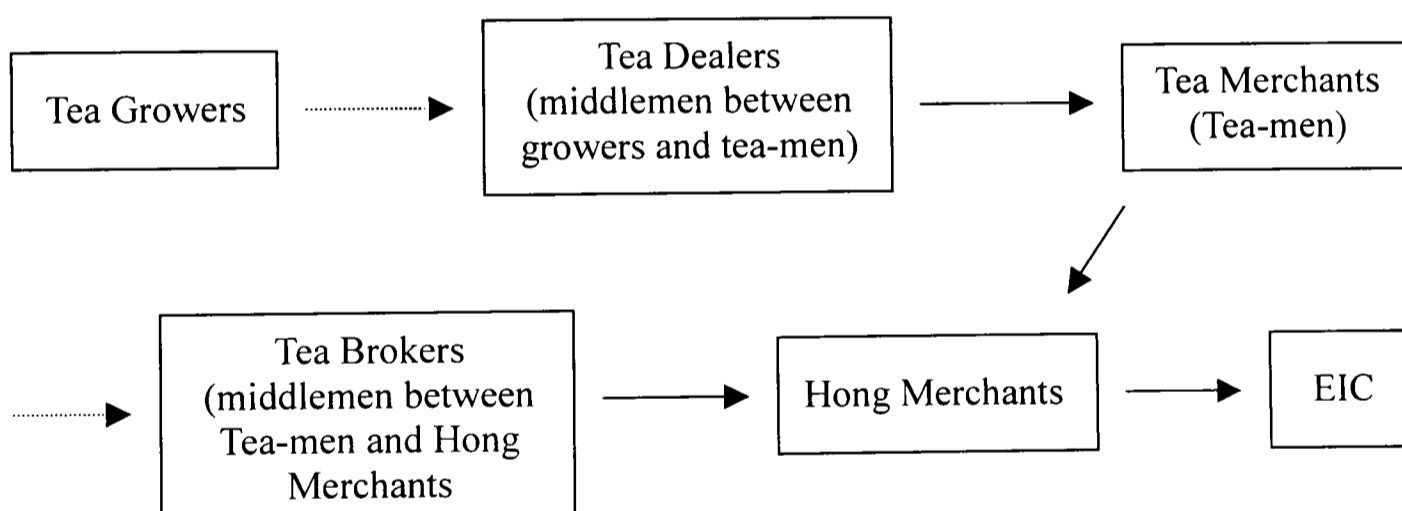
⁷⁰ IOR: R/10/MISC/2, 17 June, 1818.

⁷¹ *Ibid.*

⁷² For the EIC's conduct of its tea procurement, see Chapter Five in detail.

the East India Company's supercargoes or other foreign merchants.⁷³ Some of the tea-men did not merely transport tea from the growing regions, but they also ran their own businesses, i.e. tea shops in Canton. In this situation, the Chinese shop-keepers in Canton could sell teas to the EIC through the Hong merchants.⁷⁴ Thus it was always the Hong merchants who were responsible for delivering tea to the EIC and other European traders. It can be seen, therefore, that before tea arrived on board EIC's ships, it had passed through a number of different hands and accordingly, it is possible to create a transport chain connecting the growing area to Canton, as illustrated in Table 2.11.

Table 2.11 The chain of Chinese tea conveyance from tea growers to the EIC



2.3.2 The Prime Cost of Tea in China

Having established the process by which tea was transported from the growing regions to Canton, we can begin to calculate the prime cost of the Company's tea trade with China.

⁷³ K. T. Chen, 'Transactions Practices in China's Export Tea Trade 1760-1833', p. 746.

⁷⁴ In much later years, several shop-keepers also tried to sell tea to foreigners directly without through the hands of the Hong merchants. See a discussion of the issue in Chapter Five and Chapter Seven.

This can be done by considering the example of the Bohea-mountain Congou tea. The distance from the Bohea hills to Canton was about 2885 Chinese *le* (里) or around 930 English miles and the transportation of tea generally took about forty days or six weeks, but sometimes two months when it was disturbed by bad weather or other unanticipated reasons.⁷⁵ According to Ball's estimates, made in early nineteenth century,⁷⁶ the whole expense of carriage of Bohea-mountain black tea down to Canton from the growing districts, exclusive of duties and other government charges, was three taels, six maces and five candareens per pecul.⁷⁷ The most difficult phase of the whole journey was at the beginning when tea was transported out of Fu-kien over the Bohea mountains to Ho-k'ou in Kiang-si Province.⁷⁸ Although it occupied no more than one seventh of the entire distance, this journey took approximately eight days or almost one fifth of the whole time necessary for the transit of tea from the growing country down to Canton. More importantly, the expense of transportation across these hills amounted to 1 tael, 2 maces and 5 candareens per pecul which accounted for more than one third of the whole expense of the carriage of tea.⁷⁹

⁷⁵ *Chinese Repository*, Vol. VIII, No. 3, July 1839, p. 144.; S. Ball, 'Observations on the Expediency of Opening a New Port in China', in R. Murphy (ed.) *Nineteenth Century China: Five Imperialist Perspectives* (1972) (This paper was originally printed at Macao in 1817), p. 9; *ibid.*, *An Account of the Cultivation and Manufacture of Tea in China* (1848, reprinted in 1980), p. 353.

⁷⁶ Ball, 'Observations on the Expediency of Opening a New Port in China', p. 9.

⁷⁷ During the period of the Company's trading with China, accounts were kept in four different currency units: *leäng* (兩), *tsëen* (錢), *fun* (分) and *le* (厘), i.e. tael, mace, candareen and cash as they were respectively called by the English and other foreigners. The relations of their value were in theory: ten cashes equals to one candareen; 10 candareens exchange 1 mace; and finally 10 maces account for one tael. However, owing to the deterioration of the actual value of a copper cash, in theory equal to one thousandth of a tael of silver, was lower in practice that around 1350 ordinary cash or 1250 picked ones were paid equal to one tael. For a understanding of Chinese currency system during the Ch'ing regime, see Milburn, *Oriental Commerce* (1813), pp. 470-1; R. Morrison, *A Chinese Commercial Guide* (1834), pp. 62-69; H. B. Morse, 'Currency in China', *Journal of the North China Branch of the Royal Asiatic Society* (1908), pp. 1-60).

⁷⁸ S. Ball, 'Observations on the Expediency of Opening a New Port in China', p. 5.

⁷⁹ Ball, *An Account of the Cultivation and Manufacture of Tea in China*, p. 352.

There were however other expenses which needed to be taken into consideration. As previously mentioned, the teas were first packed and put into chests. The average cost of chests and packing for one pecul of tea was estimated to be slightly more than one tael.⁸⁰ Moreover, the tea traders and carriers had to pay charges and duties to the government. For instance, there were seven major excise-houses on the road between the Bohea tea-growing districts and Canton and the excise levied at each of them was one candareen and four cash per pecul.⁸¹ When the government duties and other official charges were added to the net expenses of tea transportation, Ball estimated that the total cost of carriage down to Canton would be three tales, nine maces and two candareens or almost four tales for each pecul.⁸² When considering the total cost of tea before it was handed to the Company, we must not forget to include the original cost of tea growth and manipulation. The original cost of Congou tea growing, drying and manipulation was generally estimated to be between eleven and twelve tales per pecul.⁸³ By adding the different expenses together, the total cost of the tea was therefore nearly seventeen tales per pecul.⁸⁴ This figure can be treated as the price that the Canton Hong merchants paid to the tea-men.

After tea arrived in Canton, other expenses were incurred. Before tea reached the EIC, the Hong merchants had to deal with the payments for their hong and warehouses, as well as the wages of their servants, and they also paid government taxes and customs

⁸⁰ According to Ball (*ibid.*, pp. 354, 384), the average cost of tea chests and packing was estimated to be one tales, three maces, one candareens and six cashes.

⁸¹ *Chinese Repository*, Vol. VIII, no. 3, 1839, July, p. 146.

⁸² Ball, *An Account of the Cultivation and Manufacture of Tea in China*, p. 353.

⁸³ *Ibid.*, pp. 353, 382.

⁸⁴ $4+1+12=17$.

duties. The cost of these items were considerable and could reach 3 tael per pecul.⁸⁵ The total cost of tea before it reached the EIC's hands therefore consisted of the original cost of tea growth and manipulation, drying and packing, transportation costs and government duties as well as the Hong merchants' payments for warehouses and servants. Adding these items together, the prime cost of (Congou) tea was approximately 20 taels per pecul before the Hong merchants sold to the EIC during the 1820s. The different items of expense and total cost are illustrated in Table 2.12. This figure for prime cost estimated by Ball can be largely accepted because it matches the figures indicated in the Company's own records. In the trading season of 1823/24, for instance, the average price which the Hong merchants paid to tea-men for Congou tea was 17 taels per picul, which when customs duties and other expenses totalling 3 taels was included, brought the cost to 20 taels.⁸⁶

Table 2.12 The prime cost of Congou Tea and the gross profitability of the Hong merchants' tea trade with the EIC during the 1820s

Item of Cost and Profit	Taels
1. Cost of growth and manipulation	12 Taels (per pecul)
2. Cost of chests, canisters, and packing	1 Tael 3m. 1c. 6c.
3. Total Expense of transport from the growing districts to Canton, inclusive of duties paid to excise-houses	3 Taels 9m. 2c.
4. Charges at Canton on account of government duties, Hong merchants' expenses on transacting tea to the EIC	3 Taels
5. Total Cost	20 Taels 2m. 3c. 6c.
6. The price of tea which the Hong merchant sold to the EIC (on average)	25 – 29 Taels
The profit of tea trade by the Hong merchant	Approximately 5 – 9 Taels (20 – 30 per cent)

Sources: for Nos. 1-5, from Ball, *An Account of the Cultivation and Manufacture of Tea in China*, pp. 352-4; for No. 6, from the EIC's records, such as G/12 and R/10, *passim*.

⁸⁵ Ball, *ibid.*, p. 354.

⁸⁶ IOR: R/10/SC/7, January 23, 1828, p. 175.

2.3.3 The Legacy of the Hong merchants' Tea Trade with Foreigners

We now turn to consider the Hong merchants' profit from the tea trade. Because the Hong merchants were the only Chinese group authorised to deal with foreigners, their profit could be supposed to be very high. Indeed, a few Hong merchants, in particular a couple of senior merchants with abundant capital, obtained a huge fortune from the high-profit tea trade with the EIC and other western traders. Of them, Puan Khequa's and Howqua's families made the most striking achievements in the history of Canton Hong merchants' trade with foreigners. Through the Canton trade with foreigners, both Puan Khequa's and Howqua's family became so rich that it has been argued by historians that they were 'probably two of the wealthiest merchants in the world in their time'.⁸⁷

Puan Khequa (P'an Wen-yen 潘文顏) became a *wai-yang-hang* merchant at the beginning of the 1750s. His efforts to dissolve the 1760 Co-hong stood him in a good stead with the EIC, who in turn provided him with assistance in business and finance. Thus, Puan Khequa emerged as the most influential Canton Hong merchant from the late 1770s onwards.⁸⁸ His leading position became more secure when his two major rivals were forced out of the business in the 1780s. Later on he was regarded by the Canton authorities as 'shang-tsung' (商總) or 'shou-ming shang-jen' (首名商人) which means 'head merchant'.⁸⁹ As the head of the Hong merchant body, his name was listed first

⁸⁷ D.K. Basu, 'Asian Merchants and Western Trade: a comparative study of Calcutta and Canton 1800-1840', (1975), p. 349.

⁸⁸ Section 5.1.2 will have a discussion of the commercial and financial interaction between Puan Khequa and the EIC and its impacts on the tea trade.

⁸⁹ Chen, *The Insolvency of the Chinese Hong Merchants 1760-1842*, pp. 374-5; & 陳國棟, '潘有度 (潘啓官二世): 一位成功的洋行商人', 中國海洋發展史論文集 (五) (K. T. Chen, 'Puan Khequa II: A Successful Hong Merchant', in *Collected Essays on the History of Chinese Maritime Development*, Vol.

among the merchants who contracted with the EIC, and accordingly was known by the EIC as the first merchant.⁹⁰ The position of first merchant offered Puan Khequa powerful influence over both the Canton mandarins and foreign traders.⁹¹

After he died in 1788, his firm *T'ung-wen* Hong (同文行) was left to his son, P'an Chih-hsiang (潘致祥 or 潘有度) who in 1815 renamed the firm *T'ung-fu* Hong (同孚行). The son was also known to the EIC and other foreign traders as Puan Khequa, and historians, in order to distinguish him from his father, called him as Puan Khequa II.⁹² After decades of successful business at Canton, Puan Khequa II accumulated a considerable fortune; when he died in 1820, he left an estimated ten million (Spanish) dollars (around 7,200,000 Chinese taels). Afterwards, his son, P'an Cheng-wei (潘正煒), known as Puan Khequa III, took over the business and by the early 1840s when the Hong-merchant system was dis-established, his fortune had reached twenty million dollars (about 14,400,000 taels).⁹³ After a century in the trade, the family's firm was the longest Hong in the history of the Canton System.⁹⁴

V.), p. 247.

⁹⁰ Morse, *The Chronicles of East India Company Trading to China*, Vol. II, p. 97.

⁹¹ See Chapter Five and Chapter Six for a discussion of the issue.

⁹² For a business history of Puan Khequa's family, see W. E. Cheong, *Hong Merchants of Canton – Chinese Merchants in Sino-Western Trade 1684-1798*, pp. 159-1; 陳國棟, '潘有度 (潘啓官二世): 一位成功的洋行商人', 中國海洋發展史論文集 (五) (K. T. Chen, 'Puan Khequa II: A Successful Hong Merchant; & 梁嘉彬, 廣東十三行考 (Liang, *A Study of the Canton Thirteen Hongs*).

⁹³ 陳國棟, '潘有度 (潘啓官二世): 一位成功的洋行商人' (Chen, 'Puan Khequa II'), p. 245; & *idem.*, '論清代中葉廣東行商經營不善的原因', 新史學 (Chen, 'Reasons as to the Perennial Insolvency of the Ch'ing Dynasty's Canton Hong Merchants', *New History*, Vol. 1, No. 4 (December, 1990), p. 16.

⁹⁴ W. E. Cheong, *Hong Merchants of Canton – Chinese Merchants in Sino-Western Trade, 1684-1798* (1997), pp. 164, 170.

Other Hong merchants worthy of attention are Wu Kuo-ying (伍國瑩) and his family. Wu had originally been a purser for Puan Khequa (I).⁹⁵ He then began to run his own business and adopted 'how' (浩) as his merchant-name, which was derived from a pet name given to one of his sons. Accordingly, Chinese mandarins and foreign traders regarded him as 'Howqua' (浩官).⁹⁶ Howqua started to deal with foreigners in 1768, although his name only appeared in EIC's records in 1777.⁹⁷ In 1783 he founded a new firm *I-ho* Hong (怡和行) to carry out business with western merchants.⁹⁸ The early years of *I-ho* business were not very successful, probably due to heavy extortions from the Chinese officials, so that in 1789 Howqua decided to end his job as a Hongist and ran away from Canton.⁹⁹

In 1792 Howqua's second son Wu P'ing-chün (伍秉鈞) was appointed to be a Hong merchant and took over the job of running the *I-ho* business. Originally the son also used Howqua as his merchant-name, but later on he adopted the new trade name of Puiqua (沛官).¹⁰⁰ This was probably because of the declining credibility of the Howqua's Hong

⁹⁵ *Ibid.*, p. 89; Basu, *Asian Merchants and Western Trade*, p. 356.

⁹⁶ 章文欽, Zhang Wen-qin, '從封建官商到買辦商人 – 清代廣東行商伍怡和家族剖析 (上)' ('Feudalistic Mandarin Merchants Turns to be Compradore-Merchants – A Analysis of Kwangtung Hong Merchants, Wu Howqua and his Family during the Ch'ing Period', Part I'), *近代史研究 (Modern History Studies)*, 1984 (4), p. 168.

⁹⁷ Cheong, *Hong Merchants of Canton*, p. 89; Morse, *The Chronicles of East India Company Trading to China*, Vol. II, p. 28.

⁹⁸ For Howqua's business history in Canton prior to 1783, see e.g. Basu, *Asian Merchants of Canton*, p. 356; Cheong, *Hong Merchants of Canton*, 89; 章文欽, '從封建官商到買辦商人', (Zhang, 'Feudalistic Mandarin Merchants Turns to be Compradore-Merchants'), p. 168. Cheong (*Hong merchants of Canton.*, p. 122, no. 39) argued that the name 'I-ho' was derived from 'Ewo', a name of another Hong at Canton. The *Ewo* Hong originally belonged to another Hong merchant, Sinqua and in 1783, Howqua bought the Hong from Sinqua who had become insolvent after a year as a Hongist.

⁹⁹ 章文欽, '從封建官商到買辦商人', (Zhang, 'Feudalistic Mandarin Merchants Turns to be Compradore-Merchants'), p. 169.

¹⁰⁰ *Ibid.*

among foreign merchants.¹⁰¹ Unlike his father who carried out business with many commodities, Puiqua concentrated mostly in the tea trade with foreigners, in particular with the English and Americans.¹⁰² Having established a successful tea business, Puiqua succeeded in clearing his father's debts and re-establishing the I-ho Hong's credit. By around 1800, his firm had become one of the leading Canton Hong's dealing in the tea and raw silk with the EIC.¹⁰³

Puiqua died in 1801 and his business was then left in the hands of his younger brother Wu P'ing-chien (伍秉鑒) who continued to adopt *Howqua* for his merchant name, thus becoming known as Howqua II. However, because of its being associated with good fortune, the new Hongist also adopted his older brother's commercial name 'Puiqua' for business. The merchant name Puiqua was used by the junior Howqua, in connection with the tea contracts or deliveries, although on some other occasions the title Howqua was still used.¹⁰⁴ The I-ho Hong's business continued to grow under Howqua II's talented management, and his firm finally emerged as the leading yang-hang, dominating the foreign trade in Canton after the 1820s.¹⁰⁵ Consequently, Howqua II was made First Merchant from 1811-15, and was Chief Merchant (總商) from 1822 until 1842.¹⁰⁶

¹⁰¹ Basu, *Asian Merchants and Western Trade*, p. 357.

¹⁰² *Ibid.*

¹⁰³ 許地山 (Hsü Ti-shan), 達衷集 (*Ta Chung-chi*) (Collected Letters and Ordinances), pp. 160-1.

¹⁰⁴ In his book, Morse correctly pointed out that both the trade names Howqua and Puiqua were mixed in use by a same merchants on different occasions in the early nineteenth century. But he did not understand the situation that it was actually Howqua II rather than his elder brother who was in business following the nineteenth century because Puiqua (Wu P'ing-chün) died in 1801 (Morse, *The Chronicles*, Vol. IV, p. 35). Liang and Zhang thus highlighted that Morse made a mistake by suggesting that Howqua II and his Puiqua (and even their father Howqua I) were the same person carrying out trade with the EIC (see 梁嘉彬, 廣東十三行考 (Liang, *A Study of the Kwangtung Thirteen Hong's*), p. 290; & 章文欽, '從封建官商到買辦商人' (Zhang, 'Feudalistic Mandarin Merchants Turns to be Compradore-Merchants'), p. 193).

¹⁰⁵ IOR: G/12/273, 30 March 1822, p. 357; G/12/276, 11 January 1830, p. 673.

¹⁰⁶ Cheong, *Hong Merchants of Canton*, p. 91.

His long-standing position as the Chief Merchant among the Hongists in Canton made Howqua II the most famous figure among the Canton Hong merchants in the nineteenth century and, in Cheong's word, his picture 'appears in almost all literature dealing with the subject'.¹⁰⁷ While remaining in business and being the Chief Merchant, Howqua in 1826 left most of his business to his son Wu Yuán-huà (伍元華), known as Howqau III, and they co-ran the I-Ho Hong until 1833.¹⁰⁸ By 1834 when the EIC's monopoly was removed, Howqua (II) and his family had amassed a great fortune, which has been estimated at twenty-six million Spanish dollars.¹⁰⁹ This made Howqua's family one of the wealthiest in the nineteenth-century China, and Greenberg argued that it was 'probably the largest mercantile fortune of the epoch'.¹¹⁰ Howqua III passed away in 1833 and his position was left to his younger brother Wu Yuan-wei (伍元薇) who helped his father run the I-ho Hong until 1842 when the Canton Hong-Merchant System was dissolved.¹¹¹ Afterwards, the name of I-ho was adopted by the British private firm Jardine, Matheson & Co. to be used as the Company's title in Chinese, i.e. I-ho yang-hang (怡和洋行), which is still in place today.¹¹²

¹⁰⁷ *Ibid.*

¹⁰⁸ 陳國棟, '論清代中葉廣東行商經營不善的原因', 新史學 (Chen, 'Reasons as to the Perennial Insolvency of the Ch'ing Dynasty's Canton Hong Merchants', *New History*), Vol. 1, No. 4, p. 7; 章 Zhang, '從封建官商到買辦商人' 'Feudalistic Mandarin Merchants Turns to be Compradore-Merchants', p. 171.

¹⁰⁹ W. C. Hunter, *'Fan Kwae' at Canton before Treaty Days*, p.48.

¹¹⁰ M. Greenberg, *British Trade and the Opening of China 1800-42* (1951), p. 67.

¹¹¹ Chen & Zhang, *ibid.*

¹¹² It would be interesting to explore the reason why Jardine, Matheson & Co. adopted *I-ho* as its company's Chinese title. The close commercial relationship between the Jardine, Matheson & Co. and the I-ho Hong might be a key factor. But Cheong (*Hong Merchants of Canton*, p. 89) argued that probably because the I-ho Hong had long been associated with success and good fortune, Jardine, Matheson & Co decided to take the name to be its Company's name in Chinese. (For a history of the Jardine, Matheson & Co., see Cheong, *Mandarins and Merchants – Jardine Matheson & Co., a China agency of the early nineteenth century* (1979), & R. Blake, *Jardine Matheson – Traders of the Far East* (1999).)

2.3.4 The Hong Merchants' and the EIC's Profits on their Tea Trade

Having recognized that the European and American tea trade with China made a few senior Hong merchants incredibly rich, we now go further to consider the Hong merchants' margin of profit from their transactions with the EIC. This will help us to establish the prime cost of the tea purchased by the Company. According to Ball's estimation, the Hong merchants obtained a rate of profit of 30 per cent from trading tea with the EIC.¹¹³ However, the figure deserves further examination because Ball did not show any detailed calculations regarding the tea prices that the Company paid the Chinese Hongs at Canton.

One method of establishing the Hong merchants' profit is to compare the prices of tea purchased by the EIC and the total expenditure of the Hong merchants on the tea business. As far as Congou was concerned, according to the EIC's own records, the price of tea varied between 15 taels and 30 taels per pecul in the eighteenth century and early nineteenth century. However, the price of Congou tea was generally in excess of twenty taels in the later years. EIC sources provide us with the information that the Company usually paid the Hong merchants between 25 and 29 taels per pecul for Congou tea in the last decades of the eighteenth century and the first decades of the nineteenth century.¹¹⁴

¹¹³ Ball, *An Account of the Cultivation and Manufacture of Tea in China*, p. 354.

¹¹⁴ For example, the EIC purchased Congou tea from the Hong merchants in 1780s at prices between 25 and 28 taels (IOR: R/10/FR/14 (Consultations), passim.), with the price at the level of 28 or up to 30 taels per pecul in the late 1790s (IOR: G/12/110, 29 January 1796, p. 150). In the seasons 1801/02 and 1802/03, the prices paid or contracted for the sort of tea per pecul were 28 or 29 taels per pecul (IOR: G/12/138, 12 March 1802, p. 162; G/12/139, 25 September, 1802, p. 165; R/10/SC/1, 2 May 1801, p. 46). In April 1811, the price of which the EIC agreed to pay for the Hong merchants was 25 taels pecul (IOR: G/12/1811, 14 April, 1811, p. 78), while the prices for the tea were proposed to be 26, 27 or 29 taels per pecul in the following year (IOR: R/10/SC/6, 3 April, 1812, pp. 104-7). The price in the next decade was much the same that the prices of contracted Congou tea were around 28 and 29 taels in the beginning of the 1820s

In comparison with the Hong merchants' expenditure of around 20 taels per pecul, this suggests a profit margin of between five and nine taels for one pecul. Accordingly, at this time the Hong merchants were making a considerable profit, amounting to approximately 20 or even approaching 30 per cent; this is illustrated in Table 2.12. This approximation conforms to Ball's estimates that the Hong merchants obtained nearly thirty per cent of profit from trading tea with the EIC.

It must, nevertheless, be pointed out that the above calculation is simply a rough approximation. Just as the prices of tea sold to the EIC by the Hong merchants varied, so the prime cost of tea transactions, including tea growth, manipulation and transportation as well as customs duties and labour wages would not always remain the same. Furthermore, as will be seen in the following chapters, the majority of the Hong merchants received advances from the EIC to secure tea supplies from the Chinese tea-men. That tea arrived and was passed to the EIC, the interest derived from the advanced money was also paid to the Company. For example, with an interest of 0.9 tael charged to the Hongist Chunqua in the season 1823/24, the real prime cost of Congou tea was 21 taels or so. When compared with the EIC's contract price of 26 taels, as indicated earlier, the Hong merchant's profit thus stood around 5 taels per pecul,¹¹⁵ and this produced a profit margin of about 20 per cent.

Whilst calculating the percentage of profit of the Hong merchants' tea trade, there is another factor that needs to be taken into consideration. As will be seen in Chapters

(IOR: R/10/CL/18, 11 April, 1812 (II), paras. 47, 51 & 56), while the Company's contract price for the season of 1823/24 was 26 taels (IOR: R/10/SC/7, 23 January, 1828, p. 175).

Three and Five, a trucking system was adopted by the EIC to exchange woollens for tea. Because the Hong merchants' woollen trade often produced a loss,¹¹⁶ the profit or loss of the woollens should be included when calculating the Chinese Hongists' tea trade profits.¹¹⁷ During the season 1823/24, for example, long ells was sold by the EIC to the Hong merchants at 6.7 taels per piece. After adding 1.5 taels of customs duties and official charges, the total cost of the products amounted to 8.2 taels per piece. These long ells later were sold at 7.5 taels per piece in the Canton market and therefore produced a loss of 0.7 taels per pecul for the Hong merchants. In an EIC tea contract with Chunqua, the Hong merchant took 350 pieces of long ells for each chop of Congou tea containing 390 piculs. Based on a loss of 0.7 tael for one piece, the total loss for the sale of 350 pieces long ells was 245 taels.¹¹⁸ Accordingly, an extra cost of about 0.63 taels for each pecul had to be added upon the Hong merchants' tea.¹¹⁹ If we suppose this was the case for most tea-woollen transactions, then it reduced the Hong merchants' net profit for tea trade to approximately 4.4 taels per pecul and the net profitability became 17 per cent, a figure far below Ball's estimate of 30 per cent. Based on the EIC's Canton Factory Records, Chen suggested that the average net profitability of the Hong merchants' tea trade between 1823/24 and 1826/27 was only slightly higher than 13 per cent.¹²⁰

¹¹⁵ IOR: R/10/Secret Con. (SC)/7, p. 177.

¹¹⁶ The British woollens delivered by the EIC to the Hong merchants were always re-sold at a loss.

¹¹⁷ This point is made by D. K. Basu, 'Asian Merchants and Western Trade; a comparative study of Calcutta and Canton 1800-1840' (1975), Ph.D. thesis, University of California Berkeley), p. 350; K. T. Chen, *The Insolvency of the Chinese Hong Merchants, 1760-1843* (1990), pp. 54, 57.

¹¹⁸ $350 \times 0.7 = 245$.

¹¹⁹ $245 \div 390 = 0.63$.

¹²⁰ Chen, *The Insolvency of the Chinese Hong Merchants*, p. 67. See Chen, *idem.*, pp. 62-77, & IOR: R/10/SC/7, 23 January, 1828, pp. 170-77 for details.

However, even if the average percentage profit on tea was far below 20 per cent and the net profit for the Hong merchants' tea trade was only 4 taels or so per pecul, the Canton Hongs could still have made a considerable fortune from their trade with the EIC. For example, an average of 244,704 piculs of tea was sold to the Company per year in the trading seasons 1825-29,¹²¹ indicating a theoretical, and conservative, profit of 1,077,000 taels for the Hong merchants each year. As only around ten Hong merchants were involved in the tea trade with the EIC, the average profit for one Hongist is likely to have been around 108,00 taels. Also, since the British were not the only foreigners to purchase tea at Canton and the Chinese sold tea to others such as the Americans and other traders from the Continental Europe, the overall annual profit of the Hong merchants' tea trade was certainly much larger than this figure.

Having a monopoly in the Chinese trade to Britain, the East India Company also benefited greatly from its tea trade with China. In particular, the lowering of tea customs due to the passage of the Commutation Act helped to increase the sales of the commodity in Britain in the second half of the 1780s. Consequently, the growing tea trade brought the Company a considerable profit. As illustrated in Table 2.13, which shows the cost and profit of the EIC's tea trade in the years 1788-1796, the prime cost (the cost of tea purchases at Canton) accounted for around two-thirds of the total cost, with other expenses taking the remaining one-third.

¹²¹ 嚴中平 C. P. Yen, *et. al.*(eds.), 中國近代經濟史資料選輯 (The Selected Statistical Material on China's Modern Economic History), Table 13.

Table 2.13 The EIC's Profit on Tea sold in the years 1788-1796

Year	Quantity (lbs.)	Prime Cost £	Freight £	Customs & Other Charges £	Total Cost £	Sale Amount £	Profit £	Rate of Profit %
1788	14,478,481	1,233,785	405,219	110,126	1,749,130	2,202,523	453,393	25.9
1789	16,010,198	1,315,240	473,233	116,646	1,905,119	2,332,930	427,811	22.5
1790	16,028,343	1,257,528	454,738	121,143	1,833,409	2,422,858	589,449	32.2
1791	16,299,854	1,265,317	453,657	120,167	1,839,141	2,403,338	564,197	30.7
1792	17,478,762	1,359,339	461,668	126,691	1,947,698	2,533,827	586,129	30.1
1793	16,346,248	1,303,879	405,288	116,259	1,825,426	2,325,191	499,765	27.4
1794	18,339,672	1,609,770	362,156	136,683	2,108,609	2,733,668	625,059	29.6
1795	19,434,142	1,382,059	465,270	141,091	1,988,421	2,821,842	833,421	41.9
1796	17,532,758	1,282,566	515,279	127,503	1,925,348	2,550,058	624,710	32.4
Average								30.3

Source: based on IOR: H/449, p. 23.

Table 2.14 Cost, Sale Amount, Profit and Loss on the Article from China and India, respectively, sold by the EIC in Britain in the years 1788-1796 (£)

Merchandise from China										
	Prime Cost	Customs	Freight & Demurrage	Charges of Merchandise	Total Cost	Sale Amount	Profit	Loss	Balance	Rate of Profit (%)
1788	1,461,792	46,733	413,570	125,495	2,087,590	2,509,918	453,708	31,280	422,428	20.2
1789	1,543,700	57,953	488,964	131,596	2,222,213	2,631,959	431,003	21,257	409,746	18.4
1790	1,436,311	49,260	468,041	134,378	2,087,990	2,687,574	609,410	9,829	599,581	28.7
1791	1,457,977	55,212	469,624	145,978	2,117,805	2,699,528	601,719	19,972	581,747	27.5
1792	1,482,811	41,150	477,208	136,557	2,137,726	2,731,170	615,034	21,590	593,444	27.8
1793	1,460,357	41,284	418,028	125,729	2,045,398	2,514,594	499,765	30,569	469,196	22.3
1794	1,689,242	27,322	372,346	143,072	2,231,982	2,861,422	643,336	13,896	629,440	28.2
1795	1,478,230	25,802	472,487	148,636	2,125,155	2,972,114	853,952	6,443	847,509	39.9
1796	1,360,900	20,341	521,074	133,417	2,035,732	2,668,346	636,547	3,933	632,614	31.1
Average										27.1
Merchandise from India										
1788	901,154	420,184	258,563	86,090	1,665,991	1,721,816	168,797	112,972	55,825	3.4
1789	929,038	443,817	256,579	89,264	1,718,698	1,785,329	190,826	124,195	66,631	3.9
1790	1,111,552	575,820	248,262	120,184	2,056,618	2,403,664	412,264	64,196	348,068	16.9
1791	1,077,606	556,519	249,738	122,148	2,005,933	2,442,004	488,205	52,158	436,047	21.7
1792	1,073,592	556,580	239,251	115,967	1,985,390	2,319,353	339,342	5,379	333,963	16.8
1793	1,224,028	584,792	289,563	117,357	2,215,640	2,345,151	219,772	90,261	129,511	5.8
1794	1,299,713	571,074	290,673	130,571	2,292,031	2,611,522	356,101	36,565	319,536	13.9
1795	1,847,832	744,569	581,214	177,164	3,350,779	3,543,236	343,627	151,170	192,457	5.7
1796	1,721,227	856,204	556,669	169,777	3,303,877	3,395,564	245,410	153,723	91,687	2.8
Average										10.1

Source: based on IOR: H/449, pp. 37-38.

Apart from the prime cost, the expense of freight was largest, partly due to the long and risky voyage from Canton back to London. However, the high cost of freight was mainly due to the payments made to the shipowners, who always kept the freight charges very high. Whether the management of the EIC supercargoes' tea purchases in Canton was efficient or not will be discussed in later chapters. As the only authorised Chinese tea supplier, however, the EIC was in general able to sell its tea to the British consumers at a good price, even though tea dealers on several occasions combined to deal with the Company.¹²² With the majority of Company's imports into Britain from China being tea, the EIC obtained a substantial overall profit on the sale of Chinese produce, as illustrated in Table 2.14.¹²³ This profit looks more remarkable when the EIC's sale of both Chinese and Indian goods at home are compared. As opposed to only about 10 per cent profit for the sale of articles imported from India, the Company's profit from Chinese goods produced an average rate of profit amounting to 27 per cent during the late 1780s and early 1790s. Profitability was enhanced by the EIC gaining a virtual monopoly of the China trade due to the decline of Dutch and French competition and also the cessation of the illicit tea trade from Europe. As shown in Table 2.15, the average rate of gross profit on the Company's import trade of Chinese articles increased to 36 per cent in the eight seasons between 1797/98 and 1804/05, with a profit margin even reaching to 50 per cent between 1805/06 and 1811/12.

¹²² For the issue, see Mui & Mui, *The Management of Monopoly: A Study of the East India Company's Conduct of its Tea Trade 1784-1833* (1984); & *ibid.* *Shops and Shopkeeping in Eighteenth-Century England* (1989).

¹²³ The EIC also benefited from selling Nankeen clothes in Britain (see IOR: H/MISC/449, p. 26).

Table 2.15 Cost and Profit upon the Goods from China sold by the East India Company in Britain, 1797/98-1811/12 (£)

	Prime Cost of Goods	Customs, Freight & Charge of Merchandise	Total Cost & Charges	Amount Sale of Goods	Profit on the Trade	
					Total	%
1797/98	1,292,803	748,897	2,041,700	2,577,890	536,190	26.3
1798/99	1,601,606	989,745	2,591,351	3,652,283	1,060,932	40.9
1799/1800	1,830,569	983,695	2,814,264	3,794,982	980,718	34.8
1800/01	1,783,254	885,627	2,668,881	3,616,381	947,500	35.5
1801/02	1,669,103	910,443	2,579,546	3,539,404	959,858	37.2
1802/03	1,741,007	914,145	2,655,152	3,753,252	1,098,100	41.4
1803/04	1,771,947	919,580	2,691,527	3,629,677	938,150	34.8
1804/05	1,559,286	792,057	2,351,343	3,307,495	956,152	40.7
1805/06	1,706,225	839,222	2,545,447	3,740,699	1,195,252	46.9
1806/07	1,677,652	852,433	2,530,085	3,709,046	1,178,961	46.6
1807/08	1,688,470	915,164	2,603,634	3,846,756	1,243,122	47.7
1808/09	1,722,000	953,987	2,675,987	3,988,267	1,312,280	47.7
1809/10	1,487,060	750,823	2,237,883	3,723,116	1,485,233	66.4
1810/11	1,564,915	1,055,006	2,619,921	4,015,207	1,395,286	53.3
1811/12	1,569,497	986,566	2,556,063	3,700,285	1,144,222	44.8
1797/98-1804/05*			2,549,221	3,483,921	934,700	36.4
1805/06-1811/12*			2,538,431	3,817,625	1,279,194	50.5

Note: *arithmetic average

Source: BPP, 1812-13, Vol. VIII, "Estimate of the Profit or Loss upon all Goods sold by the East India Company, from the Year 1793/4 to the Year 1811/12 inclusive;" (104).

With the rapid development of the Anglo-Chinese tea trade and the increasing profit margins in the trade, the EIC, however, had to face problems relating to its serious merchandise trade imbalance with China. An important question is, therefore, how the Company financed its tea trade. This will be the subject of the following chapter.

CHAPTER THREE

THE EIC's CHINA REMITTANCE AND THE PROBLEM OF ITS MERCHANDISE TRADE IMBALANCE

With the rapid expansion of tea consumption in Britain, the EIC benefited greatly from a growing Chinese tea trade. This, however, also brought several problems that the Company had to face and tackle. Of them, one serious issue concerned the East India Company's merchandise trade imbalance with China. Because the total value of EIC's commodity exports from China far exceeded its British commodity imports into China, the question which needs to be explored is how the Company's tea trade was funded.

3.1 Bullion for Tea: the EIC's China Remittance in the Early Eighteenth Century

To discuss the issues of the EIC's merchandise trade imbalance with China and of how the Company's tea purchases were financed, we must first look at the EIC's import trade into China. The main commodities imported into China by the Company from Europe were various kinds of woollens textiles (such as broadcloth and long ells) and unwrought metals, including lead and copper. Because its British commodity imports into China were far from enough to cover the payments of the total exports, the Company also had to bring silver bullion from Europe in order to fund the purchase of tea, silk and porcelain. This was a particular problem in the early decades of the eighteenth century, before the EIC managed to create new financial resources in Asia. For example, in comparison with total exports from Canton worth 489,946 taels in 1730, the value of Company's

merchandise imports into Canton was relatively trifling, being only around 13,500 taels.¹ Thus, the lack of effective demand for British products by the Chinese brought a fundamental problem for the Company's China trade, this is described by Greenberg as 'the one-sided balance'.²

Indeed, since the opening of its Oriental trade, the East India Company had encountered poor demand for European commodities in the Asian market. As a result, the EIC, from the beginning, faced the necessity of exporting from Britain a considerable amount of bullion silver in order to pay for its purchases in the Eastern Seas.³ During the period of mercantilism which aimed at the accumulation of specie, the EIC's unfavourable balance of trade with the East resulted in the net outflow of treasure from England, and this naturally incurred serious concern and criticism at home.⁴ In order to reduce the quantity of precious metals being drawn out by the EIC, the British Parliament, in 1694, passed an act stipulating that the Company had to export goods valued at least £100,000 a year to the East.⁵ Another act issued in 1702 then obliged the EIC to include merchandise as at least one-tenth of its total export from Britain to the East.⁶ How far the growth of EIC's merchandise exports to the East was affected by the act of 1702 requires further examination, but the overall importance of merchandise in the Company's total export trade to the Orient in the following decades was clearly beyond what the Act required.

¹ Based on Pritchard, *Anglo-Chinese Relations During the Seventeenth and Eighteenth Centuries*, Appendix XIV, p. 210. The figures for the total exports and imports were originally shown in different currencies. To make them comparable, one sterling pound is converted into three Chinese taels.

² Greenberg, *British Trade and the Opening of China*, p. 5.

³ For the EIC's early trade in the East, Chaudhuri, *The Trading World of Asia and the English East India Company 1660-1760*.

⁴ For the issue, see e.g. Adam Smith's *Wealth of Nations* (1776), especially Chapter VII: Colonies.

⁵ S. Chaudhuri, 'The financing of investments in Bengal: 1650-1720', *The Indian Economic and Social History Review*, Vol. VIII (1971), p. 119.

During the fifty years between 1710 and 1759 the Company exported a total of £9,248,306 in goods to the East from England which accounted for 25.6 per cent of the total exports, with bullion to the value of £26,833,614 supplying the rest.⁷

It should be noted, however, that the above figures encompass the Company's exports to the East as a whole. Detailed data for the merchandise balance of EIC's export trade and import trade between Britain and China in the early period is unavailable. However, the value of the EIC's total exports from Britain to China in the first half of the eighteenth century is available. Based on the data provided by the British Parliamentary papers, the total exports from England to China throughout the period 1710-1759 consisted overwhelmingly of bullion.⁸ Indeed, on average, bullion exports formed nearly 90 per cent of the total. This is illustrated in Table 3.1. This may be compared with the Company's total exports to the East in which around a quarter of exports took the form of commodities. This suggests that the EIC faced greater difficulties in its attempts to balance its trade with China through selling British merchandise than with other Asian areas. Even though the total value of merchandise goods exported from Britain to China by the EIC was clearly increasing by the 1740 and 1750s, its relative importance remained trivial, and seldom surpassed 15 per cent of the total Company's British exports to China.⁹

⁶ *Ibid.*, p. 121; J. Kumar, *Indo-Chinese Trade 1793-1833* (1974), p. 11.

⁷ Morse, *The Chronicles of East India Company Trading to China*, Vol. I, p. 8.

⁸ British Parliamentary Papers (BPP): 1812-13, Vol. VIII, 'Account of Bullion and Merchandise Exported by the East India Company to India and China', (152), p. 402.

⁹ It is interesting to note that by the end of the 1750s the relative importance of merchandise goods in the total EIC's exports to China from Britain increased dramatically. For instance, it accounted for nearly 30 per cent of the total in 1759. However, it must not be overstated and this was chiefly due to the Seven-Year War, which caused a shortage of silver in London, and thus increased the relative importance of merchandise in the Company's exports to China from Britain.

Table 3.1 The East India Company's Exports from England to China, 1710-1759

Year	Total	Bullion		Merchandise Goods		Year	Total	Bullion		Merchandise Goods	
	£	£	% of total	£	% of total		£	£	% of total	£	% of total
1710	79,940	71,770	89.8	8,170	10.2	1735	115,950	109,872	94.8	6,078	5.2
1711	93,140	90,478	97.1	2,662	2.9	1736	142,592	133,289	93.5	9,303	6.5
1712	34,239	30,696	89.7	3,545	10.3	1737	152,551	140,065	91.8	12,476	8.2
1713	19,905	17,616	88.5	2,289	11.5	1738	81,027	70,441	86.9	10,586	3.1
1714	52,089	47,597	91.4	4,492	8.6	1739	102,620	94,241	91.8	8,379	8.2
1715	89,876	84,642	94.3	5,234	5.7	1740	99,913	88,126	88.2	11,787	11.8
1716	72,475	62,577	86.3	9,898	13.7	1741	59,549	51,203	86.0	8,346	14.0
1717	61,003	55,634	91.2	5,369	8.8	1742	46,484	39,024	84.0	7,460	16.0
1718	65,284	58,291	89.3	6,993	10.7	1743	47,700	40,820	85.6	6,780	14.4
1719	151,915	143,588	94.5	8,327	5.5	1744	40,991	32,133	78.4	8,758	21.6
1720	103,717	96,435	93.0	7,278	7.0	1745	116,233	103,648	88.4	13,585	11.6
1721	137,754	127,670	92.7	10,084	7.3	1746	146,806	133,064	90.6	13,742	9.4
1722	123,535	115,505	93.5	8,030	6.5	1747	none	none	0.0	none	0.0
1723	48,354	43,455	89.9	4,899	10.1	1748	109,024	95,012	82.1	14,012	12.9
1724	70,366	69,230	98.4	1,136	1.5	1749	233,437	205,798	88.2	27,639	11.8
1725	43,176	38,804	89.9	4,372	10.1	1750	173,455	152,017	87.6	21,438	12.4
1726	42,267	38,659	91.5	3,608	8.5	1751	227,750	189,295	83.1	38,455	16.9
1727	117,824	113,484	96.3	4,340	3.7	1752	308,119	266,539	86.5	41,590	13.5
1728	142,146	136,453	96.0	5,693	4.0	1753	323,269	276,333	85.5	46,936	14.5
1729	201,096	195,751	97.3	5,345	2.7	1754	247,987	218,751	88.2	29,236	11.8
1730	198,670	193,810	97.6	4,860	2.4	1755	169,389	141,901	83.8	27,488	16.2
1731	164,696	159,101	96.6	5,595	3.4	1756	287,061	244,868	85.3	42,193	14.7
1732	1,154	none	0.0	1,154	100.0	1757	273,725	235,818	86.2	37,907	13.8
1733	80,220	75,574	94.2	4,646	5.8	1758	180,119	139,679	77.5	40,440	22.5
1734	105,948	99,916	94.3	6,078	5.7	1759	113,100	122,932	70.7	50,980	29.3

Sources: based on BBP, 1812-13, Vol. VIII, 'Account of Bullion and Merchandise Exported by the East India Company to India and China', (152), p. 402; & Macgregor, *Commercial Statistics*, Vol. 4, pp. 404-6.

With such a high percentage of total British imports into China being in silver bullion, the pattern of the Company's tea-purchase payments in the years before 1760 can be simply described as 'Bullion for tea'. As indicated in the last chapter, the decades after 1760 saw the EIC's tea trade with China continue to grow, despite the trade being confined in Canton and controlled by a tiny number of Hong merchants on the Chinese side. This meant that a much larger quantity of commodities and precious metals needed to be sent to China to pay for increasing investment in tea. It is however noteworthy that accompanying the growing tea trade in the last decades of the eighteenth century was the declining importance of bullion in the EIC's export trade to China from Britain. As illustrated in Table 3.2, not only did the relative importance of bullion apparently decline from the 1760s onwards, but more striking, there was no bullion sent by the Company to China from England in some seasons during the 1770s, early 1780s, and the years after 1805. This situation could be partly attributed to the military conflict between Britain and other western nations. For example, no bullion was sent to China from Europe by the EIC in the period 1779-1784, largely due to the outbreak of the American War.¹⁰ But war does not explain why, from the 1760s onwards, the overall importance of bullion in the EIC's export trade to China from England decreased considerably. The explanation for this development lies in the link with the acquisition of fiscal administration in Bengal and the EIC's efforts to sell more home manufactures to China.

¹⁰ This prevented the EIC from being able to obtain bullion to be shipped to the East.

Table 3.2 The EIC's Exports from England to China, 1760-1811

Year	Total	Bullion		Merchandise Goods		Year	Total	Bullion		Merchandise Goods	
	£	£	% of total	£	% of total		£	£	% of total	£	% of total
1760	113,100	53,081	46.9	60,019	53.1	1786	940,491	694,962	73.9	245,529	26.1
1761	106,489	25,154	23.6	81,355	76.4	1787	995,339	626,897	63.0	368,442	37.0
1762	87,344	28,126	32.2	59,218	67.8	1788	870,607	469,408	53.9	401,199	46.1
1763	72,729	none	0.0	72,729	100.0	1789	1,184,713	714,233	60.3	470,480	39.7
1764	377,691	307,410	81.4	70,281	18.6	1790	541,174	none	0.0	541,174	100.0
1765	378,368	294,526	80.0	73,842	20.0	1791	951,686	377,685	39.7	574,001	60.3
1766	55,654	946	1.7	54,718	98.3	1792	680,219	none	0.0	680,219	100.0
1767	136,384	none	0.0	136,384	100.0	1793	760,029	none	0.0	760,029	100.0
1768	316,604	162,137	51.2	154,467	48.8	1794	744,140	none	0.0	744,140	100.0
1769	412,291	233,045	56.5	179,246	43.5	1795	670,460	38,150	5.7	632,310	94.3
1770	456,008	293,210	65.7	152,798	34.3	1796	697,414	200,656	28.8	496,758	71.2
1771	346,697	199,615	57.6	147,082	42.4	1797	911,391	411,466	45.1	499,925	54.9
1772	132,553	none	0.0	132,553	100.0	1798	1,280,802	498,493	38.9	782,309	61.1
1773	80,051	none	0.0	80,051	100.0	1799	970,987	140,308	14.5	830,679	85.5
1774	92,810	none	0.0	92,810	100.0	1800	925,575	none	0.0	925,575	100.0
1775	99,114	none	0.0	99,114	100.0	1801	1,041,337	none	0.0	1,041,337	100.0
1776	196,422	88,574	45.1	107,848	54.9	1802	1,670,973	572,038	34.2	1,098,935	65.8
1777	126,233	none	0.0	126,233	100.0	1803	1,398,508	193,095	13.8	1,205,413	86.2
1778	92,745	none	0.0	92,745	100.0	1804	1,250,869	201,499	16.1	1,049,370	83.9
1779	4,846	none	0.0	4,846	100.0	1805	1,314,987	200,503	15.2	1,114,484	84.8
1780	182,066	none	0.0	182,066	100.0	1806	1,134,225	none	0.0	1,134,225	100.0
1781	67,151	none	0.0	67,151	100.0	1807	1,093,112	none	0.0	1,093,112	100.0
1782	106,126	none	0.0	106,126	100.0	1808	995,636	none	0.0	995,636	100.0
1783	129,084	none	0.0	120,084	100.0	1809	858,326	none	0.0	858,326	100.0
1784	177,480	none	0.0	177,480	100.0	1810	866,057	none	0.0	866,057	100.0
1785	974,363	704,254	72.3	270,109	27.7	1811	921,316	none	0.0	921,316	100.0

Source: based on BPP, 1812-13, Vol. VIII, 'Account of Bullion and Merchandise Exported by the East India Company to India and China', (152), p. 402.

3.2 The Indian Presidencies' Direct Financial Contribution to the Company's China Investment before the 1780s

3.2.1 The Bengal-China Bullion Connection

After the East India Company first began to trade in the East, it not only built up a commercial link between England and Asian nations, but also endeavoured to conduct intra-Asian trade, which included bilateral commercial business between India and China. The Company's conduct of the intra-Asian trade was mainly developed to help finance its trade in the East.¹¹ However, the use of any Indian financial resources for funding large-scale investment in China only began to emerge from the beginning of British political ascendancy in Bengal during the late 1750s. This first happened in 1757 after the EIC was victorious on the Battle of Plassey; from that year silver bullion and dollars began to be exported from Bengal to China in order to provide funds for the Company's tea investment.¹²

The shipment of Indian bullion to support the Canton trade became more secure after the Battle of Buxar in 1764, which paved the way for the EIC to receive the *diwani*, i.e. financial administration of Bengal, Bihar and Orissa from the Mughal Emperor. By obtaining territorial and fiscal authority, the East India Company began to transform itself from mere a trading company into the British imperial agency on the Indian sub-

¹¹ The importance of the intra-Asian trade in the financing of European's Companies' trade with the East has been studied in many works. See e.g. Chaudhuri, *Trade and Civilisation in the Indian Ocean* (1985) & O. Prakash, *The New Cambridge History of India, II. 5: European Commercial Enterprise in Pre-Colonial India* (1998).

¹² J. C. Sinha, *Economic Annals of Bengal* (1927), p. 48.

continent.¹³ With the right to collect taxes in Bengal and Bihar, the EIC obtained a new financial resource, which in turn could be used to support its China trade. The Court of Directors thus ordered the Bengal Presidency to provide financial support of 24 lakhs of Rupees each year for the growing China tea trade.¹⁴ Accordingly, silver specie was regularly sent from the Bengal Presidency to Canton to meet the cost of Chinese investment.¹⁵ In the season 1765-66, for example, the Presidency despatched the Company vessel *Argo* loaded with 19 lakhs of rupees worth about 289,953 taels to the Canton Treasury, while the next year the EIC's Bengal government consigned to Canton 24 lakhs of current Rupees, which was equal to Tls. 720,560.¹⁶ In addition to the Bengal Presidency's surplus revenues, funds from the Bombay and Madras factories were also used to support EIC's China trade. For instance, the Canton Factory, in the trading season 1764, received silver specie worth approximately 309,883 taels from Bombay and Madras together.¹⁷ In 1768 the Canton Treasury received a total of 521,427 taels, being silver bullion and coins worth Tls. 376,678 from Madras and Tls. 144,749 from Bombay.¹⁸

The bullion provided by the Indian Presidencies therefore became a new source of funds for the Canton Council to invest in tea procurement. The capital accrued from the revenue of Bengal and other Indian Presidencies also provided the Company with an

¹³ For this topic, see e.g. BPP, 1847-8, Vol. LXI (61), 'Oriental Commerce', Section II: Rise of Progress of British Trade, Navigation, and Power in the East Indies, pp. 8-116; L. James, *Raj – The Making and Unmaking of British India* (1997); Keay, *The Honourable Company – A History of the English East India Company*; Lawson, *The East India Company – A History*.

¹⁴ Fort William – India House Correspondence, Vol. XIV (1752-81), Introduction, p. lxxix.

¹⁵ J. Kumar, *Indo-Chinese Trade* (1974), p. 2.

¹⁶ Morse, *The Chronicles of East India Company Trading to China*, Vol. V, pp. 123, 130.

¹⁷ *Ibid.*, p. 111. These specie consisted of both Spanish dollars and Indian Rupees.

¹⁸ *Ibid.*, p. 134.

important financial resource to deal with other Asian business. Accordingly, the Court of Directors, after obtaining financial administration of Bengal, no longer thought it necessary to ship any precious metals from Britain to Asia and the Company's China investment could, from then on, largely be financed by its Indian revenue. Thus, the 1760s and 1770s saw the EIC's bullion exports to Asia from Britain decline dramatically when compared to the earlier decades, although it has been argued that a reduction in the flow of bullion had already started before the acquisition of the *Diwani* in Bengal.¹⁹

The Court's hope that Chinese tea investment could be financed by silver bullion shipped from Bengal soon faced a challenge. In spite of the Bengal revenue, the Company's increased involvement in military actions, and the expansion of the civil establishment in the surrounding areas brought unexpected financial pressures.²⁰ Accordingly, increasing worries about a drain of specie and the problem of the scarcity of silver made the Bengal Establishment reluctant to supply the China Treasury with a large amount of bullion. This was highlighted in several letters from Bengal to the Court in the late 1760s.²¹ The first serious problem occurred in 1768, when the Bengal Presidency found it impossible to send any silver to Canton because of its financial difficulties.²² Because it was unable to provide any bullion for tea purchase, the Bengal Council asked individuals at Bombay to supply five Lakhs of Rupees in specie in order to make the necessary remittance to

¹⁹ R. Datta, *Society, Economy and the Market – Commercialization in Rural Bengal 1760-1800* (2000), pp. 343, 359.

²⁰ For the issue, see H. Bowen, *Revenue and Reform – the Indian Problem in British Politics 1757-1773* (1991).

²¹ *Fort William – India House Correspondence* (hereafter *FWIHC*), Vol. XIV (1752-81), Letter to Court, 25 September 1767, para. 23, p. 195; *ibid.*, Vol. V: 1767-69, Letter to Court, 2 February 1768, para. 48, pp. 506, & Letter from Court, para. 58, p. 144; & Letter to Court, 13 September 1768, paras. 40-41, pp. 430-1.

²² *FWIHC*, Vol. V, Letter to Court, 21 November 1768, para. 17, p. 485.

China.²³ In a situation of financial exigency, the Bengal Establishment even desired the Madras Presidency to appropriate three Lacks of Rupees destined for the supply of China trade to be used for the military operations.²⁴ Assuming that such an action would affect the China trade, however, the Directors of Court wrote on 11 November 1768 that ‘... you will incur our highest displeasure if you withhold any part of the supply for China, on pretence of not being able to furnish them, ...’.²⁵ To highlight the value and importance of the China trade and to emphasize that Indian financial support was essential for the trade, the Directors continued that

The enlargement of the Trade to China to its utmost Extent, is an object we have greatly at heart, not only from the Advantages in prospect, by gaining a Superiority and thereby discouraging Foreign Europeans from resorting to that Market; but also from a National Concern, wherein the revenue is very materially interested therefore to prevent all disappointments from the want of sufficient Stock in China for providing Cargoes for the Ships now bound thither....²⁶

However, perhaps because the Bengal Presidency again wrote a letter to the Court highlighting its financial difficulties,²⁷ the Directors decided that the Bengal Council should no longer follow the previous order to ship 4,000,000 Rupees to Canton each year.²⁸ Moreover, in a letter dated June 1769, the Court wrote to the Bengal Council stipulating that ‘we leave it to you to judge of the propriety of making the Remittances to China, ...’.²⁹ As a result, bullion transfers to Canton by the Bengal Presidency were greatly reduced in the following years and the total of silver shipped to Canton from

²³ *Ibid.*, Letter to Court, 22 February 1768, para. 16, p. 378.

²⁴ *Ibid.*, Letter from Court, 11 November 1768, para. 28, p. 136.

²⁵ *Ibid.*

²⁶ *Ibid.* para. 29, p. 136.

²⁷ *Ibid.*, Letter from Court, 21 November 1768, para. 485.

Bengal for the three seasons 1769-1771 together was estimated to be £223,684 which was about 2,236,800 Rupees.³⁰ In order to reduce the shipment of bullion to China, the Bengal Council by 1773 went further and decided that monies to be remitted to Canton had instead to be largely provided by private individuals.³¹

Table 3.3 The EIC's Bullion Exports from Britain to the East, 1764-71 (figures in £)

Season	Total	To China
1764/65	345,404	307,410
1765/66	281,875	294,526
1766/67	54,968	946
1767/68	none	none
1768/69	162,583	162,137
1769/70	242,998	233,045
1770/71	302,625	293,210

Sources: BPP, Reports from Committee of the House of Commons, 1715-1801, Vol. IV, p. 75, & 1812-13, Vol. VIII, 'Account of bullion and merchandise exported by the East India Company to India and China' (152), p. 402.

Bengal's failure to provide extra bullion forced the directors to resume bullion shipments to the East in the season 1768-9, only one year after they had stopped the export of treasure out of Britain for trade in the East. The following years saw the quantity of treasure exports return to the level of 1764 and 1765, with the majority of the bullion being destined for Canton. This is illustrated in Table 3.3. The dramatic development in the late 1760s was, therefore, highlighted by Bowen who asserted that 'the Company had found to its cost that it could not afford to abandon its long-established commercial practices in favor of a complete dependence on surpluses derived from revenue

²⁸ P. J. Marshall, *East India Fortunes – the British in Bengal in the Eighteenth Century* (1976), p. 98.

²⁹ *Fort William – India House Correspondence*, Vol. V, Letter from Court, 30 June 1769, para. 55.

³⁰ Datta, *Society, Economy and the Market*, p. 352.

collection'.³² However, in the continuing hope that the Indian resources could play an important role in the financing of the tea trade, the Directors required the two other Presidencies to take a more prominent role than before. After removing the order that the Bengal Presidency had to provide Canton with 24 lakhs of Rupees, the Directors then required the three Presidencies together to supply the China Council with an amount of at least twenty-four Lacks of Rupees for the service of season 1770.³³ The shipment of silver from India to China continued in 1770s so that around 20 lakhs of Rupees were sent to Canton each year in this decade.³⁴ However, in order to be able to provide more funds for tea investment and also to alleviate the worries about the drain of specie from Britain and the Indian Presidencies, the Company later increasingly paid attention to the use of Indian goods for China remittance.

3.2.2 The Sale of Indian Goods as Funds for Tea Investment

The EIC's Indian-Chinese trade was inconsiderable during the early decades of the eighteenth century because the Company did not regard it an important branch of commerce. But the trade gradually increased in importance when it was found to be a useful means of paying for tea investment at Canton, and it became crucial during periods when the Indian Presidencies proved incapable of remitting sufficient silver to support the China trade. This was noted in a letter written in September 1768 by the Bengal Presidency to the Court that

³¹ Marhsall, *East India Fortunes*, p. 98.

³² Bowen, *Revenue and Reform*, p. 111.

³³ Fort William – India House Correspondence, Vol. V, Letter from Court: 11 November 1768, para. 33, p. 137.

In order to prevent as much as is in their power the inconveniences which are generally felt at all your Presidencies by the repeated drains of silver to China, the Gentlemen at Fort St. George have pursued in a more extensive manner the scheme of purchasing articles for the China Market which we hope will in some measure answer that essential purpose of easing us in the heavy remittances of silver ... And these hopes we earnestly wish to be confirmed as silver becomes every day more & more scarce in the Country & the consequences of these remittances more & more serious.³⁵

Indeed, after realising that the Bengal Presidency was unable to send any silver to China in 1768-69, the Court in its letter to Bengal in late 1768 directed the Presidency to purchase Indian goods to be sent to China.³⁶ Accordingly, the Company's Canton Council in the trading season received 138,204 taels from the sale of Indian produce.³⁷ To emphasise that they now considered the use of Indian articles as important for the China investment, the Directors in November 1769 again wrote a letter to the Presidency and stated that, 'We expect you pay the most strict attention to our standing order in our before-mentioned letter of the 11 November 1768 concerning the Provision of as large a quantity of Merchandize as you can possibly procure proper for the Canton Market'.³⁸ As a result, the trading season of 1770-71 saw that the Canton Treasury received Tls. 270,126 (£90,042), from the sale of Indian goods.³⁹

To meet the increasing tea trade, the Court in the 1770s continued to direct the Indian Presidencies to exert themselves in contributing as far as might be in their power either

³⁴ *FWIHC*, Vol. XIV, Introduction, p. lxxix.

³⁵ *FWIHC*, Vol. V (1767-69), Letter to Court, 13 September 1768, para. 41, p. 431.

³⁶ *Ibid.*, Letter to Court, 14 March 1768, para. 57, p. 386; 21 November 1768, para. 17, p. 485.

³⁷ Pritchard, *The Crucial Years*, Appendix I-IV.

³⁸ *FWIHC*, Vol. V, Letter from Court, 10 November 1769, para. 15, p. 255.

³⁹ BPP, Reports from Committee of the House of Commons, 1772-73, Vol. IV, pp. 68-9.

by merchandize or cash to the increase of the Company's funds at Canton.⁴⁰ In particular, when the Canton Treasury informed the Court that it was short of money, the Indian financial resources became so crucial that the Court immediately notified the Bengal Presidency that

It appearing by the accounts received from China that our Council would be in great want of cash to provide cargoes for the ships now at Canton, and depending principally on the assistance of our Presidencies we doubt not but you have complied with their pressing occasions; and as we apprehend they will still stand in need of large supplies we earnestly recommend it to you not only to furnish our China Council yourselves but concert with our other Presidencies the most effectual means for supplying them.⁴¹

Table 3.4 The EIC's merchandise imports into China in season 1774

	Quantities	Prime Cost (f.o.b.)	Realised (taels)	Profit (+) or Loss (-) of the trade (%)
Broadcloth	3,374 half cloths	£33,089	89,051	-10.0
Long Ells	9,306 pieces	£21,822	63,280	-2.9
Broadcloth	118 half cloths	£1,768	4,007	-24.5
Lead	2,688 piculs	£2,507	10,752	+43.3
British Total		£59,186	167,090	-5.9
Redwood	1,127 piculs	Pag. 1,651	4,511	+153.0
Cotton	781 piculs	Rupees 12,841	8,982	+113.0
Pepper	1,277 piculs	Rupees 33,668	19,161	+74.2
Sandalwood	1,783 piculs	Rupees 60,000	41,015	+109.2
Indian Total		Taels 36,583	73,669	+101.4
Total		Taels 214,141	240,759	+12.4

Source: Morse, *The Chronicles of the East India Company Trading China*, Vol. V, p. 189.

⁴⁰ Fort William – India House Correspondence, Vol. VII (1773-1776), Letter from Court, 10 December 1773, para. 44, p. 38.

⁴¹ *Ibid.*, Letter from Court, 25 October 1776, para. 15, p. 157.

Selling Indian produce to China was an ideal method for the Company to create tea money because, unlike most British goods, Indian commodities were very welcome in the Chinese market. Thus as can be seen in Table 3.4, the EIC secured a considerable profit on the sale of each Indian commodity in China. While British imports usually sold at a loss, the overall rate of profit for the Indian merchandise imports amounted to 100 per cent in the trading season of 1774.

3.3 Trucking: British Woollens and Metals in Exchange for Tea

In order to reduce bullion shipments from Britain, the Company also made efforts to increase exports of British domestic produce to China. But in relation to the number of Indian goods being sold to the Chinese market, the Company's merchandise exports from Britain to China were limited to few commodities, such as woollens and unwrought metals.⁴² Among the handful of items of major commodities which the EIC managed to import into China, woollen-related produce was the most important item.

Even so, the Company from time to time faced difficulties in selling woollen products on a large scale at Canton. One of the main reasons was because woollens were not regarded as necessities for the people who lived in Canton and the tropical-climate south China. This problem can be clearly seen from the Company's own documents indicating

⁴² Apart from woollens and metals, the Hong merchants also purchased some other European articles such as mechanical clocks, glass, musical instruments etc. However, because their demand was not great, the East India Company did not bother to deal with the business of selling these minor commodities. The import of these articles into Canton was thus largely left in the hands of the Company's servants and other 'private traders'. See the next chapter for the discussion of the private trade.

that the Hong merchants were reluctant to purchase the British woollens. In the beginning of the season 1765-6, for example, the EIC tried to persuade the Hong merchants to purchase their woollens. However, after weeks of waiting, the supercargoes in early December 1765 noted that, 'In regard to them (woollens), the [Hong] merchants had hitherto give no positive answer, but have pushed from week to week frivolous excuses ...'⁴³ In response to the EIC's eagerness to sell its woollens, the Co-Hong merchants then required that prices be reduced, which the supercargoes finally accepted. Indeed, those woollens sold to the Hong merchants were ultimately sold at a loss. This loss was, however, regarded as acceptable because the sale of woollens still generated a significant proportion of the payments necessary for tea purchases, and this helped reduce the amount of silver bullion being sent out from England.⁴⁴

Reduced prices did not always guarantee that the Company could easily dispose of all of its woollens. On many occasions in the following years, some woollens were left unsold and had to be disposed of in the following season. However, the EIC's difficulties in selling its woollens to the Hong merchants reduced after the 1770s, primarily because, as the EIC's tea trade with China expanded and the Hong merchants' financial difficulties began to emerge, the Company's influential position in the Canton foreign trade increased.⁴⁵ The Company thus seized the opportunity to make use of its increasing bargaining power to persuade the Hong merchants to receive certain quantities of British products, especially woollens, as a condition of its tea purchases.

⁴³ IOR: R/10/Factory Records (hereafter FR)/6 (Letter Book), 5 December 1765, p. 64.

⁴⁴ *Ibid.*

⁴⁵ IOR: R/10/FR/7 (Letter Books 1769-1775), 20 January 1768, p. 85. For the issue of the Hong merchants' financial difficulties, see Chapter Six.

This practice began in the 1770-1 season when the EIC supercargoes returning to Canton from Macao decided to seek methods other than price reduction to dispose of the previous season's woollens. Accordingly, the supercargoes decided that when any Hong merchant came to conduct tea transactions with them, they would also require him to take the Company's woollens. In this way, Yngshaw, a Hong merchant who was prepared and eager to sell tea to the Company, was required by the EIC to take a quarter of the remaining unsold woollens.⁴⁶ As a condition for accepting the woollens, Yngshaw then made the following proposals to the Company:⁴⁷

If he took 1/4 of the woollens, the Company should purchase the following quantities of tea, with a certain percentage of money advanced to him:

5,000 peculs of Bohea	at 15.5 taels	with a 6 taels as advances for each tael.
1,000 peculs of Twankay	at 25.5 taels	with a 12 taels as advances.
1,000 peculs of 1 st sort of Singlo	at 23.5 taels	with a 12 taels as advances.

But if Yngshaw did not take any woollens from the Company, he would then deliver:

5,000 pecul of Bohea	at 14.5 taels	6 taels advances.
1,000 peculs of Twankay	at 24.5 taels	12 taels advances.
1,000 peculs of 1 st sort of Singlo	at 23.5 taels	12 taels advances.

And if he was prepared to take 3/4 of the remaining woollens, he could not offer his teas in price and quantity at less than:

16,000 peculs of Bohea	at 15.0 taels	6 taels advances.
3,000 peculs of Twankay	at 25.5 taels	12 taels advances.
3,000 peculs of 1 st sort of Singlo	at 23.5 taels	12 taels advances.

⁴⁶ IOR: R/10/FR/7, 20 November 1770, p. 30.

⁴⁷ *Ibid.*, p. 31.

The terms of the proposals show that the more woollens Yngshaw was prepared to receive, the higher the purchase price for tea. Although the proposals were not regarded as unacceptable to the Company, the supercargoes went to contact Puan Khequa, another Hongist, to discover if he might give the Company a better deal. However, the endeavour was in vain because the Canton Council declined to accept the terms of Puan Khequa's request that he receive lion's share of Company's tea trade as a condition of purchasing the left-over woollens.⁴⁸ Consequently, the supercargoes returned to Yngshaw and after several meetings and negotiations, the Hongist agreed to take three-quarters of the woollens based on the previous year's prices⁴⁹ and in turn the Company purchased his teas on the following terms.⁵⁰

Bohea (first leaf)	16,000 peculs	at 15.5 tael	6 taels as advances for each pecul.
Twankay	2,000 peculs	at 25 taels.	12 taels advances.
1 st Singlo	4,000 peculs	at 23 taels.	12 taels advances.

The dissolution of the Hong Merchants' association, the so-called Co-Hong (公行), in 1771 put the Company in a better position, as it then had to deal with the Hong merchants individually.⁵¹ As a result, the practice of offering woollens as a means for tea payment was applied to each Hong merchant. As will be discussed in Chapter Five, the EIC's tea

⁴⁸ The detailed terms of trade presented by the Puan Khequa can be seen in IOR: R/10/7, 20 November 1770, pp. 31-2.

⁴⁹ The prices for different kind of woollens were settled at 6.8 taels per piece for long ells, 36 taels per piece for camblets and also 1.9 taels, 1.3 taels and 0.9 taels per yard for 'superfine' cloth, 'supers' cloth and 'Worcesters' cloth respectively (see Morse, *The Chronicles of the East India Company's Trading to China*, Vol. V, p. 152).

⁵⁰ IOR: R/10/7, 20 November 1770, pp. 32-3; Morse, *The Chronicles*, Vol. V, p. 153.

⁵¹ The so-called Co-Hong was established in 1760 to combine all the Hong merchants into a body to bargain with foreign traders. After several years of efforts, the EIC finally in 1771 saw the association being dissolved (for the impact of the creation of the Co-Hong upon the Company's tea trade, see Chapter Five).

procurement at Canton was mainly based on the contracting system. Because, from the 1770s, the total quantities of contracting teas were largely divided and shared among the Hong merchants by proportion, the woollens were in turn divided in proportion and sold to the Hong merchants who had contracted to provide tea for the Company. The EIC's successful adoption of this practice began in 1772, and carried on in the following season. As illustrated in Table 3.5, contracts between the EIC and the Hong merchants were made for the season 1773 with the woollens being divided and shared by the Chinese traders who provided tea for the EIC.

Table 3.5 The contracts between the EIC and the Hong Merchants for tea and woollens to be delivered in the season 1773

	Woollens (share of total)	Bohea (peculs)	Hyson Skin & Twankay (peculs)	Singlo (peculs)	Hyson (peculs)
Puan Khequa	2	3,000	2,500	1,500	500
Yngshaw	2	3,500	1,400	2,000	500
Tinqua	1	1,500	870	750	160
Chowqua	1	1,500	610	1,020	75
Munqua	1	1,500	730	900	65
Kewqua	1	1,500	650	850	75
Total	8	12,500	6,760	7,020	1,375

Source: Morse, *The Chronicles of East India Company Trading to China*, Vol. V, p. 168.

From then on the practice became established so that the Hong merchants were required to take British articles, such as woollens, on the condition that the Company would purchase tea from them. This became known as the 'system of truck' or 'trucking'.⁵² Nevertheless, as illustrated in Table 3.4, the EIC faced continuing difficulties in disposing of woollen goods in Canton. Indeed, while the import of Indian commodities yielded a

⁵² Greenberg, *British Trade and the Opening of China*, p. 7; Morse, *The Chronicles of East India Company Trading to China*, Vol. V. 168.

considerably high rate of profit, the Company suffered continuous loss on the sale of British-related products, in particular woollens. This suggests that even though the delivery of woollens was bound up with its tea purchases, the Canton Council still needed to sell the woollens at a price lower than the prime cost to make the Hong merchants accept the produce.

With regard to the adoption of trucking, it should also be noted that the use of British produce as a condition of tea purchase was not limited to woollens. When necessary, the supercargoes also required the Hong merchants to take other merchandise such as metals as truck for the exchange of tea. As just discussed, in the 1770 season Puan Khequa did not take any woollens from the EIC. The Canton supercargoes did, however, succeed in making him agree to buy all the British lead and Indian produce that was due to arrive in the next season. In return, the Company agreed to purchase a total 13,000 piculs of tea from him.⁵³ Moreover, the use of British produce, in particular woollens, as a condition of tea purchases was not limited to contracts between the East India Company and the Canton Hong merchants. This practice was also used in the transactions between the Hong merchants and the Tea-men, who were responsible for going into tea-growing regions to buy tea. After receiving the British woollens from the EIC, the Hong merchants might try to sell them in the open market, but often the Canton Hongists would in turn pass the woollens to the tea-men as a part of the tea money.⁵⁴

With the financial support of the Indian Presidencies and the Canton supercargoes'

⁵³ Morse, Vol. V, pp. 153, 158. The tea contract included 9,000 piculs of Bohea, 2000 piculs of Twankay and 2,000 piculs of Singlo.

attempts to bind the sale of British merchandise with tea purchases, the 1760s and 1770s saw the amount of bullion to be sent from Europe to China much reduced. However, the EIC's hope that it would no longer have to ship bullion to China from home faced a challenge after the passage of the Commutation Act in October 1784, which led to a dramatic expansion of Company tea trade. Expecting a rapid increase in tea consumption in Britain after the passage of the Commutation Act, the Directors immediately ordered the Canton supercargoes to purchase as much tea as they could.⁵⁵ This, of course, meant that much larger funds would be needed for payment. In order to meet the suddenly increasing tea purchases, the Court in 1785 had to resume the shipment of large amounts of bullion from home to Canton, with a total of more than £3,200,000 being sent out in the period 1785-1790.⁵⁶

This again however incurred serious concern and criticism at home. The EIC had to face not only strong concerns about the drain of specie from home, but it was also criticised by British industrialists because the Company was held to be failing to make China a good market for British manufactures. This forced the Court of Directors to send guidance to Canton instructing the supercargoes that they should make efforts to sell more European merchandise to the Hong merchants.⁵⁷ However, when the Company was searching for ways to obtain sufficient funds for its increasing tea investment, an embassy was sent to China from Britain seeking to change the existing Canton system and creating a better environment for the British merchants to trade in.

⁵⁴ IOR: R/10/CL/I, 29 November 1785, p. 89.

⁵⁵ See Chapter Five for a discussion of the EIC's conduct of tea purchases at Canton.

⁵⁶ Based on Macgregor, *Commercial Statistics*, Vol. V, p. 405.

⁵⁷ IOR: R/10/CL/I, 13 December 1786, para. 2.

3.4 Lord Macartney's Embassy to Peking in 1793

At about the time when the Commutation Act was passed, an incident occurred in Canton that caused a tension between the British traders and the Chinese authorities. This, added to some earlier accidents, made the British Government determine to intervene and negotiate with the Ch'ing Imperial Court directly in order to remove commercial barriers and create a more secure environment for its traders in China.

3.4.1 The Lady Hughes Affair and the Cathcart Mission

The incident that resulted in tension between the EIC and the Canton authorities took place in early November 1784 when the *Lady Hughes*, one British-owned Bombay country ship, fired a salute in the waters off Whampoa which accidentally damaged a local boat and killed two Chinese.⁵⁸ The Chinese authorities immediately demanded that the EIC should send the person who fired the gun up to Canton to be judged. The Company's Canton Council however informed the Canton government that it could not be ascertained who the man was, and also that it had no power over country ships.⁵⁹ Unhappy with the answer, the Canton authorities threatened that if the man was not

⁵⁸ This incident happened on 24 November 1784, and one Chinese died shortly, with the other passing away on the following day. Based on the English sources, the *Lady Hughes* fired a salute while arriving Whampoa. Also, the boat hit by guns belonged to the Canton government and those two Chinese killed at the accident were minor mandarins (see E. H. Pritchard, *The Crucial Years of Early Anglo-Chinese Relations 1750-1800* (1909), p. 226). But according to the Ch'ing official document, (see L. H. Fu, *A Documentary Chronicle of Sino-Western Relations* (1966), p. 297), the *Lady Hughes* fired guns while convoying other non-EIC English ocean-going ships to depart from Canton. The boat hit by the fires was merely a civilian ship on which two sailors were killed.

⁵⁹ P. Auber, *China, An Outline of its Government, Laws and Policy* (1834), pp. 133-4. The country ships were regarded to those non-EIC vessels which conducted the intra-Asian trade between India and China or between India and other regions, and their trade was known as the country trade. For a discussion of the country trade, see the next chapter.

delivered, trade would be suspended and the Company's ships would not be permitted to return to England. The Company still refused to hand over the gunner and thus, the Chinese government decided in late November to suspend foreign trade. The Canton Hoppo, at the same time, detained George Smith, the supercargo of *Lady Hughes*, and even considered seizing the chief of the EIC's Canton Council if Smith's detention proved to be ineffective.⁶⁰

Despite the best efforts of EIC supercargoes, who gained support from other foreigners in Canton, they could not dissuade the Canton authorities from insisting the gunner be delivered to the government. The gunner was finally delivered to the Chinese government in early December. Then, having been in force for nine days, the embargo on trade was removed on 6 December, and the *Lady Hughes* sailed the next day, leaving the gunner in custody in Canton.⁶¹ On 8 January 1785 the Canton authorities, on the order from the Chinese Emperor, executed the gunner. In order to prevent similar accidents from occurring again, the firing of salutes was afterwards prohibited by the EIC.⁶²

This incident was not the first time that Canton authorities executed foreigners. For example, an accident occurred in 1780 at Macao when a Portuguese was killed by a Frenchman during an affray. The Frenchman was later delivered to the Chinese

⁶⁰ Pritchard, *The Crucial Years of the Anglo-Chinese Relations*, p. 226-228; Morse, *The Chronicles of East India Company Trading to China*, Vol. II, pp. 99-101.

⁶¹ Pritchard, *The Crucial Years*, pp. 227-8; Morse, *The Chronicles*, Vol. II, p. 105.

⁶² Auber, *China, An Outline*, p. 187.

government and soon strangled, by order of the Canton viceroy, without any trial.⁶³ The execution of the gunner was, therefore, not unprecedented, but the *Lady Hughes* affair created unease among the foreign traders in Canton, who saw the actions of the Chinese authorities as a potential threat to their trade and lives. Thus, following the example of the Russian Empire which had already sent ambassadors to China, the British Government decided to send a special envoy to the Ch'ing Imperial Court.⁶⁴ Accordingly, a mission led by Colonel Cathcart was established seeking, in the words of Pritchard, 'to put the Anglo-Chinese relations upon a treaty basis, and thereby to eliminate the disturbance and uncertainties of the existing system'.⁶⁵ After delayed preparations, the *Vestal*, with Cathcart, his aides, and gifts prepared for the Chinese emperor on board, finally sailed for China in December 1787. Unfortunately, Cathcart died during the voyage and the mission was abandoned before it reached China.⁶⁶

The Cathcart mission was aborted, but in the following years the British government remained eager to promote trade with China and accordingly, preparations for another mission were soon under way. The mission to China was of prime importance for two reasons. Firstly, the passage of the Commutation Act and consequent rise in tea consumption had led to a large amount of silver bullion being exported from England. Secondly, this coincided with a period of overproduction in the textile industry as well as rapid expansion in the iron and steel industry in Britain, thus the need to find a larger market for the British manufactured goods became urgent. As a consequence, the British

⁶³ R. M. Martin, *China; Political, Commercial, and Social* (1847), Vol. I, pp. 15-16.

⁶⁴ J. B. Eames, *The English in China* (1909), p. 117.

⁶⁵ Pritchard, *The Crucial Years*, p. 255.

⁶⁶ For the preparation and voyage of the Cathcart mission to China, see Pritchard, *Ibid.*, 236-262. Colonel

government and Parliament carried out a thorough examination of the China trade in order to assess the development of the enlarged tea trade and to find ways to encourage the exportation of home goods to China.⁶⁷ Without doubt, the EIC was pressurised by the government and many manufacturers to create a larger market in China for domestic products. However, after detailed discussion of the China trade, the British government reached the conclusion that any attempt to expand the exportation of British woollens, metals and other manufactured articles to China could not be achieved under the existing Canton System.⁶⁸ This eventually paved the way for the British authorities to establish another embassy to be sent to Peking in early 1790s.

3.4.2 Lord Macartney's Mission

After discussions of various proposals, a plan to send a new mission to the Ch'ing Imperial Court was formulated in 1790. In late 1791, George Macartney was chosen as the ambassador, George Staunton was appointed as his first secretary, and the mission was set to leave for China in 1792.⁶⁹ It should be noted, however, that by the time the preparation of the embassy was in its final stages, the EIC became less enthusiastic about the expedition. This was mainly because by then European competition in the tea trade had been largely removed and also the financial pressure on its Canton trade had been

Cathcart died while the *Vestal* reaching the Straits of Sunda.

⁶⁷ For the British government's and parliament's assessments of the development of the Anglo-Chinese trade after the passage of the Commutation Act, see BPP, Accounts and Papers, 1788, Vol. XXI, Nos. 462-84; & *ibid.*, Accounts and Papers, 1792-93, Vol. XXXVIII, No. 774.

⁶⁸ Pritchard, *The Crucial Years*, pp. 269, 273.

⁶⁹ George Macartney was once the British ambassador to Russia and later became the Chief Secretary for Ireland. Since 1780 he held the post of the Governor of Madras until 1785 when he returned to Britain. For his political and diplomatic career, see H. H. Robbins, *Our First Ambassador to China: An Account of the Life of George, Earl of Macartney* (1908). George L. Staunton was Macartney's life-long good friend

relieved.⁷⁰ Importantly, based on their understanding and experience of dealing with the Ch'ing authorities, the Court of Directors doubted that the Macartney mission would gain any substantial advantage for the Company.⁷¹ But even so, they thought that 'if the experiment must be tried, the opportunity ought not to be neglected', and the Company thus prepared to offer any aid in their power to promote the expedition.⁷² Accordingly, a letter containing detailed information of the current condition of the EIC's China trade was provided, along with several instructions and suggestions for dealing with the Ch'ing government.⁷³ Moreover, in spite of this being an official Crown mission, the Company was obliged by the British government to pay the expenses of Macartney's embassy to Peking.⁷⁴

While planning the mission, the Court of Directors also ordered the Canton Select Committee to assist with the Macartney's Embassy to Peking. Thus, a committee, known as Select and Superintending Committee, was established under the Court's instructions of April 1792 for the purpose of aiding the mission. The newly-founded committee consisted of three members, and its chairman was also the president of the Select Committee.⁷⁵ Then, a letter from the chairman of the Court of Directors was sent to the Canton Committee-members who in turned passed it to the Viceroy (*i.e.* the Governor-

and once worked as his secretary when he was in charge of the Madras Government.

⁷⁰ Following the season 1791, the EIC was able to reduce the shipment of a large amount of bullion to China while at the same time continued its tea trade in Canton. See the next chapter for a discussion of this issue.

⁷¹ IOR: G/12/11, Year 1792, p. 169.

⁷² *Ibid.*, pp. 160-1, 169.

⁷³ The letter, dated 8 September 1792, can be seen in Pritchard, 'The Instructions of the East India Company to Lord Macartney on His Embassy to China and His Reports to the Company, 1792-4. Part I; Instructions from the Company', *The Journal of the Royal Asiatic Society of Great Britain and Ireland*, 1938, pp. 206-229.

⁷⁴ Pritchard, 'Letters from Missionaries at Peking Relating to the Macartney Embassy (1793-1803)',

General) in Canton⁷⁶ asking him to convey notice that the Macartney's embassy was going to the Imperial Court in Peking.⁷⁷ While visiting the governor-general, the Company supercargoes Henry Browne, Eagle Irwin and William Jackson succeeded in asking him to deliver the letter to Peking by carefully disguising the true purpose which was to negotiate better conditions for trade. Instead, they declared that the King of Britain regretted that he had not been able to send his congratulations to the Ch'ing Emperor on his eightieth birthday in time, and instead he had decided to send an embassy now to present tribute to the emperor.⁷⁸

The mission planned to arrive in Peking in the summer of 1793 when the Ch'ing Emperor Chien-lung was about to celebrate his birthday, in order to seize the opportunity of attending the birthday celebrations.⁷⁹ HMS *Lion* and two escorting ships sailed from Portsmouth to China on 26 September 1792. The embassy reached Canton in mid-1793 and after having made final preparations, the mission arrived in Tientsin on 10 August 1793. The embassy then set out for Peking and then advanced to Jehol (熱河), outside the Great Wall where the Ch'ing summer palace was located. The embassy then joined

T'oung Pao (通報), Vol. XXXI (1935), p. 2.

⁷⁵ IOR: G/12/12, p. 436. Morse, *The Chronicles*, Vol. II, pp. 193-4.

⁷⁶ The Viceroy who governed the Provinces of Kwang-tung and Kwang-si was the highest-ranking Chinese mandarins in Canton.

⁷⁷ For the letter, see IOR: G/12/91, pp. 333-6.

⁷⁸ Fu, *A Documentary Chronicle*, p. 323; Gregory, *The West and China*, p. 57.

⁷⁹ This idea might have been inspired by an earlier suggestion of Canton mandarins to the EIC. In October 1789, the Canton Viceroy and Hoppo proposed to the supercargoes that the Company should send a deputation, represented the foreign community at Canton, to Peking to congratulate the Ch'ing emperor on his eightieth birthday in September 1790. Initially, the Select Committee was considering to send someone to go. However, after thinking that the Viceroy's suggestion was mainly for his own sake, that is to 'gain him much credit at Court, and prove his influence over the different European Nations, for ... he had not yet apprized the Emperor of his intentions', the supercargoes decided to decline the proposal because it 'would not be deemed necessary' for the Company. This was however criticised by the Court of Directors because it would have been an invaluable opportunity to contact the Ch'ing Imperial Court directly. See Morse, *The Chronicles*, Vol. II, pp. 177-8, 182 for details.

with Chinese mandarins and other foreign envoys for the emperor's birthday celebration and finally on 17 September the ambassador was received by the emperor.⁸⁰ A letter from King George III to Emperor *Chine-lung* was presented, outlining British requirements for a new trading environment in China.⁸¹ Based on this letter and other instructions from Henry Dundas, the President of the Board of Control, Lord Macartney was entrusted with the task of expanding the trade with China and of placing the Anglo-Chinese Relations on a regular basis.⁸² Macartney's commission were to establish a residential envoy representing Britain in Peking and to achieve the following six major objectives:⁸³

1. To remove restraints and extortions laid upon foreign trade by Canton officials.
2. To gain access to ports other than Canton for trade near to the producing regions of the exporting commodities such as tea and silk.
3. To abolish duties on imports and exports or at least to reduce the rates at which they were levied when trade began, in particular for those imposed for the purpose of liquidating Hong merchants debts to foreigners.⁸⁴
4. To grant the EIC a convenient depot where its traders and ships might remain from season to season, as had been granted to the Portuguese at Macao.
5. To obtain an edict establishing that the Company's members were not to be held responsible for the behaviour of individuals, and that innocent persons should not be punished if the criminal had escaped.

⁸⁰ IOR: G/12/11, Year 1793, pp. 169-70. Staunton's *An Authentic Account of an Embassy from the King of Great Britain to the Emperor of China* (1997) provided detailed journey of Macartney's mission to China. See also J. L. Cranmer-Byng, *An Embassy to China: Being the journal kept by Lord Macartney during his embassy to the Emperor Ch'ing-lung* (1962); & H. H. Robbins, *Our First Ambassador to China: An Account of the Life of George, Earl of Macartney* (1908), in particular Chapter X and Chapter XI.

⁸¹ This letter can be seen in Morse, *The Chronicles*, Vol. II, pp. 244-7.

⁸² For the letter of Henry Dundas addressing the instructions to Lord Macartney, dated 8 September 1792, see Morse, *The Chronicles*, Vol. II, pp. 232-242.

⁸³ For details of these objectives, see Morse, *The Chronicles*, Vol. II, pp. 214-5; Pritchard, *The Crucial Years*, pp. 276, 307.

⁸⁴ See Chapter Six for a discussion of the Canton Hoppo's imposing duties on exports for the purpose of liquidate Hong merchants' debts to foreign traders.

6. To increase imports of British manufactures (such as woollens) into China not only by trading with new ports, but also by creating demand for hitherto unknown articles in Peking.

In order to achieve the last objective, Macartney was required to seek permission for a warehouse in Peking to store British goods.⁸⁵ Having prepared many valuable gifts for the Emperor, including an impressive planetarium and two luxury carriages,⁸⁶ and because he was regarded by the Chinese authorities as a tributary envoy from England, Macartney was well entertained during his time at the Court.⁸⁷ However, although the mission, in contrast to that of Flint in the late 1750s, was warmly welcomed by the Ch'ing Imperial Court, the 1793 embassy proved to be another failure. There is some question over whether or not Macartney performed the ceremony of *kowtow* while being received by the Chinese Emperor and this may have been crucial for the success or failure of his mission,⁸⁸ but, without doubt, the Macartney Embassy was simply regarded by the Ch'ing emperor as just another tributary mission from a vassal state.⁸⁹ This is

⁸⁵ Martin, *China: Political, Commercial and Social*, pp. 17-8. The idea of requiring for a British warehouse in Peking was inspired from Russia's once having a factory at the capital city in earlier years (王之春 Wang Chih-ch'un 國朝柔遠記 *Kuo-ch'ao jou-yuan chi* (Records of the Ruling Dynasty's Graciousness to Strangers), Ch. 6, ff. 5-6).

⁸⁶ The presents entrusted to the mission cost £15,610 which included a total value of £13,124 obtained in early 1790s, in addition to those taken over from the Cathcart embassy which cost £2,486 (Morse, *The Chronicles*, Vol. II, p. 216). For the items of the presents delivered by the Macartney Embassy to the Ch'ing Imperial Court, see Pritchard, *The Crucial Years of Anglo-Chinese Relations*, p. 306.

⁸⁷ J. S. Gregory, *The West and China since 1500* (2003), p. 62. Hsu, *The Rise of Modern China*, p. 157. On Macartney's way to Peking, his boat was carrying a flag bearing the characters of 'the English Ambassador bringing tribute to the Ch'ing Emperor' by the Chinese government.

⁸⁸ The ceremony of *Kowtow* (known in Chinese as *San-kuei-chiu-k'ou* 三跪九叩) which consists of kneeling on both knees three times with head touching the ground also three times at each kneeling is a Chinese traditional ritual performed by a subject during an audience with the emperor. For a discussion of Macartney's conducting (or not conducting) performance of *kowtow*, see Pritchard, 'The Kowtow in the Macartney Embassy to China in 1793', *The Far Eastern Quarterly*, Vol. 2, No. 2, February 1943, pp. 163-203.

⁸⁹ 清會典事例 *Ch'ing hui-yien shih-li* (Collected Statutes of the Ch'ing Dynasty with cases and precedents), 卷 (Ch.) 510 (Vol. 6, p. 906). Indeed, during his birthday-celebration occasions, the Emperor Chien-lung composed a poem that which he mentioned that 'Formerly Portugal presented tribute; now England is paying homage ... Though their tribute is commonplace, my heart approves sincerely ...' (see Cranmer-Byng, 'Lord Macartney's Embassy to Peking in 1793', *Journal of Oriental Studies* (1957-58) IV:

clearly illustrated in the Chinese Emperor's reply to the King George III, dated 3 October 1793, which declared that

'Notwithstanding you, O King, reside ... beyond many tracts of seas, ... you have desperately to send me an ambassador to congratulate me upon my birthday. You commissioned him by letter ... directed to me, to come into my presence, ... to offer me various gifts and articles, the produce of your country, all which he did accordingly... Those presents ... which you have now sent me from your distant country, I have thought fit to accept of, as tokens of your affectionate regard for me. But in truth, as the greatness of splendour of the Chinese Empire have spread its fame far and wide, and as foreign nations from a thousand parts of the world ... to pay us their homage, and to bring us the rarest and most precious offerings, what is it that we ... want here? ... and stand it no needs of those things that are made in your kingdom.'⁹⁰

Believing that it was unnecessary for the traditional way of trade and communication between China and Britain to be altered, the Ch'ing emperor added that

'As to the proposal contained in your letter ... that I should select one of your subjects for the purpose of permitting him to reside in my dominions, and to act on behalf of the English merchants coming to this country, that is ... contrary to the laws of this country ... Having this clearly and distinctly laid upon my mind to your majesty, I have ... thought it proper to dismiss the ambassador who brought me your presents ... I now entreat you ... to make your intentions correspond with mine .. adhere to truth and equity ... act with all prudence and benignity ... that we may reciprocally enjoy the blessings of peace and tranquility.'⁹¹

Emperor Chien-lung regarded China was the *Celestial Empire* and, thus, superior to other nations, and his indifferent attitude towards foreign trade with China, clearly played a

1-2, p. 164). The American scholar, J. K. Fairbank had an extensive study of the Chinese tributary system. See Fairbank & S. Y. Teng, 'On the Ch'ing Tributary System', *Harvard Journal of Asiatic Studies*, Vol. 6, No. 2, June 1941, pp. 135-246; Fairbank, 'Tributary Trade and China's Relations with the West', *The Far Eastern Quarterly*, Vol. 1, No. 2, 1942, pp. 129-49; & *idem.* (ed.) *The Chinese World Order – Traditional China's Foreign Relations* (1968).

vital role in the mission's failure to achieve its objectives. Only four days later, Macartney was dismissed from Peking and a second letter was sent to him to pass to King George III, refusing all of the embassy's requests.⁹² As a result, the Macartney mission, which cost the Company a vast sum⁹³ completely failed to achieve any of its major objectives.⁹⁴ After the mission, the Secret and Superintending Committee was soon abolished and in 1794 the Select Committee returned to play a central position in decision-making in the Company's China trade.⁹⁵ The failure of the Macartney mission proved that Britain would find no easy way to change the existing Canton System. Later analysis will show how the Company filled the gap in its Anglo-Chinese trade deficit through its own solutions.

⁹⁰ IOR: G12/92, No. 11, pp. 223, 251-2.

⁹¹ *Ibid.*, pp. 245-6, 253-4.

⁹² A full English translation of the second letter to King George III can be seen in Morse, *The Chronicles*, Vol. II, pp. 247-252. A summary of the letter can also be seen in Cranmer-Byng, 'Lord Macartney's Embassy to Peking in 1793', *Journal of Oriental Studies*, pp. 174-6.

⁹³ There were several different estimates regarding the mission's cost, but perhaps the most reliable number was made by Pritchard. According to his calculation, the net cost of the mission was £78,522 (see Pritchard, 'The Instructions of the East India Company to Lord Macartney on his Embassy to China and his Reports to the Company, 1792-4. Part IV: Later Reports and A Statement of the Cost of the Embassy', *The Journal of the Royal Asiatic Society of Great Britain and Ireland*, 1938, pp. 508-9). For the detailed source of funds provided by the EIC to cover the cost, see IOR: G/12/91, pp. 543-90.

⁹⁴ Interestingly, when Macartney left the Chinese capital, he received permission from the Ch'ing authorities to travel to Canton overland (清會典事例 *Ch'ing hui-tin shih-li*, 卷 (Ch.) 510 (Vol. 6, p. 906)). This enabled him and other embassy-members to enter inland China where no other British traders had so far travelled. More importantly, on this journey, Macartney did the best as he could to collect information about China's economy, society, Geography and so on. Accordingly, Hsu (*The Rise of Modern China*, pp. 156, 162) argued that there was one thing which the Macartney's embassy had achieved, that was to collect abundant information concerning China's economy, society, culture and geography from which the British came to know China better. For the detailed information collected by the embassy about China, see Staunton, *An Historical Account of the Embassy to the Emperor of China from the King of Great Britain* (1797).

⁹⁵ IOR: G/12/12, p. 436.

3.5 The Problem of EIC's Trade imbalance with China after the Late 1780s

Under the existing Chinese commercial system in the late 1780s, methods of increasing the sale of British merchandise in the Chinese markets and the creation of stable Asian financial resources became the main priorities for the EIC.⁹⁶ In order to increase the sale of British produce in China, the Canton supercargoes made the trucking system more flexible so that woollens were not confined to use as trucking items in tea contracts, but were also used to pay debts. This happened in the beginning of the 1785 season before any tea contracts commenced. When the Canton Treasury found that they had insufficient money to clear the remaining payments owing to the Chinese merchants, the Canton Select Committee managed to negotiate with the Hong merchants to take woollens that were expected to arrive during the season.⁹⁷ The woollens were divided into 16 parts and shared among eight Hong merchants as shown in Table 3.6.

Table 3.6 Woollens arranged to be shared by the Hong merchants in proportion, 23 August 1785

Hong Merchant	Proportion	Hong Merchant	Proportion
Puan Khequa	2/16	Geowqua	1/16
Chowqua	2/16	Sinquua	1/16
Munqua	1/16	Pinquua	1/16
Howqua	2/16	Shy Kinquua	4/16

Source: IOR: R/10/FR/14, 23 August 1785, p. 36.

In order to make the Hong merchants take more British woollens, the supercargoes also bound together, in proportion, their winter tea contracts and the distribution of woollens.

⁹⁶ IOR: R/10/FR/14, 23 August 1785, p. 36, & *ibid.*, 29 November 1785, p. 89.

⁹⁷ *Ibid.*, 23 August 1785, p. 36.

This meant that the supercargoes and the Hong merchants would fix the quantities and prices of tea and woollens in advance while arranging contracts for the ensuing season, and of course, the Company would offer a better deal to any Hong merchant who was prepared to take a larger quantity of woollens.⁹⁸ This measure, which bound the delivery of woollens with winter tea contracts, thus made woolen products more useful to the Company's China investment. Because it helped the increase of the sale of British woollens to China, the measure was accepted by the Directors, as indicated in their letter of 1786 to Canton in which it was stated that, 'The most which ought to be done is ... to contract for large parcels of tea with such merchants as take a large proportion of the woollens, provided those teas are delivered at the market prices and are of good quality'.⁹⁹

However, it needs to be pointed out that the Court did not agree with every practice that the Canton supercargoes had organised with regard to the trucking system. After realising that the supercargoes in Canton were continuing to barter woollens in exchange for tea which tended to fix the prices of tea and woollens in advance, the Court of Directors in the same letter stipulated their objection to the Canton Select Committee's adoption of the practice. The Court's instructions to the supercargoes included the insistence that, in the future, woollens were to sell without fixing the prices of tea while making contracts.¹⁰⁰ The instruction, however, appears to have been disregarded by the Canton supercargoes, and the practice continued in later years because of the pressure to

⁹⁸ For the conduct of winter contracts, see Chapter Five.

⁹⁹ IOR: R/10/Court's Letter/I (hereafter R/10/CL/I), 24 February 1786, para. 1.

¹⁰⁰ *Ibid.*

sell more British woollens in the Chinese market.¹⁰¹

While they were concerned with the methods that could be adopted to make the sale of woollens in Canton more efficient, the Court of Directors in London also searched for new articles that would be welcomed in the Chinese market. This was evident in the EIC's Court's letter of 13 December 1786 which stipulated that '... in the present increased state of the Tea Trade it becomes highly essential in order to reduce as much as possible our remittances to you in bullion, that we should endeavour to keep the China market as amply supplied ... with every article of ... product or manufacture of Europe ...'.¹⁰² Thus, sales of unwrought metals, such as lead and iron, were to be used to provide funds for tea purchases.¹⁰³ 'Being desirous of extending our exports from this country (Britain) so as to reduce as much as possible our remittance to you (Canton) in bullion',¹⁰⁴ the Court of Directors also shipped copper to Canton, and Cornish tin was sent to China from 1789/90.¹⁰⁵ The years after 1785 also saw long ells replacing broad cloth as the leading woollen item exported from Britain by the East India Company, with the majority of being destined for China. Improvements in the quality of British 'stuffs' (lightweight worsted textiles) then enabled the Company in the 1790s to increase exports of specific textiles that had been adapted to the particular demands of the Chinese market.¹⁰⁶

¹⁰¹ See Morse, *The Chronicles of East India Company Trading to China*, Vol. II & Vol. III.

¹⁰² IOR: R/10/CL/I, 13 December 1786, para. 2.

¹⁰³ See e.g. IOR: G/12/84, 8 December 1786, para. 29, p. 15; R/10/CL/I, 19 January 1787, para. 45; G/12/110, 29 April 1796; Morse, *The Chronicles of East India Company Trading to China*, Vol. V, p. 72.

¹⁰⁴ IOR: R/10/CL/I, 19 January 1787, para. 45.

¹⁰⁵ BPP, Papers and Accounts, 1792-93, Vol. XXXVIII, no. 774, p. 72.

¹⁰⁶ Bowen, 'Sinews of trade and empire: the supply of commodity exports to the East India Company during the late eighteenth century', *Economic History Review*, LV, 3 (2002), pp. 472-3, 476-7.

Although it attempted to sell more British merchandise in the Chinese market, the East India Company became financially more dependent on the Indian Presidencies. In order to give the Indian Presidencies a better understanding of the China remittance, the Court directed the Canton Select Committee to provide them with full information on the Company's trade in Canton. The information included how much tea they were planning to procure in the ensuing season, how much money would be needed, and what Indian products would be most welcome in the Chinese market.¹⁰⁷ In particular, the Directors again emphasised their aim of reducing the amount of bullion to be sent from Britain to China, and they hoped again that this could be achieved by the use of funds derived from the Indian Presidencies. This can be seen in the Court's letter of 24 May 1787 in which the Directors informed the Canton Select Committee that 'In order to lessen as much as possible our remittance from hence in bullion, we have given directions to our several Presidencies in India to assist your funds by every means in their power, ...'.¹⁰⁸

Unlike the earlier years when the Court had commanded the Bengal Council to provide the Canton Treasury with bullion, the Directors now paid more attention to the use of Indian goods which were welcome in the Chinese market. This was to avoid the Indian Presidencies having once more to suffer from a scarcity of money. For example, because the sale of Bombay cotton sold at 70 per cent profit in the early 1780s, the Directors in 1786 resolved that the quantity of cotton to be sent from the Bombay Presidency should be increased to two hundred tons in the ensuing season.¹⁰⁹ Moreover, because the

¹⁰⁷ IOR: R/10/CL/I, 13 December 1786, para. 2.

¹⁰⁸ *Ibid.*, 24 May 1787, para. 14.

¹⁰⁹ *Ibid.*, 13 December 1786, para. 3; & Fort William – India House Correspondence, Vol. X: 1786-1788, Introduction, p. 27. Because the Bombay Presidency was unable to prepare as much as cotton the

commodities of Bengal were welcome in Madras and Bombay, the Court of Directors suggested the Presidency could regularly send its manufactures to Madras and Bombay in exchange for cotton, pepper and sandalwood. These goods were then, in turn, shipped to China to pay for tea.¹¹⁰ In order to create more funds to pay for the China trade, the Company also tried to sell other Asian commodities, such as Malayan tin and Sumatran pepper to China.¹¹¹ Another way of obtaining funds for the use of the China trade was to sell Indian goods in other Asian areas from where money would then be paid into the Canton Treasury. This occurred during the early 1780s when the Company sold 1,460 chests of Indian opium in the areas surrounding the Strait of Malacca; and the net produce was paid into the hands of the Canton supercargoes.¹¹² The EIC at the same time also sent 2,000 chests of opium directly to Canton.¹¹³

It is notable that because the sale of Indian cotton to China was so profitable, the EIC also tried to sell British cotton manufactures at Canton when there was insufficient Indian cotton to be exported to Canton. The first attempt took place in 1786.¹¹⁴ Then later when the cotton crops failed in India, the Court again used British cotton for China remittance. This occurred at the beginning of the 1820s when there was both a total failure of cotton crops in India and an excess of cotton in the London market. Thinking that ‘a

Court instructed, a value of £15,700 in bullion was sent by the EIC to Canton, with the remaining being supplemented by cotton.

¹¹⁰ Fort William –India House Correspondence, Vol. IX (1782-85), Letter from Court, 21 September 1785, para. 12, p. 243, & para. 13, p. 244.

¹¹¹ *Ibid.*, Vol. X, Introduction, p. 28.

¹¹² *Ibid.*, Vol. IX, Letter from Court, 12 July 1782, para. 55, p. 60.

¹¹³ *Ibid.*, para. 56, p. 61. However, after being informed that the importation of Opium into China was forbidden by the Chinese Government and those merchants who conducted the trade would receive severe penalties, the Court of Directors then prohibited any more opium being sent to China on the Company's account. They did however turn a blind eye to opium export by private individuals. For the opium trade and its importance on the EIC's financing of the China tea trade, see Section 4.5.

consignment of that article from England to China would be a beneficial mode of remittance', the EIC purchased 11,264 bales of cotton in 1821 at prices of from six pence to seven pence per lbs. and shipped them directly from London to Canton.¹¹⁵

Overall, because of the increasing consumption of foreign cotton in China, the total value of Company's Indian merchandise importation into Canton increased from the last years of the eighteenth century. The expansion of the trade was striking, increasing in value from only 40,362 taels in 1784 to 162,817 taels in 1799, and by 1811 it reached 792,570 taels. From 1812 onwards, the Company's total merchandise importation into China from India alone surpassed one million taels in value, and the amount reached 1,842,407 taels in 1833.¹¹⁶ The period between 1780 and 1833 also witnessed a rapid increase in the total value of British imports of woollens into China. When compared to about 364,044 taels realised in 1772, the EIC's imports of woollens increased to 577,368 taels in 1785. By 1798 the total value of woollen imports into China reached 1,204,684 taels and in 1826 it amounted to 2,437,500 taels.¹¹⁷ This helped the Company's imports of British merchandise into China expand dramatically after the late 1780s, as illustrated in Table 3.7, and, thus, became an important remittance to cover tea investment at Canton.

¹¹⁴ Fort William – India House Correspondence, Vol. X (1786-1788), Introduction, p. 28.

¹¹⁵ IOR: R/10/CL/18, 11 April 1821, Part II, para. 2.

¹¹⁶ Morse, *The Chronicles of East India Company Trading to China*, Vol. III, pp. 387-8. See also Table 3.7.

¹¹⁷ According to Pritchard, *The Crucial Years of Anglo-Chinese Relations*, Appendix I-IV & Morse, *The Chronicles of East India Company Trading to China*, Vol. V, p.159.

Table 3.7 The value of EIC's importation from Britain and India to China and the total investment in Canton, 1780-1833 (in taels)

Year	Silver Bullion	British Goods	Indian Goods	Total Imports	Total Investment	Balance
1780		433,657	45,522	479,179	2,180,901	-1,701,722
1781		266,136	129,162	395,298	1,663,159	-1,267,861
1782		320,000	none	320,000	828,203	-508,203
1783		769,281	200,362	969,643	2,152,614	-1,182,971
1784		653,083	40,362	693,465	1,853,209	-1,159,744
1785		661,847	25,432	687,279	2,965,000	-2,277,721
1786	2,062,080	877,586	98,433	3,038,099	4,500,000	-1,461,901
1787	1,912,320	741,823	103,670	2,757,813	5,258,676	-2,500,863
1788	2,094,878	1,232,876	89,600	3,417,354	4,566,653	-1,149,299
1789	1,321,920	1,130,874	164,925	2,617,719	4,433,431	-1,815,712
1790	2,106,041	1,621,201	211,672	3,938,914	4,668,136	-729,222
1791	172,800	1,851,491	87,104	2,111,395	3,349,281	-1,237,886
1792	518,400	1,901,683	136,456	2,556,539	3,535,407	-978,868
1793		2,062,030	88,100	2,150,130	3,838,868	-1,688,738
1794		2,152,678	19,219	2,171,897	4,704,488	-2,532,591
1795		2,879,945	89,342	2,969,287	3,508,839	-539,552
1796	120,960	2,030,491	69,585	2,221,036	6,248,940	-4,027,904
1797	626,570	1,553,244	133,045	2,312,859	5,505,975	-3,193,116
1798	1,321,984	1,524,046	none	2,846,030	2,911,251	-65,221
1799	1,623,171	2,382,322	162,817	4,168,310	4,016,113	-152,197
1800	440,103	2,360,701	554,667	3,355,471	4,282,000	-926,529
1801	81,370	2,761,197	316,431	3,158,998	6,073,586	-2,914,588
1802		3,056,480	92,538	3,149,018	5,988,263	-1,839,245
1803	1,437,934	2,983,008	54,891	4,475,833	6,000,000	-1,524,167
1804	830,266	3,778,950	56,052	4,665,268	6,272,874	-1,607,606
1805		3,055,430	153,705	3,210,135	5,197,342	-1,987,207
1806		3,417,902	620,668	4,038,570	5,473,406	-1,434,836

Table 3.7 (Continued---)

Year	Silver Bullion	British Goods	Indian Goods	Total Imports	Total Investment	Balance
1807		3,151,340	655,812	3,807,152	3,807,863	-711
1808		3,923,461	787,859	4,711,320	4,017,258	694,062
1809		3,198,137	392,734	3,590,871	3,888,167	-297,296
1810		3,200,000	645,497	3,845,497	4,282,816	-437,319
1811		2,751,554	792,570	3,544,124	5,000,000	-1,455,876
1812		2,723,906	1,232,566	3,956,472	6,425,608	-2,469,136
1813		3,085,351	1,286,322	4,371,673	5,641,388	-1,269,715
1814		2,814,036	892,620	3,706,656	5,931,589	-2,224,933
1815	1,094,688	2,144,773	1,570,151	4,809,612	6,751,295	-1,941,683
1816	2,561,103	2,520,345	1,014,892	6,096,340	6,426,148	-329,808
1817		2,438,992	1,193,510	3,632,502	4,601,124	-968,622
1818		2,035,937	1,084,459	3,120,396	4,151,514	-1,031,118
1819		1,736,650	1,235,623	2,972,273	5,786,224	-2,813,951
1820	1,982,941	2,381,234	1,202,520	5,566,695	6,118,679	-551,984
1821		2,057,344	1,452,987	3,510,331	5,652,108	-2,141,777
1822		1,055,553	1,513,069	2,568,622	5,850,384	-3,281,762
1823	689,197	2,312,848	1,417,178	3,143,823	6,245,057	-3,101,234
1824		2,200,371	1,419,912	3,620,283	5,788,652	-2,168,369
1825		2,776,368	1,415,462	4,191,830	5,322,125	-1,130,295
1826		2,733,776	1,493,468	4,227,244	7,456,727	-3,220,483
1827		1,576,251	1,677,398	3,253,649	6,385,567	-3,131,918
1828		2,168,988	1,388,384	3,557,372	5,778,728	-2,221,356
1829		1,957,327	1,271,315	3,228,642	5,629,015	-2,400,373
1830		1,930,979	1,319,182	3,250,161	5,729,705	-2,479,544
1831		1,871,543	783,582	2,655,125	5,819,383	-3,164,258
1832		1,878,897	1,029,369	2,908,266	6,025,100	-3,116,834
1833		2,515,246	1,842,407	4,357,653	5,521,043	-1,163,390

Sources: based on BPP, 1812-13, Vol. 8, Paper 152, p. 402; & Morse, *The Chronicles of East India Company Trading to China*, Vol. III, pp. 387-8.

These figures indicate that EIC succeeded in expanding its importation of home manufactures into China. Nevertheless, this does not mean that British produce was more welcome in China than before. Indeed, the Canton supercargoes on many occasions still found themselves confronted by Hong merchants who wished to reduce the prices of British merchandise. This happened in 1786 when the amount of tea purchase was large, giving the Company a good bargaining environment. Yet, as recorded by the supercargoes in December 1786 ‘... we were under the necessity of lowering the price of the lead 2 mace per pecul from what we got last year ...’.¹¹⁸

The situation was no better after the nineteenth century when the quantity of tea purchases became larger still. In order to be able to sell more British manufactures to China, the Company had to adopt practices which included the dumping of the commodities brought from home on the Canton market. Even so, the Company was continually obliged to reduce the prices of British goods to make them acceptable to the Chinese merchants.¹¹⁹ Moreover, apart from being required to reduce the price, the EIC, in some cases, still had to provide better terms of trade for the Hong merchants, including offering them a premium, as high as 35%, on goods trucked for tea.¹²⁰ This suggests that the Company’s major imports, such as woollens and metals, never became popular in the Chinese market. Indeed, the Hong merchants always found it difficult to sell Company woollens at a good price.¹²¹ As can be seen in Table 3.8, the EIC’s imports from England to Canton continued to suffer losses in the early decades of the nineteenth century.

¹¹⁸ IOR: G/12/84, 8 December 1786, para. 29, p. 15.

¹¹⁹ See e.g. IOR: R/10/Secret Consultations (SC)/6, 1812.

¹²⁰ Greenberg, *British Trade and the Opening of China*, p. 7.

¹²¹ PRO: FO/1048/12/30, pp. 2-3; FO/1048/12/60, pp. 5-6.

Table 3.8 The gain or loss on the sales of the EIC's exports from England to Canton in the 1820s

Season	Invoice Value £	Sale Income £	Gain of the Trade £	Loss of the Trade £
1822-23	693,641	680,748		12,893
1823-24	735,999	700,171		35,828
1824-25	688,059	674,152		13,907
1825-26	912,940	935,808	22,868	
1826-27	764,418	747,408		17,010
1827-28	709,262	653,919		55,343
1828-29	602,512	606,721	4,209	
Total	5,106,831	4,998,927	27,077	134,981
Amount of Net Loss in 1822-29: £ 107,904				

Note: one Chinese tael was calculated to be equal to 6s. 8d.

Source: BPP, 1830, Vol. V, Paper. 646, Appendix (A. 2, No. 2), pp. 660-1.

Partly because of the arrangement of the trucking system and partly because of the introduction of new items and the adoption of dumping, the increase of the EIC's import of merchandise into China was very striking after the late 1780s more so than has been appreciated in the past. Especially noteworthy is the fact that the growth rate (in terms of the total value) of the Company's commodity imports into China, as a whole, was even higher than that of its export trade, as illustrated in Table 3.9. It is, however, interesting to note that the EIC's merchandise trade imbalance with China remained for the whole period 1760-1833, and even deteriorated after 1785. As with Table 3.7, Table 3.9 also shows that in spite of the rapid growth in the total value of both British and Indian merchandise imports into China by the EIC, they never were able to cover the total expenditure of the Company's tea investment at Canton.

Table 3.9 The annual average value and growth rate of the EIC's merchandise trade with China in the years 1760-1833 (1780-84=100)

	Total Imports		Total Exports		Balance
	Value (taels)*	Index**	Value (taels)	Index	Value (taels)
1760-64	345,930	64.9	876,846	53.7	-530,916
1765-69	520,059	97.6	1,601,299	98.1	-1,081,240
1770-74	622,332	116.8	1,415,428	86.7	-793,096
1775-79	384,009	72.1	1,208,312	74.0	-824,303
1780-84	532,649	100.0	1,632,720	100.0	-1,100,071
1785-89	1,026,528	192.7	4,437,123	271.8	-3,410,595
1790-94	2,059,181	386.6	4,025,092	246.5	-1,965,911
1795-99	1,961,352	368.2	4,277,416	262.0	-2,316,064
1800-04	3,359,501	630.7	5,758,771	352.7	-2,399,270
1805-09	3,955,787	742.7	4,547,194	278.5	-591,407
1810-14	3,886,684	729.7	5,608,214	343.5	-1,721,530
1815-19	3,405,750	639.4	5,747,584	352.0	-2,341,834
1820-24	3,417,760	641.7	6,864,871	389.8	-3,447,111
1825-29	3,647,790	684.8	6,316,339	386.9	-2,668,549
1830-33	2,987,766	560.9	5,984,727	366.5	-2,996,573

Note: * the weighted annual average value (1 tael = £ 1/3), ** 1780-84 = 100.

Source: based on 嚴中平 Yen Chung-p'ing *et al.* (eds.) 中國近代經濟史統計資料選輯 (Selected Statistical Material on China's Modern Economic History), Table 4, p. 6.

Indeed, in most seasons between 1780 and 1833, they were far from enough to balance the payments of the growing tea purchases. Nevertheless, it must be noted that despite the continuing existence of its merchandise trade imbalance with the China, the Company succeeded in carrying on and even expanding its tea trade. This was accompanied by another striking development which saw the EIC once more stop shipping silver bullion from Britain to China after 1790s. In particular, with the exception of a few seasons, no bullion was sent to China from Britain after 1805, as illustrated in Table 3.7. With the co-existence of a huge deficit in its merchandise trade with China and the cessation of bullion shipments to Canton from Britain, the core issue remaining to be explored is how the Company filled up the imbalance that existed between its export trade and import trade in Canton. This will be examined in the next chapter.

CHAPTER FOUR

THE USE OF NON-COMPANY RESOURCES FOR THE FUNDING OF THE TEA TRADE

The second half of the eighteenth century saw the EIC increase its political and economic influence over the Indian sub-continent, and this helped provide additional funds for the China trade. However, the precious metals supplied by the three major Indian Presidencies as well as capital derived from the Company's sale of British goods in Canton were not enough to cover the rapid growth of tea trade. The gap in the EIC's trade imbalance at Canton had to be filled by other financial resources obtained in Asia, and this is to be explored in this chapter. Then an overall view of the EIC's funding system of its China trade will be presented.

4.1 Private Trade and the EIC's China Remittance

Although the EIC was the only commercial body authorised by the Crown to trade in the East, there were also some other British groups involved in Asian trade, and this type of activity was known as 'private trade'. This section is to discuss the subject of private trade and examine how the Company made use of it to help finance its trade with China.

4.1.1 The Privilege Trade and the Company's Canton Remittance

Because the East India Company had the monopoly in Anglo-Asian trade, no other individuals were permitted by the British Government to conduct trade in the East. Nevertheless, the EIC did allow its supercargoes as well as the commanders and crew of its ships to carry on limited trade on their own accounts. This served to prevent smuggling and other abuses, as well as to reward and encourage the Company's commanders and servants.¹ Permission for the EIC's servants to trade on their own accounts was also extended to the trade between ports in Asia, when the Company's intra-Asian trade was developed.² In particular, supercargoes, commanders and officers were allowed cargo space, the size of which was determined by their rank.³ This freight-free space for the commanders and other officers was known as 'privilege tonnage', and, thus, this sort of trade was called the 'privilege trade'.⁴

With the EIC's permission, the commanders and crew of its ships could make use of the Company's vessels to deliver cargo up to a certain quantity for their own accounts on the voyages between Britain and Asia, as well as between the Indian Presidencies and Canton. By the late 1780s, the Court of Directors had decided that any commander was allowed to have 56 tons of his privilege tonnage in each vessel of 755 tons and upwards,

¹ E. M. Pritchard, 'Private trade between England and China in the eighteenth century (1680-1833)', *Journal of the Economic and Social History of the Orient*, Vol. I (1958), pp. 108-9; & idem., *The Crucial Years of Anglo-Chinese Relations*, p. 170.

² Marshall, 'Private British trade in the Indian Ocean before 1800', in A. D. Gupta & M. N. Pearson (eds.) *India and the Indian Ocean, 1500-1800* (1987), p. 278.

³; For full details of allowances and distribution of the freight-free space to the commanders and other officers in the late eighteenth century, see C. Cartwright, *An Abstract of the Orders and Regulations of the Honourable Court of Directors of the East-India Company ...* (1788).

⁴ IOR: P/174/32 (Bengal Commercial Reports) (1820-21), para. 152; IOR: G/10/CL/I, 12 April 1786, para. 1; Greenberg, *British Trade and the Opening of China*, pp. 19, 23; Morse, *The Chronicles of East India*

while a chief mate had a quota of 5 tons, followed by other lower rank of officers who had smaller amounts.⁵ The commanders and other officers could accordingly make use of their quotas to load whatever goods they believed would be welcome in the Asian market. However, in order to prevent them competing with the Company, they were not allowed to export from Britain some articles, such as copper, or any sorts of woollen goods.⁶ The crew's shipment of bullion was also prohibited, with the exception that the Company allowed bullion to be loaded on private accounts on those ships sailing for China, but this was only on condition that the commanders and officers had not invested in merchandise goods up to their full quota.⁷ This was in part for the purpose of exchanging silver for gold because of its better exchange rate in China, but it could again indicate that there had long existed a merchandise trade imbalance between Britain and China.

Although woollens and copper were not allowed to be exported from home, the Company's commanders and crew managed to develop an export trade from Britain to China by selling other goods. In contrast to the Company, the EIC servants exported various manufactured goods, such as cloth cuttings, clocks, watches, mechanical instruments, glass windows and Prussian blue,⁸ and unlike woollens goods and unwrought metals, these minor products proved to be popular with the Chinese officials

Company's Trading to China, Vol. II, p. 26.

⁵ For instance, the second mate had a quantity of 4 tons for his privilege trade on each vessel, while the third mate and purser had 3 tons as their quotas. See Cartwright, *An Abstract of the Orders and Regulations*, p. li.

⁶ Cartwright, *ibid.*, p. lii.

⁷ *Ibid.*, p. liii.

⁸ For the items of European products brought to Canton by the private traders, see Pritchard, 'The private trade between England and China', pp. 110, 131, 133; & *idem.*, 'The struggle for control of the China trade during the eighteenth century', *Pacific Historical Review*, September 1934, p. 284.

and merchants. The reason that the Company did not bother to import these articles into Canton was because their demand was believed to be limited, and thus these minor and miscellaneous articles were left to the EIC's commanders and crew.⁹

As with the export trade from Europe to Asia, there were also some restrictions upon the privilege import trade into Britain. For example, saltpetre, cotton yarn and raw silk were not allowed to be shipped back to England on private account. If these articles were found on board Company vessels, they would be forfeited.¹⁰ It is, however, necessary to mention that the Court of Directors did allow the commanders and other officers to buy tea at Canton and bring it back to England. As with the EIC's China trade, tea was also the most important export item in Canton carried on by the commanders and crew, and in particular, after the late 1780s, it grew to overshadow any other article.¹¹ Tea's domination in the privilege trade indicates a high rate of return in this trade. Indeed, because of its lucrative nature, many officers were tempted to exceed their allowances and smuggled large quantities of tea into Britain; this was an acute problem for the Company before the passage of the Commutation Act in 1784.¹² Thus, the EIC, in 1786, arranged that each servant could only load a limited quantity on board. The quantities of tea that the captain and other officers of the China ships were allowed to import into Britain after the late 1780s are shown in Table 4.1, which also illustrates the percentage of sale receipts that each individual had to pay to the Company. To make the rule more

⁹ Pritchard, *The Crucial Years of Anglo-Chinese Relations*, p. 173.

¹⁰ Cartwright, *An Abstract of the Orders and Regulations*, p. lx. Some articles such as musk, camphire and arrack were also prohibited.

¹¹ Pritchard, 'The private trade between England and China', p. 223.

¹² See H. V. Bowen, "'So Alarming An Evil:' Smuggling, Pilfering and the English East India Company, 1750-1810', *International Journal of Maritime History*, Vol. XIV, No. 1 (June 2000), pp. 1-31.

effective, a charge of 20 per cent on sale value was to be imposed on all quantities above the agreed amount.¹³

Table 4.1 The privilege quantities of tea allowed to be imported into Britain in each China ship, established in 1786

	Paying 7 per cent On sale value lb.	Paying 17 per cent On sale value lb.	Total Quantity lb.
Captain	688	8,648	9,336
Chief Mate	90	1,138	128
Second Mate	72	912	984
Third Mate	54	682	736
Surgeon	54	682	736
Purser	54	682	736
Fourth Mate	36	456	492
Fifth Mate	18	228	246
Boatswain	18	228	246
Gunner	18	228	246
Carpenter	18	228	246
Total	1,120 lbs.	14,112 lbs.	15,232 lbs.

Source: Cartwright, *An Abstract of the Orders and Regulations ...* (1788), p. lxi.

Apart from tea, woven silks, Nankeens (a sort of cotton cloth), chinaware and, later, raw silk were the other major articles exported from Canton by the EIC supercargoes and maritime officers on their own accounts.¹⁴ Among these articles, the trade in chinaware trade is worth further discussing. The chinaware trade was once one of the most important items in the EIC's exports from China (especially in the seventeenth and early eighteenth centuries). The Company later on was beginning to lose interest in the trade when its profit was in decline; this was partly because the British pottery and porcelain

¹³ Cartwright, *An Abstract of the Orders and Regulations*, p. lxi.

¹⁴ Pritchard, 'The Private trade between England and China', p. 223. The Company in 1817 permitted the commanders and the crew of its ships to export raw silk from Canton on their accounts. And soon after it

industries developed quickly in the eighteenth century. Although profit was uncertain, chinaware continued to be shipped back to Britain from China by the EIC in the later years of the century, mainly for the purpose of forming a floor for its ships in order to preserve teas from damage.¹⁵ Desirous of decreasing its own purchases of china, but still needing to arrange enough chinaware for the flooring of its vessels, the Canton Council welcomed those commanders and officers who were interested in loading porcelain on their own accounts.¹⁶ The Company also allowed the owners of the ships used for its China trade to floor their ships with chests of chinaware in lieu of ballast.¹⁷ However, fearing that the commanders and crew might purchase too much porcelain which would occupy too large a space, the EIC decided that the quantity should not exceed 20 tons for each ship, and a penalty of £30 per ton was imposed on any excess.¹⁸

The history of the EIC's exportation of porcelain from China began to come to an end in the late 1780s when the Court of Directors no longer considered the importation of chinaware to be a profitable trade. As can be seen in their letter to the Canton Select Committee, dated on 12 April 1786, the Directors wrote that

Chinaware had for many years past been a losing article and appears to have been continued in the investment from its uses in forming a flooring for the ships to preserve the teas from damage, but as the losses thereon are at present so considerable, we have it in contemplation to discontinue the importation of it in future ...¹⁹

was lifted from the list of prohibition, the trade in raw silk became an important business for the Company's servants in Canton.

¹⁵ IOR: R/10/CL/I (1786-88), 12 April 1786, para. 1.

¹⁶ Morse, *The Chronicles of East India Company's Trading to China*, Vol. V, p. 147.

¹⁷ IOR: R/10/CL/I, 12 April 1786, para. 1.

¹⁸ *Ibid.*

¹⁹ *Ibid.*

The Court in the above letter, however, did not order the Select Committee at Canton to stop loading chinaware in its ships on the Company's accounts because they thought it might be difficult to devise an alternative means of protecting the Company's cargo from damage.²⁰ Instead, the Directors instructed the supercargoes to reduce the losses on the importation of porcelain through better packing and care.²¹ Yet, because chinaware continued as a loss-making article in the Company's import trade from China, the Court of Directors finally, in 1791, ordered the Canton supercargoes to take no more chinaware.²² From then on, all of the chinaware loaded in the Company's ships belonged to the Commanders and officers. As with the 1786 instruction, however, the Court again resolved that the commanders and officers of its vessels were only allowed to load limited quantities of chinaware to be used as flooring for the Company's teas. Indeed, in order to make this order effective, the Directors decided that apart from that being used to floor the vessel, no more porcelain was to be loaded on the Company's ships.²³

In fact, as soon as the Court of Directors decided to stop the importation of chinaware into Britain on the Company's account, they also wrote to the Canton supercargoes saying that 'we shall be glad that any other mode of dunnaging our ships could be adopted that could equally answer in preventing damage to the teas, you will take this subject under consideration and furnish us with your sentiment thereon'.²⁴ Nevertheless, no alternative method of flooring the ships was seriously considered until the first decade

²⁰ *Ibid.*, para. 2.

²¹ *Ibid.*, para. 3.

²² IOR: R/10/CL/III (1791-95), 14 December 1791, para. 10.

²³ *Ibid.* If it happened to any commanders and crew, they should be charged the whole freight for loading the extra cargo of chinaware.

²⁴ IOR: R/10/CL/I, 24 May 1787, para. 23.

of the nineteenth century when the importation of chinaware also disappeared from the private trade.²⁵ By then, bamboo, rattan and, more importantly, those tea chests filled with Bohea tea were used for flooring the ships and if Bohea packages were found insufficient for flooring all of the Company's ships, the supercargoes were instructed to 'fill up the quantity of packages necessary for that purpose with low Congou'.²⁶

In addition to goods shipped directly between Britain and China, the commanders and other officers also traded articles obtained from other regions. For example, American goods, such as furs and cochineal, formed part of the privilege trade. But, more importantly, the Company's ships were also loaded with Indian articles, in particular raw cotton, sandalwoods and pepper, which were then sold in Canton where they were found to be popular with the Chinese.²⁷ Clearly, Indian goods, rather than English merchandise, played an important role in the privilege import trade into Canton in the last decades of the eighteenth century; this can be seen in Table 4.2. What is more notable is that unlike the EIC's China trade with its deficit problem, the Company's servants ran a favourable trade balance with their Chinese counterparts because they imported several items for which there was strong demand, while the scale of their export trade was restricted by the Company. This is also illustrated in Table 4.2, which shows a positive trade balance with the Chinese merchants in Canton in each season between 1764/65 and 1806/7.

²⁵ According to Pritchard, 'The private trade between England and China', Table 3, p. 223, the last year of the exportation of chinaware from Canton in private trade took place in 1805/06.

²⁶ IOR: R/10/CL/IX, 29 August 1810, para. 22; & R/10/CL/X, 27 December 1811, para. 7.

²⁷ Pritchard, 'The Private trade between England and China', p. 131.

Table 4.2 The EIC Privilege Trade at Canton, 1764/5-1806/7 (Tls.)

Year	Imports			Exports Total	Trade Balance
	English Goods	Indian Goods	Total		
1764-65			432,180	330,800	101,380
1765-66			462,050	384,000	78,050
1766-67			370,440	336,000	34,440
1767-68			246,960	208,000	38,960
1768-69			370,440	304,000	66,440
1769-70			524,790	520,000	4,790
1770-71			401,310	400,000	1,310
1771-72	60,000	557,400	617,400	600,000	17,400
1772-73	30,000	371,310	401,310	240,000	161,310
1773-74	n/a.	n/a.	339,570	299,570	40,000
1774-75	25,000	98,480	123,480	69,480	54,000
1775-76	41,756	73,448	115,204	113,260	2,142
1776-77	55,003	196,117	251,120	225,000	26,120
1777-78	120,964	271,351	391,315	340,000	51,315
1778-79	105,126	227,534	332,660	300,000	32,660
1779-80	23,125	170,135	193,260	175,000	18,260
1780-81	170,747	239,573	410,320	278,560	131,760
1781-82	107,891	152,949	260,840	253,030	7,810
1782-83	18,356	72,994	91,350	85,650	5,700
1783-84	28,427	238,993	267,420	191,820	75,600
1784-85	79,992	337,953	417,945	377,625	40,320
1785-86	86,546	340,179	426,725	315,510	111,215
1786-87	69,442	531,858	601,300	494,020	107,280
1787-88	74,206	357,724	431,930	410,930	21,000
1788-89	93,858	546,587	640,445	561,965	78,480
1789-90	72,891	443,679	516,570	376,120	140,450
1790-91	64,526	739,739	804,265	586,105	218,160
1791-92	24,747	611,613	636,360	479,400	156,960
1792-93	67,055	904,595	971,650	843,930	127,720
1793-94	115,130	869,125	984,255	776,895	207,360
1794-95	81,650	581,825	663,475	461,155	202,320
1795-96	110,620	263,340	373,960	358,840	15,120
1796-97	66,889	298,853	365,742	350,742	15,000
1797-98	111,460	588,938	700,398	690,398	10,000
1798-99	46,875	508,931	555,806	545,806	10,000
1799-00	89,060	448,562	537,622	454,822	492,140
1800-01			805,900	696,460	109,440
1801-02			998,757	920,277	78,480
1802-03			725,997	715,997	10,000
1803-04			436,497	289,617	146,880
1804-05			592,703	535,103	57,600
1805-06			669,170	511,490	157,680
1806-07			995,555	820,595	174,960

Sources: based on Pritchard, *The Crucial Years of Anglo-Chinese Relations*, Appendix II; *idem.* 'The Struggle for control of the China trade during the eighteenth century', Table 3, p. 295; & 'Private trade between England and China in the eighteenth century', Appendix I, p. 233.

With a positive balance established in the privilege trade, the EIC regarded the profits as a useful financial resource for its tea payments. In order to make use of the capital, the Company forbade the surplus funds from being shipped directly back to England on the Company's ships.²⁸ Not being able to send silver back to Britain, the only method by which the commanders and other servants could remit their surplus money back home was through the EIC itself. As a result, the surplus money obtained by the private traders was paid into the Company's Canton Treasury and, in return, certificates or bills of exchange were granted to them.²⁹ In general, the certificates issued by the EIC's Canton Establishment to the commanders and officers were made payable in India at 90 days after sight, or in Britain at 360 days at the rate of exchange of the current season.³⁰ For example, in 1776, W. H. Pigou, a member of the EIC's Canton Council, paid into the Canton Treasury 77,367 taels in exchange for bills. In the following year, he again paid in an amount of 235,539 taels, while Captain Rous of the *Royal Henry* also paid in 90,000 taels. The bills issued to them were made payable in London at 12 months after sight, at an exchange 5s. 2d. per dollar.³¹ As a result, with the involvement of the commanders and crew of its ships in the China trade, the EIC obtained additional funds to support its tea investment. The privilege trade, thus, played a small but significant part in underpinning the expansion of the Company's tea trade.

²⁸ Pritchard, *The Crucial Years of Anglo-Chinese Relations*, p. 183.

²⁹ Morse, 'The provision of funds for the EIC trade at Canton during the 18th century', *Journal of the Royal Asiatic Society* (April 1922), p. 247.

³⁰ Morse, 'The provision of funds for the EIC trade at Canton during the 18th century', p. 247.

³¹ Morse, *The Chronicles of East India Company Trading to China*, Vol. II, pp. 26-7.

4.1.2 The Country Trade and EIC's Canton Remittance

Apart from the private trade undertaken by the Company's servants, there were some other groups of Britons who could be found carrying on trade in the Orient. These non-EIC English merchants who conducted trade in the East were named 'free merchants' or 'free traders'.³² More often, they were popularly known as 'private traders' to contrast with those merchants who worked for the Company, and their trade was called the 'private trade', although the privilege trade was also regarded, in particular by Pritchard, as one sort of the private trade.³³

In the beginning, those so-called free merchants or private traders who were keen to trade in the East 'resorted to the devious method of trading under foreign flags to avoid violation of the Company's monopoly right'.³⁴ They not only conducted trade between Europe and Asia, but more importantly became involved in the intra-Asian trade. Thus the EIC had looked upon these private traders as its competitors in the Asian trade, but attempts to bring them under control proved to be ineffective.³⁵ Subsequently, the EIC made it a condition that all such merchants should have licences for trading and in return they were allowed to have a limited participation in the intra-Asian trade, including the trade between India and China.³⁶

³² *Ibid.*, p. 7; Marshall, *East Indian Fortunes – The British in Bengal in the Eighteenth Century* (1976), p. 257; Pritchard, 'Private trade between England and China in the eighteenth century', pp. 108-37, 221-56.

³³ Pritchard, *ibid.*

³⁴ Kumar, *Indo-Chinese Trade*, p. 4.

³⁵ Marshall, 'Private British trade in the Indian Ocean before 1800', in A. D. Gupta & M. N. Pearson (eds.) *India and the Indian Ocean 1500-1800* (1987), p. 277-82.

³⁶ Eames, *The English in China*, pp. 93, 182. For the origin and development of the private trade, see I. B. Watson, *Foundation for Empire: English Private Trade in India 1659-1760* (1980).

Having the Company's permission to trade in the East, these free merchants gradually played a more active role in trade between different parts of Asia. However, it should be noted that there were another group of private traders who were also active in the Indian-Chinese trade. Long before the EIC and other European companies arrived in the East, many Asian merchants, especially Indian merchants and those of Parsi origin, had already played an active role in the intra-Asian trade, including the Indian-Chinese trade. They continued to remain active even after the Europeans joined the trade. Accordingly, the direct Indian-Chinese trade in the seventeenth and eighteenth centuries was chiefly conducted by two groups, the first one being the EIC and its servants and the second group being the British free traders and native-Indian merchants. To distinguish it from the trade carried by the EIC and its servants, the intra-Asian trade being conducted by free merchants and Indian traders was popularly termed the 'country trade'. Those merchants who conducted the country trade were, thus, called the 'country traders', while their ship were known as 'country ships'.³⁷

As with the Company's servants who conducted the privilege trade, the country traders dealt with a variety of merchandise; this is illustrated in Table 4.3 which shows the articles and their amount being exported from Canton and imported into China by the country traders in 1805.

³⁷ The so-called country trade was primarily regarded as the trade between India and other Asian nations, but it particularly referred to the trade carried by native Asian and European merchants from India to eastern areas. Accordingly, the country trade was centred on India and conducted by those free British merchants who resided in India as well as native Indian traders to conduct their trade between India and other eastern Asian areas. For the development of the country trade, see Chaudhuri, *The Trading World of Asia and the East India Company 1660-1760*; Furber, *John Company at Work* & idem., *Rival Empires of Trade in the Orient 1600-1800*; A Bulley, *The Bombay Country Ships 1790-1833* (2000).

Table 4.3 The Country Trade between India and China: imports into and exports from Canton in 1805:

Articles of Imports in 1805 (Sicca Rupees)		Articles of Exports in 1805 (Sicca Rupees)	
Cotton	9,452,619	Piece-goods	599,142
Opium	3,294,570	Sugar and sugar-candy	957,048
Piece-goods	470,561	Tutenague	592,431
Pearls	422,987	Camphire	361,703
Saltpetre	287,144	Tea	301,398
Sandalwood	274,674	Raw silk	207,743
Sharks' fins	251,223	Nankeens	200,295
Grain	155,500	China-ware	110,637
Ganvas and gunnies	6,896	Alum	87,099
Myrrh	23,370	Beads	18,150
Red-wood	9,000	Brandy and other liquors	49,313
Olibanum	22,707	Pepper	65,839
Cornelians	73,321	Tin	34,434
Elephants' teeth	26,743	Vermilion	112,724
Cutch	5,283	Paper goods	11,758
Putchock	54,313	Kittisols	11,865
Sundries	61,324	Lanckered ware	8,303
Imports re-exported, viz.		Spices	65,502
Rice	29,400	Cassia and cassia buds	72,670
Coral	63,495	Stationery	21,780
Saltpetre	7,800	Nutmegs	45,256
Wine and liquors	40,218	Red and white lead	117,721
Glass-ware	9,019	Furniture	36,606
Broad cloth	4,591	Drugs	37,374
Iron and ironmongrey	9,092	Cochineal	25,423
Sundries	13,162	Cordage	16,100
		Fireworks	13,670
		Plate and plate ware	14,866
		Sapan wood	26,211
		Provisions	24,015
		Sundries	146,337
		Treasure	8,181,845
Imports in 1805	15,060,577	Exports in 1805	12,676,519

Milburn: *Oriental Commerce* (1813), Vol. 2, p. 482.

From the table, we can see that piece-goods (i.e. finished silk products), tutenague, sugar and sugar candy were the main items exported from Canton by the country traders. It is

noteworthy that the country traders also exported tea from China which suggests that the Company did not prohibit such exports, however, there is no information about the destination of these teas. They presumably went to India or South-Eastern Asian areas, but certainly did not go directly to England because the country traders were not allowed to send tea to Britain.³⁸

On the import side, it can be seen that cotton, cotton piece-goods, opium, pearls, saltpeter and sandalwood were the leading Indian commodities imported into China by the country traders.³⁹ Of them, cotton was without doubt the most important Indian commodity imported into China by the country traders in this period, with it alone constituting almost two-thirds of the total imports into China in 1805. Indeed, as noted earlier, cotton had long been one of the most important items imported into Canton by the Company, and this was also the case in the country trade. In particular, when there was a sudden agricultural shortfall in southern Chinese provinces due to a famine at the end of the 1780s, this paved the way for the considerable imports of raw cotton.⁴⁰ Consequently, the product became the dominant item imported into China by the country traders; this is illustrated in Table 4.4.

³⁸ Greenberg, *British Trade and the Opening of China*, p. 12.

³⁹ The sale of sandalwood was said to contribute substantially to the private traders' profit at Macao in the early decades of the nineteenth century. However, Table 4.3 provides no information to suggest that the sandalwood trade was of particular significance in the country traders' importing Indian articles into Canton.

⁴⁰ Bulley, *The Bombay Country Ships*, p. 101.

Table 4.4 The Country Trade at Canton, 1764/5-1806/7 (Tls.)

Year	Imports			Exports Total	Balance
	Cotton	Others	Total		
1764-65			189,600	162,900	26,700
1765-66			316,000	271,500	44,500
1766-67			252,000	217,200	34,800
1767-68			316,000	271,500	44,500
1768-69	66,430	123,170	189,600	162,900	26,700
1769-70			316,000	271,500	44,500
1770-71			379,200	325,800	53,400
1771-72	50,732	75,668	126,400	108,600	17,800
1772-73	138,198	113,802	252,000	217,200	34,800
1773-74			632,000	545,000	87,000
1774-75	397,176	550,824	948,000	714,500	233,500
1775-76	184,840	439,251	624,091	528,020	96,071
1776-77	484,536	269,578	754,114	462,413	291,701
1777-78	245,375	332,508	577,883	592,367	-14,484
1778-79	250,440	398,785	649,225	359,230	289,995
1779-80	92,411	336,029	428,440	707,004	-278,564
1780-81	269,609	458,271	727,880	292,212	435,668
1781-82	130,382	406,718	537,100	188,080	349,020
1782-83	164,440	322,965	487,405	54,300	433,105
1783-84	42,302	170,838	213,140	138,950	74,190
1784-85	206,160	226,850	433,010	392,900	40,110
1785-86	564,150	720,723	1,284,873	628,067	656,806
1786-87	933,560	591,070	1,524,630	303,484	1,221,146
1787-88	1,927,932	484,268	2,412,200	426,801	1,985,399
1788-89	1,828,352	443,923	2,272,275	793,245	1,479,030
1789-90	2,329,424	490,806	2,820,230	961,784	1,858,446
1790-91	1,975,254	575,501	2,550,755	1,245,510	1,305,245
1791-92	329,060	609,695	935,755	955,062	-19,307
1792-93	2,000,724	547,376	2,548,100	1,291,544	1,256,556
1793-94	1,836,730	589,820	2,426,550	1,260,050	1,166,500
1794-95	1,562,557	658,828	2,221,385	1,193,460	1,027,925
1795-96	1,375,325	869,671	2,244,996	863,387	1,381,609
1796-97	1,781,016	1,041,096	2,822,112	931,770	1,890,342
1797-98	2,330,444	1,044,763	3,375,207	1,001,401	2,373,806
1798-99	1,814,027	1,528,057	3,342,084	1,012,844	2,329,240
1799-00	1,458,464	1,281,926	2,740,390	1,002,768	1,737,622
1800-01			4,023,937	1,467,152	2,556,785
1801-02			1,899,288	717,133	1,182,155
1802-03			3,425,408	1,204,945	2,220,463
1803-04			4,755,790	1,457,240	3,298,550
1804-05			4,843,690	1,167,707	3,675,983
1805-06			7,308,458	1,269,387	6,039,071
1806-07			6,728,130	1,440,160	5,287,970

Source: based on Pritchard, *The Crucial Years*, Appendix XII; & *idem.*, 'The Private trade between England and China in the eighteenth century', Appendix, p. 233-4.

With the rapid growth in the cotton trade from the second half of the 1780s onwards, this helped the country traders' imports into China expand quickly after 1785. The relatively rapid increase of imports into China when compared to the exports in corresponding period brought the country traders a large trade surplus with China. Because the country trade was conducted by the private traders' own vessels, its scale was much larger than that of the privilege trade conducted by the EIC's servants, whose development was largely restricted. Indeed, when Table 4.2 is compared with Table 4.4, it is clear that the scale of the country trade was much bigger than that of the privilege trade. More importantly, although both groups of merchants ran a positive trade balance with their Chinese counterparts, the surplus capital obtained by the country trade was far larger than that of the privilege trade and this was as a result of the rapid growth of their import trade into Canton. In reality, the rapid growth of the import trade into China conducted by the country traders was closely to be linked with the Company's measures, as it sought to make use of this valuable financial source to support its tea trade.

As previously mentioned, in order to control the non-EIC British free traders' commercial activities in the East, the Company made a condition that all the free merchants should be licenced for the conduct of the private trade. After the East India Company gradually obtained territorial and fiscal control in parts of India, the Company also stipulated that all native country traders who resided in its Presidencies should also hold licences for trading to China. In theory, this was done to bring the country trade under the Company's control, but in practice it was done to raise revenue and create funds rather than to restrict

the trade.⁴¹ Because the country traders ran a favourable trade balance with China, the EIC demanded that the proceeds of their sales in Canton should be placed in the Company's Treasury in order to provide funds for the investment in tea.⁴² The order was not seriously enforced, however, and indeed it was difficult to enforce, but because the Company offered a generous rate of interest upon loans made by the country traders, a large amount of the money received from the sale of Indian goods in the country trade was transferred to the Canton Treasury. In return the Company issued these traders with bills of exchange that could be cashed either in London or in India.⁴³

The issuing of bills payable in London to the country traders started in 1769 when the Court of Directors instructed the Canton Council to adopt the measure,⁴⁴ and hereafter the rate of bills to be calculated was generally based on the current exchange rate.⁴⁵ But in the 1771 season when more funds were needed in Canton, the Directors attempted to induce free merchants to put more money into the Canton Treasury by authorising the supercargoes to issue bills to them at an increased rate of 5s. 6d. per dollar, in contrast to the established rate of 5s. 2d.⁴⁶ The Company's issuing of bills of exchange to the private traders in exchange for silver to be used for tea purchases was not limited to Canton. A number of schemes were also devised to attract private fortunes in the Indian Presidencies to be used in the China trade. One of the most important measures introduced by the Directors was that they empowered the Indian Presidencies to issue

⁴¹ Marshall, 'Private British trade in the Indian Ocean before 1800', p. 282.

⁴² Morse, 'The provision of funds for the EIC Trade at Canton', p. 251.

⁴³ *Ibid.*

⁴⁴ Fort William – India House Correspondence, Vol. V (1767-69), Letter from Court, 11 November 1768, para. 32, p. 137.

⁴⁵ The current rate in the 1760s and 1770s was 5s. 2d. in exchange for one Spanish dollar.

⁴⁶ IOR: Home Miscellaneous Series, Vol. 795 (hereafter IOR: H/795), Narrative of the Remittance from

certificates or bills of exchange, payable in London, to the free merchants return for supplies in specie which could be sent to Canton.⁴⁷

In seeking to make the best use of private fortunes to support its China trade, the Court of Directors, in 1769, wrote to the Bengal Presidency 'The China Remittance are to be open to Free Merchants or any other Persons residing under our Protection as well as to the Company's servants ...'⁴⁸ As a result, some of the Company's servants in India who had a considerable amount of capital in hand lent out their money against a high rate of interest to be invested in the China trade and, in return, they received bills on the Court of Directors in London.⁴⁹ For instance, in 1773 the Bengal Council invited proposals for a remittance to China and offered to advance 100 Rupees in cash to any merchant who would consent to pay 41 dollars into the Treasury at Canton. In return bills payable within 12 months would be issued to them with interest at the rate of 8 per cent.⁵⁰ It was not clear how much money was paid into the Canton Treasury through this measure in this season, but it appeared that the Supercargoes very much approved of this mode of remittance because 'a very considerable amount [of money] were made'.⁵¹

The Bengal Council in 1776 again issued bills worth £105,129, to be cashed in London,

Bengal to China, p. 65.

⁴⁷ *FWIHC*, Letter from Court, 30 June 1769, paras. 51-53, pp. 219-20; & Morse, *The Chronicles of East India Company Trading to China*, Vol. II, 32, 266; Pritchard, *The Crucial Years of Anglo-Chinese Relations*, p. 183.

⁴⁸ *FWIHC*, Letter from Court, 30 June 1769, paras. 54, p. 20.

⁴⁹ See for instance, P. J. Marshall, 'The personal fortune of Warren Hastings', *The Economic History Review* (2nd series), 1964, pp. 284-300.

⁵⁰ IOR: H/795, Memorandum Relative to Remittance to China, p. 30.

⁵¹ *Ibid.*, Narrative of the Remittance from Bengal to China, p. 65.

to local free merchants in exchange for silver bullion for shipment to Canton.⁵² In October 1777, another advertisement was published for proposals for a remittance to China. As a result, Mr. Grant received bills of exchange for 150,000 Rupees at the rate of exchange of 41 dollars per 100 Rupees to be repaid by 1 December 1778, while Captain Thornhill was to grant bills for 100,000 Rupees with the same terms.⁵³ As with the above two people, Mr. Fergusson also accepted bills to be cashed after November in the next year for Rupees 507,544 at the same exchange rate, with a proviso allowing him to ship some Indian produce in the Company's ships to Canton.⁵⁴

Similar measures continued to be adopted by the EIC in later years. This method of remittance back to Europe from Asia was particularly welcomed by the EIC's servants and free merchants in wartime because when all other forms of remittance became hazardous, this measure guaranteed complete security.⁵⁵ The money received through the issuing of bills of exchange in India was not always shipped to Canton directly. On many occasions, the Company would use the capital to purchase local merchandise which was then shipped to China for sale. This happened in 1781, for example, when the Bengal Presidency first borrowed ten lakhs of rupees from the country traders, in exchange for bills on London at 365 days. The money was not directly sent to China directly, but was used to purchase Indian produce, mainly opium, to be shipped to Canton.⁵⁶

⁵² Marshall, *East Indian Fortunes*, p. 98; Fort William – East India Correspondence, Vol. VII (1773-76), Letter to Court, 20 March 1776, para. 5, p. 404.

⁵³ IOR: H/795, Memorandum Relative to Remittance to China, p. 30; H/795, Narrative of the Remittance from Bengal to China, p. 67.

⁵⁴ *Ibid.*

⁵⁵ IOR: H/795, Narrative of the Remittance from Bengal to China, 1770-86, pp. 65-6.

⁵⁶ Morse, *The Chronicles of East India Company Trading to China*, Vol. II, p. 76. See Section 4.3, for the

With regard to the country traders' contribution to the EIC's financing of its China investment, there were two other measures adopted by the EIC that should be mentioned. First, if there was spare space on the Company's ships, it could be used by the country traders, and freight was paid by them for sending goods from India to China. Secondly, in order to get more money into its Canton Treasury, the Company would also issue bills of exchange 'by allowing country traders to send goods from India to China upon its ships freight-free'.⁵⁷ As just noted, Mr. Fergusson in 1777 agreed to pay money into the Canton Treasury in exchange for bills payable in London. While negotiating with the Company for the drawing of bills, he was also offered with a proviso of being allowed to send, by the Company's ships freight free, from Madras 4,000 bales of cotton and 6,000 picul of tin to Canton.⁵⁸

Because it was on a much larger scale than the privilege trade conducted by the Company's commanders and other servants, the country trade played a more important role in the Company's China remittance. Through the measure of issuing interest-bearing bills of exchange and through the sale of Indian produce such as cotton and sandalwood by the country traders in Canton, the EIC succeeded in obtaining a considerable amount of money for the payment of its China trade. For example, the Canton Treasury alone was able to draw bills for a total of £3,415,314 between 1769/70 and 1784/85, and this more than doubled to £7,518,165 in the years between 1785/6 and 1799/80.⁵⁹

Company's policy of importing opium into China.

⁵⁷ See e.g. Morse, *The Chronicles*, Vol. II, p. 9; Pritchard, *The Crucial Years*, p. 182.

⁵⁸ IOR: H/795, Remittance Relative to Remittance to China, p. 30; H/795, Narrative of the Remittance from Bengal to China, p. 67.

⁵⁹ Based on *British Parliamentary Papers*, Reports from the Committee of the House of Commons, 1715-1801, Vol. IV & VIII; Morse, *The Chronicles of East India Company Trading to China*, *passim*. See also Marshall, *East Indian Fortunes*, pp. 98, 250 & Pritchard, *The Crucial Years of Anglo-Chinese Relations*,

Consequently, the country trade became a vital source of funds to the Company as it endeavoured to further the growth of its tea trade.

4.2 The Philippines' Financial Contribution to the EIC's China Trade

As discussed in the preceding section, the sale of Indian goods to Canton became an important source of funds for the EIC's China remittance owing to the rapid growth of the country trade with China in the second half of the eighteenth century. In fact, the Company also promoted intra-Asian trade between India and other areas from which surplus capital was to be used for its China trade. In particular, the Philippines, which annually drew a considerable amount of silver bullion and coins from Spanish America, was seen by the EIC as offering the best means to provide supplementary funds for the China remittance. This section, thus, seeks to examine how the Company made use of this source of funds for tea purchases.

4.2.1 The period prior to 1780s

For a long time before the arrival of the EIC, Spanish merchants had developed a cross-Pacific galleon trade between the Philippines and Central or South America from that they brought a large quantity of silver dollars to Asia.⁶⁰ Based on these treasures shipped from the New World, the Philippines and China developed a close commercial and

Appendix I, p. 400.

⁶⁰ For the development of the cross-Pacific galleon trade, see W. L. Schurz, *The Manila Trade* (1959).

financial relationship, with the Spanish and Filipinos providing silver dollars for the Chinese in exchange for several necessities such as raw silk and silk goods. As a result, through this channel, a large amount of Spanish American silver flowed into China over the period from the sixteenth to the eighteenth centuries, as is clearly demonstrated in Chuan's studies.⁶¹ As with the pattern of Sino-Philippine trade, parts of India, such as Bengal, also established commercial links with the Philippines with the merchandise trade imbalance being balanced by silver bullion.⁶² Therefore, as with the trade between China and the Philippines, the Indian-Philippine trade was based on a similar structure with Indian merchants providing piece-goods for the Spaniards and native Filipinos, and in return treasure was shipped back to India.⁶³

Soon after the EIC established its footholds on the Indian sub-continent, the Company itself also tried to build a trading link between the two areas. The first attempt of the EIC to trade with the Philippines can be traced back to 1644 when the Company sent its ship *Seahorse* to Manila. Afterwards, the Company's vessels re-visited Manila several times, seeking to develop a direct and official connection with the Philippines.⁶⁴ Nevertheless, the attempts by the EIC to build direct and formal trade links with the Philippines were in vain because under the Spanish imperial government's mercantilist policy, all European ships (except for the Portuguese) were excluded from Manila for the purpose of trade.⁶⁵

⁶¹ See e.g. H. S. Chuan, 'The import of American silver into China during the 16th – 18th centuries', *The Second Conference on Modern Chinese Economic History* (1989), pp. 23-30.

⁶² Marshall, *Bengal: The British Bridgehead – Eastern India 1740-1828* (The New Cambridge History of India II.2), p. 64; & the same author, *East Indian Fortunes – The British in Bengal in the Eighteenth Century* (1976), p. 76.

⁶³ Marshall, *East India Fortunes*, pp. 88-90.

⁶⁴ Quiason, 'The early trade of the English East India Company with Manila', *Philippine Historical Review*, 1965, Vol. 1, No. 1, p. 273.

⁶⁵ IOR: G/12/84 (Canton Consultations), 5 January 1787, p. 75; & W. E. Cheong, 'An Anglo-Spanish-

Without being able to receive a permit from the Philippine authority to trade in Manila, the Company gave up its desire to build a formal commercial contact with the Philippines.

However, although EIC failed to open direct and formal trade with the Philippines, many British private merchants continued to be interested in the trade with Manila. Indeed, because the Indian trade with the Philippines was considered very lucrative, the Company's servants and other country traders sought to make fortunes there. In order to gain entry into the restrictive Philippine trade, these private merchants developed their India-Manila trade by carrying on their business under foreign flags or in a clandestine manner.⁶⁶ Similar to the pattern evident in the Indo-Chinese country trade, the surplus capital accrued from the country traders' Indian-Philippine trade was then considered by the EIC to represent potentially important funds for its tea investment in Canton.

Indeed, the Company even provided its own vessels for the country traders to enable them to conduct trade between India and the Philippines. In the season 1760, for instance, several British free merchants were permitted to send their goods to Manila free of charge for freight on board the EIC's vessel *Oxford* which flew a foreign flag in order to get access to the Philippine port without any trouble. These merchants were, however, 'obliged to send the outturn of their cargo and consign the same to the supercargoes in

Portuguese Clandestine Trade between the ports of British India and Manila, 1785-1790', *Philippine Historical Review*, 1965, Vol. 1, No. 1, p. 80; *idem.*, 'Changing the rules of the games (The India-Manila Trade: 1785-1809)', *Journal of Southeast Asian Studies*, Vol. 1, No. 2, September 1970, p. 5.

⁶⁶ They would visit Manila either under Portuguese flags or other Asian flags. Quiason, 'The early trade of the English EIC's trade with Manila', pp. 272-3; see also *idem.*, *English "Country Trade" with the Philippines, 1644-1765* (1966).

China for the use of the Company, upon the condition that the Governor and Council of Madras would repay the amount in Madras'.⁶⁷ Moreover, because the business was risky, the agreement further stipulated that 'the EIC would assume the risk of shipping the silver from Manila to Canton but would deduct 1 1/2% for the freight of silver on the bills to be drawn by the English merchants in Madras'.⁶⁸ With instructions to fly a Moorish flag, the *Oxford* left Madras in the beginning of May 1760 and arrived in Manila in July. Taking care not to be discovered by the Spanish colonial authorities, the crew of the vessel successfully delivered the whole cargo on board to a local merchant in exchange for Spanish silver dollars.⁶⁹ On 11 September the *Oxford* left Manila carrying money valued at about 192,000 Spanish dollars.⁷⁰ According to the agreement between the EIC and the country traders, these dollars were then to be sent to Canton as funds for tea investment.⁷¹

A similar venture was undertaken in November 1764 when *London Packet*, another Company ship, arrived at Canton and brought silver to the value of 2,494 Spanish dollars and 64,000 rupees in coins from the Philippines.⁷² Apart from selling Indian produce in the Philippines in exchange for silver sent to Canton, the EIC would, if necessary, also borrow money from those free merchants who settled in the islands. For example, the

⁶⁷ Quiason, *English "Country Trade" with the Philippines, 1644-1765*, p. 99.

⁶⁸ *Ibid.*

⁶⁹ The cargo was purchased by Francis Barnewall, a British free merchant who had an agent in Manila. For the venture in detail, see Quiason, *Ibid.*, pp. 99-101 & *idem.*, 'The early trade of the English East India Company with Manila', p. 273.

⁷⁰ IOR: R/10/FR/IV (1760), 14 August 1760, p. 57.

⁷¹ Morse, *The Chronicles of the East India Company's Trading to China*, V: 86; & Quiason, *English "Country Trade" with the Philippines 1644-1765*, pp. 100-1. The charter-party (agreement) stipulated that the money (i.e. 192,000 dollars, represented the proceeds of a cargo freighted on the *Oxford* from Madras to Manila) had to be sent by the consignees to Canton and repaid dollar for dollar by the Governor and Council of Fort St. George (Madras) in the future when the country traders returned to Madras.

EIC's Council at St. Fort George accepted Nicholas Morse's offer to send silver dollars from Manila to Canton, to be paid for in Madras at the exchange of 15 dollars = 10 pagodas. Consequently, under their contract, Morse's agent in Manila sent, in total, 20,000 dollars (around 14,400 taels) to Canton in the season 1765.⁷³

Apart from trading to Manila, the EIC also tried to build up commercial links with the Malay archipelago and the surrounding regions. This was done in order to create new and extensive markets for British and Indian produce and also to create more financial resources for the Company's Canton investment. Thus, in the late eighteenth century the Company consistently made efforts to establish 'emporia' in areas such as Sulu, Borneo and the island of Balambangan, as well as New Guinea through which they could conduct trade with China. The Company's attempts however failed to make these areas become ideal markets for British and India products. In consequence, no substantial funds were obtained from the Malaya archipelago to be used for the EIC's China remittance.⁷⁴

4.2.2 The establishment of the Royal Philippine Company

Although the EIC's attempts to establish 'emporia' in the Malay Archipelago were a failure, the British carried on the clandestine trade between India and Manila. However, prior to the late 1780s, its position in the financing of the China trade remained very

⁷² Morse, *The Chronicles*, Vol. V, p. 114.

⁷³ *Ibid.*, Vol. V, pp. 123-4.

⁷⁴ For a discussion of the EIC's attempts to establish 'emporia' in the Malay archipelago and the surrounding areas, see e.g. H. T. Fry, *Alexander Dalrymple and the Expansion of British Trade* (1970), & A. Griffin, 'Lord, Bengal, the China Trade and the Unfrequented Extremities of Asia; the East India Company's Settlement in New Guinea, 1793-95', *The British Library Journal*, Vol. 16, No. 2 (Autumn 1990), pp. 151-173.

limited. The increasing importance of the Philippines in the finance of EIC's China trade began in the 1780s when a larger amount of silver bullion was needed for the growth of tea investment after the passage of the Commutation Act. Because of the sudden increase in the demand for tea at home attributable to the passage of the Commutation Act, the EIC's Court of Directors had to resume sending silver from England to Canton. The quantity of silver bullion exported from Britain to China by the Company in the year 1785-9 was huge, it amounted to £704,254, £694,962, £626,897, £469,408 and £714,233 in each year respectively.⁷⁵ In order to prevent the Court from permanently sending out of large quantities of precious metals from home, the Indian Presidencies were instructed to be held responsible for creating more funds to support the China trade. As a result, the expansion of the trade between India and the Philippines became crucial for the Company.

The Company's eagerness to get into the Manila market and to procure more precious metals in the 1780s coincided with the establishment of the Royal Philippine Company, (RPC) which was also eager to develop trading links with India. Originally, the Spanish direct trade to Asia was prohibited and it had to be carried on via the American colonies, mainly through Mexico and Peru.⁷⁶ However, the pattern of bilateral commercial links between Spain and the Philippines changed in 1785. By a decree from the Spanish Crown, the Royal Philippine Company was established in March 1785 and was granted the privilege to trade between Cadiz and Manila directly. Having the right to carry on the Spanish trade with Asia via the Indian Ocean rather than the Pacific route through the

⁷⁵ BPP, Papers and Accounts (1812-13), Vol. VIII, Paper 152, p. 402; Macgregor, *Commercial Statistics*, Vol. 4, p. 406.

American colonies,⁷⁷ the formation of the RPC heralded a new era for Spanish trade with the Philippines.

The establishment of the RPC also had a profound effect on British Indian commercial relations with the Philippines, as well as the EIC's financing of its China trade. Similar to the trading pattern conducted by some European chartered companies in Asia, the main business of the RPC was to ship Spanish silver dollars to the East and, in return, to purchase Oriental articles for home consumption. Among the major Asian commodities exported to Spain were Indian textiles which the Spaniards were most interested in. Accordingly, the authorities of the EIC's Presidencies in India 'saw in the new Philippine Company the opportunity to expand the market in Indian piece-goods as well as the means to ensure a regular supply for the men in the Canton Treasury'.⁷⁸ In his thesis, W. E. Cheong listed two examples recorded in the Company's documents, expressing the hope that precious metals provided by the Spaniards from Manila or through the new company would be the answer to the Company's short silver supply for China trade. For example, John Macpherson, the acting Governor General of Bengal then, observed in his diary that '.... therefore wished that the Company might be able to get an agent settled at Manila and send a ship or two annually to the New Company (RPC) said to be

⁷⁶ See e.g. Schurz, *The Manila Galleon*.

⁷⁷ Cheong, 'Some Aspects of British Trade and Finance in Canton with special reference to the role of Anglo-Spanish Trade in the Eastern Seas 1784-1834', unpublished Ph.D. thesis, University of London (1962), pp. 29-30; & Schurz, 'The Royal Philippine Company', *The Hispanic American Historical Review*, Vol. III, No. 4 (November 1920), pp. 501-2. By a Spanish royal charter of March 1785, the RPC was founded and permitted to carry on the direct Spanish trade with the Philippines by the Cape of Good Hope. The RPC's vessels were also allowed to proceed their trade to Manila via South America, however, the homeward-bound journey was compelled to return to Cadiz by the Cape route.

⁷⁸ Cheong, 'Some Aspects of British Trade and Finance in Canton', p. 35.

established by Spain at Manila to get money there to pay in at Canton'.⁷⁹ The same hope was expressed by John Cochrane, another employee in Bengal. In his letter to the Board of Trade, he wrote that 'the Spaniards may be induced to take a very large quantity of Bengal, Madras and Surat goods.... which they will pay for in money close at hand to the Chinese market'.⁸⁰

Indeed, the mode of remittance was agreed by the EIC's headquarters in London and both companies even contacted each other in London to discuss the issue.⁸¹ The idea that Manila could become a market for Indian produce, thereby providing funds for Canton through the new Spanish company, was also developed by the EIC's supercargoes in Canton. This was illustrated in the Canton Committee's Consultation in January 1787, which showed an expectation of the potential contribution to the China trade through this mode of remittance, as it stipulated that

The difficulty of procuring funds adequate to the great demand of this trade is so great that.... The present existing branches of the country trade are incapable of addition with any prospect of success, and there is no hope or probability that the manufactures & the exports from Europe are nearly at the full extent that the (Chinese) market will bear, it is therefore by specie.... that sufficient funds can be provided; it is only from a plan of remittance from Bengal through the medium of Manila that we can hope to be supplied without either exporting the currency of India or encreasing the exportation from Europe both which we apprehend its the wish of the Hon'ble Company to avoid.⁸²

After developing a series of plans, the EIC's first important step was to negotiate with the

⁷⁹ *Ibid.*, p. 36 (cited from IOR: HMS, Vol. 606 (H/606), p. 447, 26 January 1786).

⁸⁰ *Ibid.* (cited from IOR: H/404, p. 1-39, June 1786).

⁸¹ IOR: G/12/84, 3 January 1787, p. 73.

⁸² *Ibid.*, 5 January 1787, pp. 73-74.

Royal Company in Asia in early 1787 when William Fitzhugh was sent to Manila. Immediately after he arrived in Manila on 27 January, he made proposals to the directors of the RPC 'to contract for Bengal piece goods to the amount of a million of dollars for the present year (1787), & for two million for the year to come (1788).....'.⁸³ Based on his proposals, a contract was signed between Fitzhugh and the directors of the RPC in Manila by which the EIC would supply the Royal Philippine Company with Bengal piece-goods to the value of one million dollars in 1787 and up to two million for 1788.⁸⁴ However, the contract was eventually withdrawn by the RPC because of the opposition of the Manila authorities who stipulated that the EIC's ships were not allowed to trade in Manila.⁸⁵

The plan was in vain, but the EIC's idea of obtaining silver dollars through contracting with the RPC did not die out. In fact, the desire to develop this mode of business was not limited to the EIC because the RPC was also eager to develop its Asian business in this way. After the failure of the Fitzhugh mission to Manila, the East India Company and the Royal Philippine Company decided to carry on bilateral trade in a clandestine way. As just noted, because the EIC was not allowed to trade in Manila officially, therefore the Company left the Indian-Philippine trade in the hands of those free merchants who carried on their business by flying Asian or Portuguese flags. In this way, free traders came to play the role of middlemen between the two companies. After secret arrangements, the business of supplying Indian piece-goods for the Spanish Company

⁸³ *Ibid.*, 17 March 1787, p. 164 (A letter written by W. Fitzhugh in Manila, dated 12 February 1787); & Cheong, 'An Anglo-Spanish-Portuguese Clandestine trade', p. 84.

⁸⁴ IOR: G12/84, 17 March 1787, p. 164.; & Cheong, 'Some Aspects of British Trade', p. 44.

⁸⁵ IOR: G/12/84, 17 March 1787, p. 165.

was given to Graham & Mawbray, which was a business house in Calcutta owned by Indian country traders, while the right of shipping from Calcutta to Manila was obtained by John & Luis da Costa, a Portuguese firm based on Bengal and Macao.⁸⁶

Through these arrangements, the two Companies succeeded in creating a formal commercial link between British India and the Spanish Philippines which meant that the EIC's Bengal and Bombay goods could be delivered directly into the RPC's hands in Manila.⁸⁷ Then the receipt of silver dollars accrued from the sales of the Indian piece-goods could be used for tea investment in Canton. For example, there were around 600,000 Spanish dollars sent to Canton in the year 1787 through this method of remittance, with 200,000 dollars from the Portuguese vessel *Florentia* and the other 400,000 dollars from *Luconia*.⁸⁸ The Portuguese firm was given a 41½% of the total share in the proceeds of Indian produce delivered by Graham & Mawbray at Manila to the Royal Philippine Company in return for their providing the ships, the necessary papers and a flag.⁸⁹ However, the remaining money was put into the Canton Treasury and bills of exchange were issued to the traders of Graham, Mawbray & Co. to be cashed in Bengal. Accordingly, Cheong pointed out that

As a result of these secret arrangements, an Anglo-Portuguese-Spanish clandestine trade developed between the Port of Calcutta and Manila, with the Spaniards providing the capital, the English the goods, and the Portuguese House the ships and freight, and the Portuguese flag which was so important for the remittance of

⁸⁶ Cheong, 'Some Aspects of British Trade', pp. 47-48.

⁸⁷ Marshall, *East Indian Fortunes*, p. 104.

⁸⁸ Cheong, 'An Anglo-Spanish-Portuguese Clandestine trade', p. 88 & *idem.*, 'Some Aspects of British Trade', pp. 49-50.

⁸⁹ Cheong, 'An Anglo-Spanish-Portuguese Clandestine trade', p. 85 & 'Changing the rules of the games', p. 4.

secrecy and security when in port.⁹⁰

In December 1788 the East India Company and the Royal Philippine Company signed a new contract by which the EIC undertook to provide the RPC with Bengal and Madras piece-goods worth a minimum of 600,000 Spanish dollars annually for three consecutive years starting from 1789.⁹¹ In the project of 1788, the two Companies even contemplated granting mutual freedom of navigation in British India and the Philippines. That is, the EIC ships and other British vessels licensed by the Company were to be allowed to visit Manila, while all ports in the EIC's Indian Presidencies were to be open to Spanish trading vessels licensed by the Royal Philippine Company.⁹² However, this could not be achieved without negotiating with the Madrid authorities in order to change their colonial commercial policy on the Philippines. In fact, soon after the Royal Philippine Company was established in 1785, Britain had attempted to negotiate with the Spanish seeking to change the current trading structure. Despite experiencing years of fruitless negotiation during the period 1785-1790,⁹³ Ralph Woodford, then the British commissioner to Spain, proposed new schemes in 1793 which aimed to improve mutual trading relations in Asia. Woodford's schemes were similar to the EIC's project of 1788, but were of a more ambitious nature because he proposed that the Spanish merchants would be allowed to have factories in British India if they also allowed the EIC to have a footing at Manila. The mutual freedom of negotiation and the establishment of factories would help to enlarge the Indian-Philippine trade from which the English Company could receive more

⁹⁰ Cheong, 'Some Aspects of British Trade', p. 49.

⁹¹ Cheong, 'Changing the rules of the game', p. 3.

⁹² H. Furber, 'An abortive attempt at Anglo-Spanish Commercial cooperation in the Far East in 1793', *The Hispanic American Historical Review*, Vol. 15 (1935), p. 454.

⁹³ *Ibid.*, pp. 448-9.

Spanish dollars for the use of China trade, while it would enable the Spanish Company to obtain Indian goods more easily which in turn could be sold to China. Both Companies would accordingly profit from the growing trade between India and the Philippines and also the trade with China if these schemes came into effect.⁹⁴

The planned agreement between Britain and Spain was supposed to be signed by the middle 1794 but 'because of distrust of British naval policy in the Mediterranean', the Spanish Government finally decided to withdraw and prepared to enter the war on the French side against England.⁹⁵ This put an end to the schemes proposed by Woodford. Despite the failure of the projects of 1788 and 1793, however, the EIC's attempt to benefit from the triangular trade which linked India, the Philippines and China was not without some success. Indeed, from 1789 a different method of payment was adopted which enabled the EIC to create a new source of funds for its China trade through the country traders' business with the Philippines. In the beginning, the British free merchants involved in the trade with the RPC received treasure either in Manila or in ports of India, but in 1789 the country-trade firm Mawbray & Graham who acted as the middlemen for the EIC and RPC signed an agreement with the two national companies to pay the proceeds of its Manila trade into the Canton treasury through the RPC's supercargoes in China. In return, the EIC issued bills of exchange to the trading house to be cashed in India. As a result, at least 100,000 dollars went into the treasury by this measure in that season.⁹⁶

⁹⁴ See *Ibid.*, pp. 454-459.

⁹⁵ *Ibid.*, p. 460.

⁹⁶ Cheong, 'Some Aspects of British Trade', p. 59.

The method of remittance through the Treasuries between the RPC and the EIC at Canton was later welcomed by other country traders who were also involved in the trade between Manila and the Indian ports. In particular, during the war years when ‘the danger of capture deterred a direct return (to India)’, the country traders considered that remittance back to India through the EIC’s Canton Treasury was a much safer route.⁹⁷ In the meantime, this measure was welcomed by the EIC because it provided the Company’s Canton Treasury with a valuable source of funds for its tea investment during a time of war, when direct financial support from Britain and the Indian Presidencies was disrupted. In fact, the Spanish Company’s supercargoes in Canton not only arranged for money to be paid to the country traders who brought the PRC the Indian piece-goods, but they also acted as a lender of capital to the EIC’s Canton Treasury.⁹⁸ For example, the EIC’s Canton Committee in February 1796 borrowed 100,000 silver dollars from the Spanish supercargoes in Canton to be repaid in December at an annual interest-rate of ten per cent.⁹⁹ By April of the same year, the RPC’s Canton branch again offered the EIC an advance of the sum of 150,000 Spanish dollars, on the same terms as the previous one.¹⁰⁰ The Canton Committee also had financial dealings with the Spanish supercargoes in the first decade of the nineteenth century at a time when Britain and Spain were again at war.¹⁰¹ This indicates that the EIC supercargoes in Canton were able to maintain good relations with their Spanish counterparts even in wartime and this enabled the Canton Treasury to continue to benefit from obtaining Spanish silver dollars to pay for its China trade.

⁹⁷ IOR: G/12/142, 29 November 1802, p. 121.

⁹⁸ Cheong, ‘Changing the rules of the game’, p. 4.

⁹⁹ IOR: G/12/110, 13 February 1796, p.186.

¹⁰⁰ *Ibid.*, 29 & 30 April 1796, p.249.

The late 1790s also saw the Danes involved in the triangular trade that was linked with the East India Company's financing of its China trade. The war between Britain and Spain in the years 1796-1801 greatly affected the Indian-Philippine trade conducted by the British and Spanish, and the bilateral hostility between the British Indian Presidencies and the Spanish Philippines made it difficult for the RPC to obtain enough piece-goods from India.¹⁰² The Philippine authority, therefore, allowed Danish vessels to conduct the trade between Manila and Indian ports, as Denmark remained neutral in the war and also because the Danes had footholds in India from where Indian piece-goods could easily be obtained. The country traders of British India soon saw it as an opportunity to run their business between the two areas under cover of Danish names and the Danish flag.¹⁰³ Just as they did under Portuguese colours, the silver dollars received by the country traders who traded in Manila under the Danish colours were shipped to Canton instead of being sent back to India. In September 1799, for example, a country-trade vessel *Nancy Grab* flying a Danish flag arrived in Canton from Manila and brought about eight hundred thousand Spanish dollars.¹⁰⁴ On their return to India, the country traders would then cash bills issued by the Canton Committee. In this way, the EIC could easily receive precious metals to pay for its tea purchases in Canton even in wartime.

¹⁰¹ Morse, *The Chronicles of East India Company Trading to China*, Vol. III, pp. 29-30.

¹⁰² See Cheong, 'Some Aspects of British Trade', Chapter II, Part II.

¹⁰³ For the Danes' involvement in the Indo-Manila trade, see e.g. O. Feldbæk, *India Trade under the Danish Flag 1772-1808*, especially Chapter IV; & the same author, 'The Danish Asia Trade 1620-1807', *Scandinavian Economic History Review & Economy and History*, Vol. XXXIX, No. 1 (1991), pp. 3-27.

¹⁰⁴ IOR: G/12/126, 14 September 1799, p. 138.

4.2.3 The development of the Manila trade in the nineteenth century

The Danish position in the clandestine trade between the Philippines and India became more crucial in the first decade of the nineteenth century when 'the outbreak of hostilities between Spain and Portugal suspended any trade which might have been conducted from Portuguese Macao or Goa to Manila'.¹⁰⁵ As a result, the Danes gradually replaced the Portuguese in the intra-Asian trade between Indian ports and Manila. It was not until the return of peace in 1808 that the Portuguese and the RPC resumed their direct trade between Indian ports and the Philippines, making the Manila market once again accessible to other traders. The following years of peace saw the EIC resume its commercial link with the Philippines, with the Manila market again providing the Company's Canton factory with substantial amount of specie.¹⁰⁶ For instance, between 1808 and 1812, the Company's Canton Treasury received directly from Manila sums exceeding 1,200,000 Spanish dollars.¹⁰⁷ In the season 1815/16, the Court of Directors also arranged for 100,000 dollars to be paid into the Canton Treasury by the agents of the Spanish Philippine Company in China.¹⁰⁸

From the above discussion, it is clear that for a couple of decades after 1785, the Philippines played an important role in providing the EIC with silver dollars for its Indian Presidencies and for the China tea trade. However, circumstances began to change in the second decade of the nineteenth century when the revolt of the Spanish American

¹⁰⁵ *Ibid.*, p. 151.

¹⁰⁶ IOR: R/10/CL/9, (1810), No. 3, 11 April 1810, para. 87.

¹⁰⁷ Through this measure, The Canton Treasury received \$150,000 (Spanish dollars) in 1808, and \$180,000, \$400,000, \$193,000 and \$180,000 in 1809, 1810, 1811 and 1812 respectively. See Cheong, 'Some Aspects of British Trade', p. 184.

colonies seriously damaged the galleon trade between the New World and the Philippines. This cut off Manila's major source of silver supply and, consequently, the Spaniards in Asia could not afford to buy large quantities of Indian piece-goods, although the Royal Philippine Company continued in existence until 1834.¹⁰⁹ As a result, the British trade with the Philippines was damaged and this, in turn, brought a clear decline of the Manila's silver supply for the EIC's Chinese trade.

However, despite a large reduction in the supply of silver from the Philippines, the Company's China trade did not decline. By contrast, the Company's tea trade at Canton not only carried on without interruption, but also it continued to grow during the 1810s and 1820s. Without the substantial provision of silver dollars supplied from Manila nor financial supplies from London, Indian goods played an even larger role in the financing of the EIC's tea investment. But by then the cotton trade was replaced by the sales of opium, which now became a significant source of funds for tea investment.

¹⁰⁸ IOR: R/10/CL/15, 5 April 1816, paras. 19-20.

¹⁰⁹ Furber, 'An attempt at Anglo-Spanish commercial cooperation in the Far East in 1793', p. 461.

4.3 The Opium Trade as a Source of Tea Money

The previous sections indicated that the proceeds from sales of Indian articles, such as cotton, in Canton and Manila by country traders became an important source of funds for the Company's tea trade. In addition, however, one article other than the cotton piece-goods has to be singled out for discussion, and this is opium.

4.3.1 The Rise of the Indian-Chinese Opium Trade

Imports of opium into China from India and other Asian nations can be traced back to a period long before the rise of European-Asian long-distance maritime trade. In the beginning there was limited demand for opium in China and small quantities were imported only for use as medicine. By the late Ming Dynasty and early Ch'ing period (i.e. the seventeenth and eighteenth century), the Chinese consumption of opium increased when the habit of opium-smoking began to spread in southern Chinese provinces. To meet this increasing demand, poppy cultivation was successfully developed in some areas of China.¹¹⁰

However, the increasing consumption of opium soon drew the Chinese Government's attention. Fearing the negative impact of use of the drug among the public, the Ch'ing Emperor *Yung Cheng* (雍正) issued an edict in 1729 which 'prohibited the smoking of

¹¹⁰ It is debatable when opium was first imported into China. Popular opinion suggested that Opium was first imported by Arabs in the seventh century. For the origin and development of the importation of opium into China, see e.g. M. Booth, *Opium – A History* (1998) & C. A. Trocki, *Opium, Empire and the Global Economy – A study of the Asian opium trade 1750-1950* (1999).

opium and its domestic sale except under licence as a medicine'.¹¹¹ The imperial decree, however, did not really take effect and many Chinese continued to consume the article. The ineffectiveness of the edict should be largely attributed to the Chinese authorities' policy towards the opium trade. With regards to the Ch'ing policy, it is worth mentioning that although the edict of 1729 prohibited the smoking of opium, it did not prohibit importation of opium, as highlighted by Booth and Sinha.¹¹² Indeed, the importation of opium into China was not only permitted, but it was even liable to an excise duty. Accordingly, Booth points out 'the hypocrisy of the (Ch'ing) emperors who, whilst condemning their countrymen who dealt in opium, nevertheless earned from it for their exchequer.'¹¹³ However, in later years when more and more people indulged in the smoking of opium, the Canton authorities decided to bring the importation of opium under control by stipulating that without the proof of a medical purpose, the importation of the drug was prohibited. As a result, although Indian opium continued to be imported into Canton, its import was largely disguised as being for medical use.¹¹⁴

The importation of opium into China was at first conducted by native Indians and Arabs. Because of its lucrative nature, European merchants such as the Portuguese and the Dutch, and later the British private traders, also became involved in the opium trade, importing the article from India or South-east Asia into China. By the 1770s, the EIC also joined other Europeans to ship opium to China.¹¹⁵ Indeed, with growing demand in

¹¹¹ Booth, *Opium – A History*, p. 109.

¹¹² *Ibid.*, p. 110 & J. C. Sinha, *Economic Annals of Bengal* (1927), p. 168.

¹¹³ Booth, *Opium – A History*, p. 110.

¹¹⁴ Sinha, *Economic Annals of Bengal*, p. 169. On some occasions imports of opium were suspected by the Chinese maritime officers because the quantities appeared to be too large. However they generally secured a bribe and passed the opium as for medicinal use.

¹¹⁵ Macgregor, *Commercial Statistics*, Vol. V, p. 74. Macgregor noted that the EIC first imported the drug

the Chinese market, the opium trade became an important commercial activity between India and China in the later period of the eighteenth century. Its increasing importance can be seen from the fact that by the last decades of the century opium had become the second most important Indian article into China, only after cotton piece-goods. The trade in opium alone contributed about fifteen per cent of the total imports from India to China between 1775 and 1800.¹¹⁶

Because of the continuous expansion of the tea trade in the last decades of the eighteenth century, the proceeds of the sales of the Indian opium imported into China were also taken into consideration by the EIC as a source of funds for tea purchases. For instance, in 1781 when no precious metals could be shipped to China from Europe because of war and also the Indian Presidencies were in financial difficulties, the Bengal Council declared that 'This year the only mode (of remittance) that could possibly be adopted for supplying the Treasury at China was that of sending the Honourable Company's opium to that market'.¹¹⁷ Accordingly, in early 1782 the Bengal government sent out two vessels, the *Nonsuch* and *Betsy* to China, laden with around 3,000 chests of opium. The *Betsy* was unfortunately captured by a French privateer before reaching China. But its commander, Robert Geddes, escaped from capture with 59,600 dollars received from the disposal of 1,460 chests of opium on the Company's account at Rhio, in Sumatra, and other places in the Strait of Malacca; this was later paid into the Canton Treasury.¹¹⁸

into China in 1773-4..

¹¹⁶ Pritchard, *The Crucial Years of Anglo-Chinese Relations*, p. 175.

¹¹⁷ IOR: Home Miscellaneous Series, Vol. 795 (hereafter H/795), 'Narrative of the remittance from Bengal to China, 1779-86', p. 68.

¹¹⁸ Morse, *The Chronicles of East India Company Trading to China*, Vol. II, p. 76; & *Fort William – India House Correspondence*, Vol. IX (1782-5), Letter from Court, 12 July 1782, para. 60, p. 60; *Ibid.*, Letter to Court, 5 April 1783, para. 18, p. 363.

Unlike the *Betsy* whose opium was sold in the East Indies, the armed ship *Nonsuch* safely arrived at Canton with 1600 chests of opium on board. Those chests of opium were then sold for 100,000 Spanish dollars to Chinese merchants. After paying the bills drawn in favour of Henry Watson, the owner of the *Nonsuch*, for 41,853 dollars, the supply for the EIC's Canton Treasury from the sales of the opium was 58,147 Spanish dollars.¹¹⁹ The operations of 1782 generated a total more than 100,000 dollars for the EIC's Canton Treasury. However, the direct shipment of opium to China on the Company's account was regarded by the Court of Directors as too risky a venture. They wrote:

But with regard to the consignment of 2,000 chests of opium immediately to the supra cargoes to be disposed of in such manner as they shall think proper, we have been informed that the importation of opium to China is forbidden by the Chinese Government on very severe penalties. The opium on seizure is burnt, the vessel on which it is brought to the port confiscated, and the Chinese in whose possession it may be found for sale punished with death. Under any circumstances it is beneath the Company to be engaged in such a clandestine trade; we therefore, hereby positively prohibit any more opium being sent to China on the Company's account.¹²⁰

The Bengal Committee then replied to the Court defending their actions as being 'not a matter of choice but necessity'.¹²¹ In addition, they pointed out that the operation was safe and the Canton supercargoes did not object the practice.¹²² Although the Bengal Committee tried to defend the 1782 opium operation as being a crucial measure, they also stipulated in the letter that 'As you [Directors] declare it to be unbecoming, we shall

¹¹⁹ IOR: H/795 (1782), p. 69; Fort William – India House Correspondence, Vol. IX (1782-5), Letter to Court, 9 February 1782, para. 20, pp. 292-3.

¹²⁰ *FWIHC*, Vol. IX, Letter from Court, 12 July 1782, para. 56, p. 61.

¹²¹ *Ibid.*, Letter to Court, 5 April 1783, para. 99, p. 378.

¹²² *Ibid.*, para. 100, p. 378.

understand this as a prohibition and most strictly conform to it.’¹²³ Accordingly, the Bengal Council gave up carrying opium to China on the Company’s own vessels. Yet the EIC did not totally distance itself from the development of the opium trade. Instead, it played a crucial role in the development of the Indian opium trade with China, and this is discussed in the following section.

4.3.2 The Indian Presidencies’ role in the Indo-Chinese opium trade and the Court of Directors’ Attitude to its development

As noted earlier, from the 1750s onwards, the Company had the right to collect customs and land taxes in Bengal, and part of the revenues were used to support its China trade. In order to encourage the country traders’ to sell more opium to China, the Company’s authorities in India also made use of these revenues to make loans to the country traders to enable them to purchase opium for shipment to China, as they did with the cotton trade. After selling opium to the Chinese, these free merchants would then return the loans with interest to the EIC’s Canton Treasury.¹²⁴ Very often, the EIC’s revenues in India, accrued from the collection of taxes in Bengal and other Presidencies, were also invested in the production of opium. This included the making of advances to peasant cultivators and, by contracts, these farmers would in turn produce a certain amount of raw cotton and poppy for the Company.¹²⁵

Indeed, through these measures the Company gradually established a monopoly over the

¹²³ *Ibid.*

¹²⁴ Kumar, *Indo-Chinese Trade*, pp. 7-8.

¹²⁵ Fairbank, *Trade and Diplomacy*, p. 63. See also B. Chowdhury, *The Growth of Commercial Agriculture*

sales and production of opium in Bengal. Firstly, through the advances made to the farmers and dealers, the Company secured a virtual control over opium business in Bihar in 1761. It was later extended control to Benares. By November 1773, the EIC's Council in Bengal took a further step of establishing a government monopoly over opium purchases and sales from which 'hereafter the Company assumed the right of exclusive purchase of the drug in Bengal, Bihar and Orissa and then arranged for its sale to merchants through public auctions held in Calcutta.'¹²⁶ Warren Hastings, then the Governor-General of the Bengal Presidency, also introduced the contract system for the annual provision of opium.¹²⁷ Monopoly over the sales and the adoption of the contract system thus enabled the Company 'to organise the procurement of the drug on an exclusive basis and then arrange for its sale to prospective trades through public auctions held at Calcutta.'¹²⁸

After a series of innovations and adjustments for the Company's opium policy, the EIC in 1779 extended its monopoly to cover production so that, from then on, both sales and production of opium was in the Company's control.¹²⁹ In order to make its monopoly over opium production more efficient, the original contract system conducted between the EIC and opium growers was later abandoned. Instead the EIC's Bengal authority

in Bengal (1757-1900) (1964).

¹²⁶ R. Connors, 'Opium and Imperial Expansion: The East India Company in Eighteenth-Century Asia', in S. Taylor etc. (eds.) *Hanoverian Britain and Empire* (1998), p. 257; see also A. Bulley, *The Bombay Country Ships* (2000), p. 153; Kumar, *Indo-Chinese Trade*, p. 6.

¹²⁷ Ghosal, *Economic Transition in the Bengal Presidency* (1966), p. 113. See also R. Prasad, *Some Aspects of British Revenue Policy in India 1773-1833* (1970), especially Chapter II, for details of the contract system adopted by the EIC in the Bengal Presidency

¹²⁸ O. Prakash, 'Opium monopoly in India and Indonesia in the eighteenth century', *The Indian Economic and Social History Review*, 24 (1), 1987, p. 66.

¹²⁹ For the establishment and development of the EIC's opium monopoly in Bengal, see e.g. B. Chowdhury, *The Growth of Commercial Agriculture in Bengal* (1964), Chapter 4; D. E. Owen, *British Opium Policy in*

adopted a new system – the agency system – seeking to improve the quality of opium manufactures and reduce the cost of production. With the adoption of the agency system, it was argued that the Company would receive a larger profit from opium production.¹³⁰ Indeed, Opium was first brought down to Calcutta and sold to country traders. Then the revenue from the opium monopoly and from the sales of the produce at auction in Calcutta could be reinvested into the production of opium or advanced as loans to the opium traders to purchase the product to be shipped to China. Before leaving for China, these opium traders would sign agreements undertaking to deposit the proceeds of their sales into the Company's Treasury at Canton.¹³¹

To make use of the sale of opium as means of supporting the financing of tea investment, the Canton supercargoes also made a deal with these country traders similar to that they had made for the importation of Indian cotton. The proceeds from the sale of the Indian opium received by the country traders were paid into the EIC's Canton Treasury in return for bills of exchange issued by the Company supercargoes which could be cashed in India or in London.¹³² As a result, through these measures the EIC, on the one hand helped to stimulate the opium trade, but was also able to avoid the importation of opium into China by its own vessels. On the other hand, the EIC effectively took control of the production of sale of opium in Bengal and created a network from which a considerable amount of capital was obtained to be used for the payments of its tea purchases in Canton.

China and India (1934), Chapter II & IV.

¹³⁰ For the working of the agency system, see e.g. Ghosal, *Economic Transition*, Chapter VI: 'Opium Monopoly' & Prasad, *Some Aspects of British Revenue Policy in India*, Chapter V: 'The Company's Opium Policy during 1793-1833'.

¹³¹ T. Chung, 'The British-China-India Trade Triangle', *The Indian Economic and Social History Review*, XI (4), December 1974, p. 416.

¹³² Kurmar, *Indo-Chinese Trade*, pp. 7-8.

Although the Court of Directors ordered the Bengal Presidency not to carry out the opium trade between India and China on the Company's account, they encouraged the exportation of opium from there to other regions in Asia. The increasing exportation of opium to other Asian areas from Bengal on the Company's account would help the EIC provide funds for China remittance and thus prevent the drain of specie from the Establishment and also reduced the issuing of bills. As stipulated in a letter to Bengal in March 1784, the Directors wrote that

We desire you will especially attend to the means of making such remittances to China as may, as far as possible, prevent any drafts from thence. We are well aware that there is some difficulty here which must be obviated according to circumstances on the spot and by means which cannot be directed from hence, but we trust that with the advantage of the trade in opium and other commodities of India to the Eastern Islands you will find it very practicable to accomplish this desirable purpose without any great or constant drain of specie from Bengal, which ought as far as possible in all cases to be avoided.¹³³

The following years saw the Court of Directors continue to express the same viewpoint to the Bengal Committee, and they hoped that 'the difficulty of supplying their Canton Treasury could ... be overcome by increasing their opium sales in the eastern archipelago in return for Spanish dollars ...'¹³⁴ In order to create more funds for the suddenly increasing tea purchase after the passage of the Commutation Act, the Court even agreed in the late 1780s to the clandestine shipment of opium from India to China, where demand was much greater than in other areas. The Court suggested that the Company could use Fort Marlbro' and Malaya as intermediate markets for its ultimate export to

¹³³ For William – India House Correspond, Vol. IX (1782-85), Letter from Court, 16 March 1784, para. 11, p. 158.

¹³⁴ *Ibid.*, Vol. X (1786-88), Introduction, p. 28.

China. That is, Bengal opium would be first passed to local merchants in these two areas who would in turn ship and smuggle the cargoes to China and finally pay the proceeds into the Canton Treasury.¹³⁵

Indeed, after the passage of the Commutation Act when a larger capital was needed for the growing tea investment, the opium trade increased its position in the Company's China remittance, especially when other financial resources proved to be inadequate. This was highlighted in a letter from Cornwallis, then the Governor-General of Bengal, to Dundas (the President of Board of Control) in 1789 expressing the view that from now on the Company's remittances to China had to depend largely on the export of opium from Bengal.¹³⁶ However, despite the increasing importance of the opium trade in the Company's financing of its China investment, it should be noted that in order to achieve his mission in Peking, Lord Macartney was instructed to capitulate if the exclusion of the opium importation came under discussion.¹³⁷ That is, if the Ch'ing Imperial Court targeted the issue of opium trade, Britain was ready to renounce its importation into China.¹³⁸ Because both the EIC records and Chinese official documents mention nothing about the opium trade, it is probable that Macartney's meetings with the Ch'ing Court did not touch on this issue. But even if it did, it is doubtful whether the drug traffic could have been stopped since it was mainly conducted by the country traders, who would not simply give up the lucrative trade in opium when there was so much demand from the Chinese addicts.

¹³⁵ *FMIHC*, Vol. IX, Introduction, p. 23; & *idem.*, Letter from Court, 27 March 1787.

¹³⁶ P. Nightingale, *Trade and Empire in Western India, 1784-1806* (1970), p. 56.

¹³⁷ IOR: G/12/11, pp. 167-9 (Year 1792).

¹³⁸ J. B. Williams, *British Commercial Policy and Trade Expansion 1750-1850*, P. 338.

Several letters to the Court from Canton written at the end of the eighteenth century again underline the extent to which the sales of opium had become a crucial financial resource for the EIC's China trade.¹³⁹ The opium business for the Company's China remittance was particularly crucial during the wartime years when the provision of Spanish silver dollars was interrupted. As the Company's Committee at Canton recorded in 1802, 'The opium trade therefore will be the only principal source from whence we can in future expect to derive our supplies....'.¹⁴⁰ Indeed, with the rapid expansion of the opium imports into China, the country trade and the opium trade grew to play a more crucial role in the support of the EIC's financing of its Canton trade after the beginning of the nineteenth century. As a Court letter to the supercargoes put it in 1807,

'It is a gratifying circumstance to us to perceive that... the evident advantage resulting to our Indian possessions from an increased demand in China for their produce, which... with respect to opium we... noticed of its having furnished you.... with an abundant supply of specie..., & that...afford us a well grounded hope that the period is now arrived, when we may safely trust to the Country Trade ... for supplying you annually with the amount of bullion you require,....'.¹⁴¹

In order to guarantee a greater amount of cash flow into its treasury to meet the growing tea trade in the early nineteenth century, the EIC's Canton Committee also adopted a measure that 'was to make advance loans by the Canton Treasury to the Country traders in the forms of bills negotiable in India'. In particular, the Company 'advanced bills on credit relying largely on the Country traders' opium guarantee, the proceeds of which the parties agreed to deliver to the Canton Treasury as repayment'.¹⁴² Through this measure,

¹³⁹ See e.g. *FWIHC*, Vol. XVIII (1796-1800), Letter to Court, 32 December 1796, para. 64, p. 319; *idem.*, Letter to Court, 27 December 1797, paras. 6-7, pp. 480-1.

¹⁴⁰ IOR: G/12/142, p. 121; November 29, 1802.

¹⁴¹ IOR: R/10/CL/7, No. 2, Para. 49, April 8, 1807.

¹⁴² *Ibid.*, pp. 305-6.

for instance, 550,000 Spanish dollars were granted in bills of credit by the EIC's Canton Secret Committee for the season 1811/12, with 496,000 dollars for the season of 1812/13.¹⁴³ In September 1813 the East India Company made an arrangement with Mr. Beale, then the Consul of the King of Prussia to Canton, by which he received the Company's bills for an equivalent of 118,000 Spanish silver dollars. Later the same year, he also offered the Canton Committee a large consignment of opium as security for bills to the value of (Spanish) \$700,000 to be bought on credit which made a total of 818,000 dollars for 1813. In October 1814, another agreement between Beale and the EIC was made when 'Mr. Beale obtained from the Select Committee in China a sum of 800,000 (Spanish) dollars in bills upon this government for which he was to supply dollars in China and in the agreement signed by him he states that he had "at his disposal" 900 chests of opium.....'¹⁴⁴ This indicated that the 800,000 silver dollars due to be supplied by Mr. Beale for the Company factory at Canton came from the sale of 900 chests of opium in China.¹⁴⁵

Through these several measures, the sale of opium to the Chinese people became a very valuable financial resource for the Canton Treasury from the beginning of the nineteenth century. Its importance was clearly highlighted in the Court's letter of 1812 to Canton that 'We are thoroughly aware of your reliance on this trade (opium trade) for supplying you constantly with funds ...'¹⁴⁶ However, this does not mean that the importation of

¹⁴³ IOR: R/10/Miscellaneous/2a, Dec. 18, 1816, margin of para. 34; Bakhala, 'Indian Opium and Sino-Indian Trade Relations', p. 306;

¹⁴⁴ IOR: R/10/SC/7, 10 June 1819, No. 2, p. 5.

¹⁴⁵ Cheong, 'Some aspects of British trade', p. 209. The bills of credit issued to Mr. Beale by the Company in the period were to be charged in four instalments, i.e. in November 1814 and February, March and May of 1815 respectively.

¹⁴⁶ IOR: R/10/CL/XI, No. 2, para. 45, 19 February 1812.

Company's Indian opium into China through the conduct of the country traders developed smoothly all the time. As the rapid growth of opium consumption drew more attention from the Ch'ing authorities, the safe delivery of opium to the Chinese merchants became an important issue for the country traders.

By the end of the century, the rapid expansion of opium smoking among the public caused increasing concern to the Chinese government. As a result, several new edicts were issued, including the imposition of penalties on opium-smokers. In 1796, all existing edicts were renewed; these included the imposition of penalties for those who smoked the drug, and more specifically, they stipulated the total prohibition of the importation of opium. In 1799, the Imperial Court in Peking issued another edict prescribing an increase in the punishment for those who associated with the drug traffic, and it also prohibited opium use and poppy cultivation inside the Empire.¹⁴⁷ Accordingly, foreign merchants could no longer legally ship opium to Canton and the importation of opium into China became a contraband trade. Further edicts were also issued in the early nineteenth century that included provisions to increase penalties for those who were involved in the use of drug and opium traffic.¹⁴⁸ These decrees indicate that the Ch'ing authorities were much concerned by the increased use of opium in China..¹⁴⁹ This also implied that significant opium traffic into China continued to exist, and clearly the corruption of Chinese local officials played a crucial role in the development of Indian opium trade with China.

¹⁴⁷ Booth, *Opium – A History*, p. 110; H. R. Ghosal, *Economic Transition in the Bengal Presidency* (1966), p. 119. For the English translation of the 1799 edict, see Morse, *The Chronicles of the English East India Company Trading to China*, Vol. II, pp. 344-6.

¹⁴⁸ See Morse, *ibid.*, Vol. III.

Country traders had originally delivered their opium to the Chinese merchants in Whampoa or Macao where large ocean-going vessels used to anchor. By the turn of the nineteenth century, when the Canton authorities began to tackle the smuggling more seriously, the country traders made use of some small islands nearby, regarded as 'outer anchorages', to pass opium to the Chinese merchants.¹⁵⁰ While the country traders were adjusting their opium delivery system, the Select Committee also made some new measures to adapt to the change to a new opium marketing system. For example, in order to receive more silver from the opium traders and also to avoid any trouble that might affect its tea trade, a Company agent was kept at Macao from 1812, in addition to the one stationed at Canton, to issue bills to the free merchants more conveniently.¹⁵¹ The establishment of this agent clearly indicated that, by this time, the EIC depended heavily on the sale of opium to support its China investment and also reflected the smuggling feature of the opium trade in China.

The lucrative nature of the drug trade and the increasing demand for opium by the Chinese addicts saw the Americans join the drug trade at the beginning of the nineteenth century, and by the second decade of the century they had developed a profitable monopoly in the Turkey opium trade to China.¹⁵² Accompanied by a rapid growth of western Indian opium exported to China by Parsi traders, these factors brought a threat to the Company's Bengal opium industry and its export trade.

¹⁴⁹ P. W. Fay, *The Opium War 1840-42* (1975), p. 43.

¹⁵⁰ Macgregor, *Commercial Statistics*, Vol. V, p. 74; Owen, *British Opium Policy in China and India*, Ch. V. It should be noted that these Chinese merchants who were involved in the trade were not the Canton Hong merchants, because they dared not to deal with the opium importation, prohibited by the government.

¹⁵¹ Bakhala, 'Indian opium and Sino-Indian trade relations', p. 295.

¹⁵² For the rise and development of the American opium trade with China, see Stelle, 'American Traders in Opium to China, Prior to 1820', *The Pacific Historical Review*, Vol. IX, No. 4, December 1940; & *idem.*,

Table 4.5 The Quantity of Indian Opium Shipments to China, 1800-35 (Chests)

Season	Bengal (Patna & Benares)	Malwa	Total
1800-01	3,224	1,346	4,570
1801-02	1,744	2,203	3,447
1802-03	2,033	1,259	3,292
1803-04	2,116	724	2,840
1804-05	2,322	837	3,159
1805-06	2,131	1,705	3,826
1806-07	2,607	1,519	4,126
1807-08	3,084	1,124	4,208
1808-09	3,233	985	4,208
1809-10	3,074	1,487	4,561
1810-11	3,592	1,376	4,968
1811-12	2,788	2,103	4,891
1812-13	3,328	1,638	4,966
1813-14	3,213	1,556	4,769
1814-15	2,999	674	3,673
1815-16	2,723	1,507	4,241
1816-17	3,376	1,242	4,618
1817-18	2,911	781	3,692
1818-19	2,575	977	3,552
1819-20	1,741	2,265	4,006
1820-21	2,591	1,653	4,244
1821-22	3,298	2,278	5,076
1822-23	3,181	3,855	7,773
1823-24	3,360	5,535	8,895
1824-25	5,960	6,663	12,023
1825-26	3,810	5,563	9,373
1826-27	6,570	5,605	12,175
1827-28	6,650	5,504	12,434
1828-29	4,903	7,709	12,612
1829-30	7,443	8,099	15,542
1830-31	5,672	12,856	17,528
1831-32	6,815	9,333	16,148
1832-33	7,598	14,007	21,605
1833-34	7,808	11,715	19,523
1834-35	10,207	11,678	21,885

Sources: M. Greenberg, *British Trade and The Opening of China 1800-42* (1951), p. 220, Appendix I (2); & F. Bakhala, 'Indian Opium and Sino-Indian Trade Relations 1810-1858' (1985), pp. 45-6, Table 2 (2).

'American Trade in Opium to China, 1821-39', *The Pacific Historical Review*, Vol. X, No. 1, March 1941.

This in turn made the Company determined to bring the industry and trade of western Indian opium firmly under control, and finally the production and market system used in Bengal was also applied to the Malwa opium.¹⁵³ Indeed, as shown in Table 4.5, from the 1820s there was a rapid growth in the shipment of Malwa opium to China. However, the dramatic development of the trade was really stimulated by the establishment of a new delivery system in China.

While the country traders were changing their opium delivery system in China, the waters surrounding the Lintin Island, located at the estuary of River Pearl, gradually emerged as an ideal place to smuggle the drug (see Map 3). Country traders' ships would first anchor at the coast of Lintin and then transfer their opium to small storeships belonging to Chinese merchants. But before opium was delivered, the opium dealers (owners of storeships or other middlemen) came to Canton to make deals with local buyers who bought the so-called 'opium chits' from them, by paying silver. The opium buyers then presented their chits at Lintin to receive their drug, which was in turn shipped up-river through storeships and smuggled into the Canton market and inland areas.¹⁵⁴ In the meanwhile, the country traders received silver from Chinese merchants and a commission and demurrage fee were paid to the opium dealers and owners of storeships respectively. Of course, in order to make the process of delivering opium operate smoothly, the Chinese opium dealers and smugglers had to bribe local officials responsible for coastal

¹⁵³ For details of the Company's struggling to bring the Malwa opium production and trade under control, see Stelle, *ibid.*, & A. Bulley, *The Bombay Country Traders 1790-1833* (2000), Ch. 10: The China trade: Malwa opium; R. Prasad, *Some Aspects of British Revenue Policy in India* (1970), Ch. V: The Company's Opium Policy during 1793-1833; & D. E. Owen, *British Opium Policy in China and Policy* (1934).

¹⁵⁴ J. M. Downs, 'American Merchants and the China Opium Trade, 1800-1840', *Business History Review*, Vol. XLII, 1968, p. 428.

safety and customs revenue.¹⁵⁵ The country traders however continued to conduct their opium trade, but they left the dangerous and dirty part of the business – bribing officials, delivering the drug ashore, and retailing opium to consumers, to the Chinese dealers.¹⁵⁶ The system of smuggling opium into China through Lintin became established after 1820 and because it created a new era of the opium trade, the years following 1821 were regarded by historians such as Morse ‘the Lintin period’, and the newly-developed opium marketing system ‘the Lintin system’.¹⁵⁷

With the adoption of a new opium delivery system and the Company’s deepening control of the Malwa opium production and delivery, the Indian-Chinese drug trade not only continued to exist, but it expanded to a larger scale than ever before even though it was totally a contraband trade. Indeed, both the quantities of Bengal opium and Malwa opium shipped to China increased considerably following the beginning of the third decade of the nineteenth century, as shown in Table 4.5. In the beginning of the nineteenth century, the total quantity of Indian opium shipped to China was slightly higher than 3,000 chests and by the late 1820, it amounted to over ten thousand chests. By the last years of the Company’s monopoly in China trade, it reached approximately twenty thousand chests in each season.

This dramatic development thus increased the relative importance of opium to the country trade. In the beginning of the nineteenth century, the trade in opium already

¹⁵⁵ For details of smuggling opium into China through the Lintin channel, see Fay, *The Opium War*, Chapter 4: The Opium Traffic; & Owen, *British Opium Policy in China and India*.

¹⁵⁶ Downs, ‘American Merchants and the China Opium Trade’, p. 429.

¹⁵⁷ See Morse, *The International Relations of the Chinese Empire* (1910), Vol. I.

occupied more than twenty per cent of the total country traders' importation into China, and in 1809 it superseded cotton as the most lucrative branch of the country trade with China.¹⁵⁸ The trade in opium continued to expand afterwards, and by the end of the second decade of the nineteenth century opium finally overtook cotton as the largest Indian staple item imported into China. This is illustrated in Table 4.6.

Table 4.6 The value of the Indian Exports to China, specifying, separately, the value of cotton and opium exports (sterling pounds £), 1813-14 to 1833-34

Years	Cotton	Opium	Others	Total
1813-14	625,595	557,128	141,344	1,324,067
1814-15	697,120	711,776	171,316	1,580,212
1815-16	749,394	580,691	131,315	1,461,400
1816-17	779,357	685,638	126,070	1,591,065
1817-18	785,595	633,157	174,464	1,593,216
1818-19	542,566	685,084	170,080	1,397,730
1819-20	272,663	349,819	181,540	804,022
1820-21	834,821	1,180,063	237,623	2,252,507
1821-22	638,937	965,067	138,318	1,742,322
1822-23	438,480	1,389,805	242,195	2,070,480
1823-24	557,352	940,473	192,561	1,690,386
1824-25	882,687	815,764	296,309	1,994,760
1825-26	1,042,387	1,196,283	172,373	2,411,043
1826-27	975,192	1,387,380	156,046	2,518,618
1827-28	937,918	1,793,119	181,490	2,912,427
1828-29	806,260	1,262,943	204,997	2,274,200
1829-30	894,703	1,392,617	166,410	2,453,730
1830-31	833,210	1,479,516	150,794	2,463,520
1831-32	732,262	2,326,349	123,048	3,181,659
1832-33	776,620	1,804,011	36,334	2,616,965
1833-34	1,118,690	2,272,080	168,168	3,558,938

Source: BPP: Accounts and Papers, 1859, Session 2, Vol. XXIII (23), p. 311 (No. 38, 'Returns relating to the Trade of Indian and China from 1814-1858').

¹⁵⁸ Milburn, *Oriental Commerce*, Vol. 2, p. 482; Cheong, 'Some Aspects of British Trade and Finance at Canton', p. 24; Nightingale, *Trade and Empire in Western India*, p. 233.

Table 4.7 British Trade Balance with China at Canton, 1765-1826 (Tls.)

Year	The EIC	Private Trade	Country Trade	Total Balance
1765-66	-1,095,975	78,050	44,500	-973,425
1767-68	-1,023,794	38,960	44,500	-940,334
1769-70	-908,786	4,790	44,500	-859,496
1771-72	-1,230,325	17,400	17,800	-1,195,125
1773-74	-661,467	40,000	87,000	-532,467
1775-76	-638,150	2,142	96,071	-540,139
1777-78	-998,535	51,315	-14,484	-961,704
1779-80	-817,455	18,260	-278,564	-1,077,759
1781-82	-1,301,785	7,810	349,020	-944,055
1783-84	-973,322	75,600	74,190	-823,532
1784-85	-1,130,688	40,320	40,110	-1,050,258
1785-86	-2,254,790	111,215	656,806	-1,486,769
1786-87	-3,994,538	107,280	1,221,146	-2,666,112
1787-88	-4,428,529	21,000	1,985,399	-2,429,130
1788-89	-3,230,546	78,480	1,479,030	-1,583,036
1789-90	-3,144,652	141,450	1,858,446	-1,145,776
1790-91	-2,836,938	218,160	1,305,245	-1,313,533
1792-93	-1,502,686	127,720	1,256,556	-118,410
1793-94	-1,930,159	207,360	1,166,500	-157,823
1794-95	-2,543,462	202,320	1,027,925	-1,313,217
1796-97	-4,193,408	15,000	1,890,342	-2,288,066
1797-98	-3,890,512	10,000	2,373,806	-1,509,706
1798-99	-1,441,433	10,000	2,329,240	897,807
1799-1800	-1,545,667	492,140	1,737,622	275,302
1800-01	-1,204,484	109,440	2,556,785	910,301
1802-03	-2,851,357	10,000	2,220,463	-620,894
1803-04	-2,363,177	146,880	3,298,550	1,082,253
1804-05	-2,438,059	57,600	3,675,983	1,295,524
1805-06	-2,012,718	157,680	6,039,071	4,184,033
1806-07	-1,498,391	174,960	5,287,970	3,964,539
1818-19	-1,151,909	3,732,767		2,580,858
1822-23	-2,982,776	6,386,795		3,404,019
1825-26	-1,708,596	4,388,968		2,680,372

Sources: Pritchard (1934) *The Struggle for Control of the China Trade during the Eighteenth Century*, Table 3; & Macgregor (1850) *Commercial Statistics*, Vol. 5, p. 84.

By the late 1820s, the opium trade occupied more than two-thirds of the country traders' Indian exports to China. By 1828, opium sales alone were already enough to pay for the Company's entire tea investment,¹⁵⁹ and in season 1833/34, when the Company's monopoly in the British trade with the Chinese Empire was removed, the opium trade had reached a value that doubled the EIC's total China investment. Thus, despite the fact that investment in tea was also growing, the EIC's bills only accounted to one third of the total value of opium imported into China in the period.¹⁶⁰

Along with the sale of cotton goods and other Indian produce, the rapid growth of the opium trade conducted by the country traders produced a considerable trade surplus and this helped to cover the large trade deficit evident in the EIC's own China trade. As can be seen from Table 4.7, which illustrates the balance of total British trade at Canton, the British trade deficit with China was removed starting from the end of the eighteenth century, and this was chiefly because of the contribution of the country trade. Consequently, the funding of the Company's tea trade was much improved and this allowed Court of Directors to stop shipping bullion to China from Europe in most years of the nineteenth century.

¹⁵⁹ Bulley, *The Bombay Country Ships 1790-1833*, P. 170.

¹⁶⁰ Cheong, 'Trade and Finance in China', *Business History*, Vol. VII (I), January 1965, p. 44.

4.4 The Overall Structure of the EIC's Funding System of its China Trade

The previous sections have demonstrated that the East India Company adopted several different measures in order to obtain sufficient funds for its tea investment at Canton. This section seeks to present an overview of the EIC's funding system in order to establish the contribution of different income flows to its China trade. In order to create a clearer picture, the discussion will be divided into sub-periods.

4.4.1. The years prior to 1785

As noted earlier, during the first half of the eighteenth century, the Company had depended heavily on silver bullion shipped from England to pay for tea, raw silk and porcelain. The pattern of the Company's tea-purchase payments in the period could be simply described as 'bullion for tea'. The late eighteenth century saw changes to the pattern of the EIC's China remittance in that bullion's original dominating position in the Company's export trade from Britain to China was reduced. By contrast, the relative importance of home merchandise goods, such as woollens and metals, to the Company's financing of its Canton trade was clearly increasing after the 1760s. In the meantime, the EIC's territorial and fiscal administration in Bengal and surrounding areas paved way for the Company to use its Indian Presidencies' financial resources to support the Canton trade. The EIC also succeeded in making use of the surplus capital accrued from the private trade to supplement its China remittance. Tables 4.8 and Table 4.9 have been created in order to illustrate the relative importance of each of these factors in the Company's China remittance in the 1760s and 1770s.

Table 4.8 The receipts of the EIC Canton Treasury, 1762/3-1780/1 (in Sterling Pound, £) (£1 = 3 taels)

Season	Company Imports				Other sources			Total Receipts
	Realised from merchandise goods			Bullion	Bills drawn on London	Bonds &Certificates*	Total	
	European Goods	Asian Goods & Stores	Total					
1762-63	134,322	17,806	152,128	82,342	2,025	1,296	3,321	237,801
1763-64	96,300	55,563	151,863	145,203	9,923	479	10,402	307,468
1764-65	104,049	97,525	201,574	112,927	16,706	62,590	79,296	393,797
1765-66	454,511	80,399	534,910	224,493	58,545	7,494	66,039	825,442
1766-67	402,558	37,799	440,357	380,262	none	2,903	2,903	823,522
1767-68	70,040	27,792	97,832	206,680	none	none	none	304,512
1768-69	210,849	33,300	244,149	175,824	none	2,520	2,520	422,493
1769-70	373,341	33,889	497,230	none	41,743	none	41,743	448,973
1770-71	380,345	90,042	470,387	50,762	85,522	12,600	98,122	619,271
1771-72	584,916	53,849	638,765	none	135,857	47,002	182,859	821,624
1772-73	378,797	47,915	426,712	23,195	227,999	none	227,999	677,906
1773-74	163,561	32,700	196,261	28,397	50,374	25,054	75,328	300,086
1774-75	71,384	14,958	86,342	none	17,894	53,440	71,334	157,676
1775-76	141,723	8,730	150,453	none	131,226	15,278	146,504	292,002
1776-77	119,756	27,420	147,176	34,515	230,943	3,333	234,276	415,967
1777-78	159,833	20,709	180,542	75,580	240,915	none	240,915	497,037
1778-79	136,338	none	136,338	29,245	219,100	67,685	286,785	452,368
1779-80	<u>36,646</u>	36,870	<u>73,516</u>	3,987	541,435	none	541,435	648,938
1780-81	156,471	8,329	164,800	none	476,090	none	476,090	640,890
1762/63-1771/72	2,811,221 (T. 8,433,663)	527,964 (T. 1,583,892)	3,339,185 (10,017,555)	1,378,493 (4,135,479)	350,321 (1,050,963)	136,884 (410,652)	487,205 (1,461,615)	5,204,903 (15,614,709)
1772-73-1780-81	1,364,554 (T. 4,093,662)	197,631 (T. 592,893)	1,562,185 (4,686,555)	194,919 (584,757)	2,135,976 (6,407,928)	164,790 (494,370)	2,300,766 (6,902,298)	4,057,870 (12,173,610)

Notes: * including certificates and bonds issued to the commanders of the EIC's ships as well as bills to be drawn on India.

Sources: for 1762/63-1771/72, based on *British Parliamentary Papers* (BPP), Reports from Committee of the House of Commons, 1772-73, Vo. IV, pp. 68-69; for 1772/73-1780-81, based on *Ibid.*, 1781-2, Vol. VIII, pp. 370-1.

Table 4.9 The contribution of different funds to the Canton Treasury's total receipts in 1762/63- 1771/72 and 1772/73-1780/81 (% of the total)

Item of Financial Source	1762/63-1771/72*	1772/73-1780/81*
European Goods	54.0	33.6
Asian Goods (and Stores)	10.2	4.9
Total Realised from Merchandise (A)	64.2	38.5
Bullion (B)	26.5	4.8
Bills drawn on London	6.7	52.6
Certificates, Bills & Bonds**	2.7	4.1
Total received in exchange for Bills etc. (C)	9.4	56.7
Total Company Imports (A + B)	90.7	43.3
Other Sources (C)	9.4	56.7
Total Receipts	100.0	100.0

Notes: * the total of the ten seasons; ** including certificates and bonds issued to the commanders and other officers the EIC's ships as well as bills issued to be drawn on India.

Source: based on Table 4.8.

As illustrated in the two tables, it is firstly notable that the receipt realised from the sale of the Company's merchandise imports into China played a very important position in the total funds paid into the Canton Treasury in the period 1762/3-1771/2. The total amount of this item accounted for over three-fifths of the total receipts in this ten-year period, with the majority of it being attributable to the importation of British (European) articles, which alone contributed 54 per cent share to the total receipt. The EIC's Canton records show that the supercargoes succeeded in delivering more British woollens by lowering their prices to make them acceptable to the Hong merchants, thus generating a certain portion of the funds for tea investment and also deflecting criticism regarding the Company's drain of specie from home.¹⁶¹ It is also noteworthy that this development coincided with the establishment of the so-called Canton Commercial System which confined Chinese external trade with foreigners exclusively to a small group of merchants

in Canton. This made the Hong merchants the only Chinese traders with whom the EIC could negotiate in order to purchase tea. However, the dual-monopoly framework of Anglo-Chinese trade pattern also enabled the Company to negotiate with the Hong merchants to deliver tea in exchange for a certain quantity of woollens, which in part helped increase the sale of British merchandise goods to China.

The position of merchandise in the EIC's import trade into China clearly overshadowed the importation of bullion, which occupied only around one-fourth of the total receipts in the period 1762/3-1771/2. Indeed, in contrast to the earlier period, the 1760s and 1770s saw the decreasing importance of bullion importation in the Company's financing of its Canton trade. As shown in Table 4.8, the total amount of bullion imported into China by the EIC in the years of 1772/3-1780/1 was reduced to only £194,919 (584,757 taels) when compared to £1,378,493 (Tls. 4,135,479) in the previous ten years. Thus bullion imports accounted for only 4.8 per cent of the total funds paid into the Canton Treasury in the corresponding period.

It is interesting to note that accompanied by a dramatic reduction in the importation of bullion, the 1770s also showed a decrease in the value of Company's merchandise imports. The amount of total receipts in the decade was indeed smaller than that in the 1760s (see table 4.8). This situation occurred partly because of the rapid increase in imports during 1767-72 which flooded the market with goods that could not be sold. As a result, the directors cut back the number of ships sent to China for business after 1773. This reduced the overall importance of merchandise imports in the total receipts of the

¹⁶¹ See e.g. IOR: R/10/FR/6 & R/10/FR/7.

Canton Treasury in the 1770s 38.5 per cent. But the answer to the decline of the EIC's merchandise imports into China from Britain was to link with the increasing importance of the capital received in exchange for bills and certificates.

During the late 1760s, after several years of supporting the EIC's China trade, the Bengal Presidency, because of its own financial difficulties, showed strong reluctance to supply the Canton Treasury with the large amounts of merchandise and treasure necessary for tea investment.¹⁶² Knowing that this situation would affect the Canton Council's financing of its tea purchases, the Court of Directors adopted several measures which included authorising the Canton Treasury to issue bills, payable in London, to the country traders; this started in 1769.¹⁶³ The Indian Presidencies found that adopting this practice was an ideal measure to alleviate the financial pressure of supporting the Company's China trade. Instead of continuing the shipment of bullion and merchandise to China, the Indian Presidencies switched from giving the Canton Council direct financial support into stimulating the growth of commercial agriculture, such as cotton production, which in turn was sold to the country traders who delivered the goods to Canton.¹⁶⁴ This helped to explain why the Company did not itself export a large amount of Indian goods to Canton in the 1770s despite this being welcome in the Chinese market. As a result, the total value of Company's Asian merchandise imports paid into the Canton Treasury reduced to £197,631 (Tls.592,893) in the period 1772/3-1780/1 and it occupied only 4.9 per cent of the total receipt.

¹⁶² Fort William –India House Correspondence, Vol. XIV, Letter to Court, 25 September 1767, para. 23, p. 195; *ibid.*, Vol. V, Letter to Court, 2 February 1768, para. 48, p. 506; Letter to Court, 13 September 1768, paras. 40-41, pp. 430-1.

¹⁶³ *Ibid.*, Vol. V, Letter from Court, 11 November 1768, para. 32, p. 137.

The fact that the Canton supercargoes could obtain capital from the country traders through the issuing of bills of exchange payable in London resulted in a remarkable reduction of the Company's exporting British merchandise to China. The amount of receipts from European merchandise imports paid into the Canton Treasury in the 1770s was reduced to less than half of that in 1760s, and thus, this item contributed only one-thirds of the total receipts. This reduced the receipts of total Company imports to only 43.3 per cent of the total capital paid into the Canton Treasury during the period 1772/3-1780/1 when compared to 90.7 per cent in the previous ten seasons. This is illustrated in Table 4.9. By contrast, the increasing importance of funds accrued from the issuing of bills to be drawn on London was extremely striking. As opposed to its trifling position in the 1760s, its total value amounted to about £2,100,000 in the next decade and thus, it accounted for more than half of the total receipts during the above-mentioned period.

The overall importance of bills and bonds in the EIC's China remittance became more crucial in the period between 1779 and 1785 when no bullion could be sent to Canton from Europe because of the outbreak of the American War of Independence. During this period, the Indian Presidencies were experiencing financial difficulties so that apart from the exportation of a small amount of merchandise to China, they sent bullion only to a value of 8,640 taels to Canton in 1783.¹⁶⁴ Since they received such a limited amount of treasure from Britain and India, the Canton Treasury had to issue a larger quantity of bills of exchange to the private traders in order to fund the Company's investment in tea. Consequently, the contribution of bills, bonds and certificates to the total EIC Canton

¹⁶⁴ For details, see Chowdhury, *The Growth of Commercial Agriculture in Bengal*.

¹⁶⁵ Pritchard, *The Crucial Years of Anglo-Chinese Relations*, Appendix IX, p. 399.

Treasury's receipts in 1779-1785 amounted to two-thirds of the total, with the remaining one-third being contributed by the sale of both European and Asian merchandise importation. This is illustrated in Table 4.10.

Table 4.10 The funds received into the EIC's Canton Treasury, 1779-1785 (by taels)

Season	Company Imports				Other Sources	Total Receipts
	Realised from the sale of goods, imported from			Bullion	Bills, Bonds, Certificates, Etc.	
	Europe	Asia	Total			
1779	90,788	135,576	226,364	none	1,537,996	1,764,360
1780	433,657	45,522	479,179	none	1,569,272	2,048,451
1781	266,136	129,162	395,298	none	1,107,418	1,502,716
1782	320,000	none	320,000	none	517,316	837,316
1783	769,281	200,362	969,643	8,640	696,993	1,675,276
1784	653,083	40,362	693,445	none	566,168	1,259,613
1785	661,847	25,432	687,279	none	1,602,665	2,289,944
Total	3,194,792	576,416	3,771,208	8,640	7,597,828	11,377,676
% of total	28.1	5.0	33.1	0.01	66.8	100

Source: based on Morse, *The Chronicles of East India Company's Trading to China*, Vol. IV, p. 387.

4.4.2. The Years after the Late 1780s

The late 1780s again saw a structural change in the financing of the East India Company's China trade. What is most striking is that in order to meet the suddenly increasing demand for tea at home which resulted from the passage of the Commutation Act, the Court of Directors was again forced to send out a huge amount of bullion to Canton in 1786-90. With approximately 9,700,000 taels being received from bullion

1786 and 1790,¹⁶⁶ this period saw the direct bullion shipments from Europe again playing an important role in the EIC's China remittance. In contrast to there being no bullion being sent from Britain to China by the EIC in 1779-1785, the bullion importation from Europe accounted for approximately one-third of the total funds received by the Canton Treasury in the following six seasons, as illustrated in Table 4.11. Accompanied by the proceeds from the sale of European goods, the total direct remittance from Britain contributed to nearly 57 per cent of the Canton Treasury's total receipt in the second half of the 1780s.

Table 4.11 also provides information regarding the supplies from India, which during the season 1786/7-1791/2 contributed slightly over 11 per cent of the Canton Treasury's total receipts. Although the relative importance might not be striking when compared to the supplies from Europe, it is apparent that the total value increased considerably in relation to that in the first half of the 1780s. Because the Indian supply came from three different Presidencies, it is also necessary to compare their relative importance. The Court of Directors did not make clear in what proportion of the financial supplies from India should be divided between the Bengal, Bombay and Madras settlements.¹⁶⁷ But, as illustrated in Table 4.12, it is clear that the majority of Indian supplies to the Canton Factory came from the Bengal Presidency. They accounted for nearly 85 per cent of the total supplies from India between 1786 and 1791.

¹⁶⁶ According to Table 4.11.

¹⁶⁷ P. J. Marshall, *East Indian Fortunes*, p. 150.

Table 4.11 Account of the amount received at Canton for goods, stores, and bullion, exported by the East India Company, for bills on the Court of Directors, and for the supplies from India in each year, from February 1786 to January 1792

	28 Feb. 1786- 3 April 1787	4 April 1786- 7 April 1788	8 April 1788- 27 March 1789	28 March 1789- 14 Feb. 1790	15 Feb. 1790- 28 Feb. 1791	19 Feb. 1791- 9 Jan. 1792	Total
Total Exports from Europe [% of the total receipts]	T. 3,080,058 (£1,026,686)	T. 2,797,669 (932,556)	T. 3,197,353 (£1,065,785)	T. 2,546,440 (£848,814)	T. 3,689,238 (£1,229,746)	T. 2,040,307 (£680,102)	T.17,351,065 (£5,783,689) [57.0]
Goods [% of the total]	T. 877,645 (£292,548)	T. 741,852 (£247,284)	T. 1,232,270 (£410,757)	T. 1,130,870 (£376,957)	T. 1,621,020 (£540,340)	T. 1,868,068 (£622,689)	T.7,471,725 (£2,490,575) [24.5]
Stores	T. 2,883 (£961)	T. 3,486 (£1,162)	T. 3,336 (£1,112)	T. 3,000 (£1,000)	T. 1,734 (£578)	T. 2,391 (£797)	T. 16,830 (£5,610) [0.1]
Bullion [% of the total]	T. 2,199,530 (£733,177)	T. 2,052,331 (£684,110)	T. 1,961,747 (£653,916)	T. 1,412,570 (£470,857)	T. 2,066,484 (£688,828)	T. 169,848 (£56,616)	9,862,510 (£3,287,504) [32.4]
Total Supplies from India [% of the total]	T. 598,264 (£199,421)	T. 236,270 (£78,757)	T. 602,596 (£200,865)	T. 636,309 (£212,103)	T. 632,339 (£210,780)	T. 711,557 (£237,186)	T.3,417,335 (£1,139,112) [11.2]
Bills drawn on the Court of Directors [% of the total]	T. 1,240,665 (£473,865)	T. 2,791,561 (£1,066,221)	T. 1,589,243 (£588,549)	T. 1,177,955 (£432,899)	T. 1,657,029 (£608,958)	T. 1,236,088 (£454,262)	T.9,692,541 (£3,624,754) [31.8]
Total Receipts [total=100]	T. 4,918,987 (£1,699,972)	T. 5,825,500 (£2,077,534)	T. 5,389,192 (£1,855,199)	T. 4,360,704 (£1,493,816)	T. 5,978,606 (£2,049,484)	T. 3,987,952 (£1,371,550)	T.30,460,941 (£10,547,555) [100]

Source: based on BPP, Accounts and Papers, 1792-93, Vol. XXXVIII, No. 774, (no. 9, p. 29).

Table 4.12 Supplies from the Settlements in India to the EIC's Factory at Canton, 1786/7-1790/1 (in current Indian Rupees)

	1786-87	1787-88	1788-89	1789-90	1790-91	Total
Bengal (% of total)	1,781,998	1,408,720	1,330,026	2,081,438	2,384,707	8,986,889 (84.7)
Bombay (% of Total)	389,942	242,436	112,327	148,862	206,267	1,099,834 (10.4)
Fort Marlbro' (% of total)	85,900	none	82,503	175,647	177,657	521,707 (4.9)
Total	2,257,840	1,651,156	1,524,856	2,405,947	2,768,631	10,608,430 (100)

Source: BPP, Accounts and Papers, 1792-93, Vol. XXXVIII, No. 774, (no. 7, p. 25).

After the late 1780s there was also a rapid growth in the EIC's exportation of British manufactured goods to China. This was largely achieved through the Company's dumping of some home commodities and the adoption of the trucking system involving the import of woolens in exchange for tea. With an expansion of the British merchandise exports to China, the necessity for the export of bullion to China from England declined again from the 1790s onwards. In comparison with an average of nearly 2,000,000 taels in 1785-90, the amount of bullion received into the Canton Treasury from Europe dropped to only 169,848 taels in season 1791.¹⁶⁸ Accordingly, the Court of Directors in the early 1790s optimistically declared that 'there is a great probability the period is not very distant, when the whole of the Company's Investment from China may be purchased with a very trifling export of silver from Europe'.¹⁶⁹

¹⁶⁸ According to Table 4.11.

¹⁶⁹ BPP, 1792-93, Vol. XXXVIII, Second Report of the Select Committee appointed to take into consideration the Export Trade from Great Britain to the East Indies (774), p. 61 [7].

Table 4.13 The Canton Treasury's Receipts, 1792-1811 (taels)

Season	Treasure Remaining Over	Company Imports				Other Sources		Total Receipts of the season
		Realised from merchandise goods			Bullion from Europe	Bills, Bonds & Certificates		
		European Goods	Asian Goods	Total		Bills drawn on London	Total	
1792-93	2,063,818	1,901,683	136,456	2,038,139	518,400	1,322,519	1,843,160	4,399,699
1793-94	2,946,341	2,062,030	88,100	2,150,130	none	1,367,898	1,386,343	3,536,473
1794-95	2,704,544	2,152,678	19,219	2,171,897	none	1,329,371	1,419,338	3,591,235
1795-96	1,521,875	1,879,945	89,342	1,969,287	none	870,222	1,415,051	3,384,338
1796-97	804,271	2,030,491	69,858	2,100,349	120,960	1,322,615	1,649,346	3,870,655
1797-98	-1,917,188	1,533,244	133,045	1,666,289	626,570	1,881,716	2,710,189	5,003,048
1798-99	-2,810,798	1,524,046	none	1,524,046	1,321,984	1,631,000	2,497,575	5,343,605
1799-1800	-601,235	2,382,322	162,817	2,545,139	1,623,171	1,869,612	2,297,424	6,465,734
1800-01	2,324,633	2,360,701	554,667	2,915,368	440,103	418,808	2,383,030	5,738,501
1801-02	2,669,274	2,761,197	316,431	3,077,628	81,370	696,026	1,179,029	4,338,027
1802-03	242,407	3,056,480	92,538	3,149,018	none	1,396,982	2,108,457	5,257,475
1803-04	-570,287	2,983,008	54,891	3,037,899	1,437,934	974,109	1,927,344	6,403,177
1804-05	61,104	3,778,950	56,052	3,835,002	830,266	1,722,245	2,469,061	7,134,329
1805-06	988,339	3,055,430	153,705	3,209,135	none	2,149,930	3,054,837	6,263,972
1806-07	1,929,459	3,417,902	620,668	4,038,570	none	2,297,859	2,966,164	7,004,734
1807-08	3,325,473	3,151,340	655,812	3,807,152	none	838,162	(-131,288)	3,675,864
1808-09	3,444,384	3,923,461	787,859	4,711,320	none	n/a	61,007	4,772,327
1809-10	3,919,819	3,198,137	392,734	3,590,871	none	n/a	47,348	3,638,219
1810-11	3,303,617	3,200,000	645,497	3,845,497	none	n/a	926,976	4,772,473
1811-12	2,763,373	2,751,554	792,570	3,544,124	none	n/a	1,409,970	4,954,094
1792-1801 (% of total receipt)		45.1%	3.4%	48.5%	10.4%	27.8%	41.1%	100%
1802-1811 (% of total receipt)		60.4%	7.9%	68.3%	4.2%	n/a	27.5%	100%
1792/3-1811/2 (% of total=100)		53.3%	5.8%	59.2%	7.0%	n/a	33.8%	100%

Sources: based on BPP, 1812, Vol. VI, Fourth Report from the Select Committee on the Affairs of the East India Company (148), Appendix, No. 10, p. 462; & Morse, *The Chronicles of East India Company Trading to China*, Vol. IV, pp. 387-8.

Indeed, the seasons between 1793 and 1795 saw no bullion being sent from Britain to China although some treasure had to be shipped out again in late years when other funds were insufficient to meet the total investment, as shown in Table 4.13. As the scale of British manufactures to China continued to grow in the nineteenth century, the Company was able to stop sending bullion from Europe to China after 1805 without disrupting its tea investment at Canton. Indeed, as illustrated in Table 4.13, the proceeds realised from the sale of European goods to China contributed to over half of the total Canton Treasury's receipts in 1792-1811. By contrast, because no precious metals were sent by the Company from Europe to China during many of these years, the share of bullion import in the total receipts into the Canton Treasury was relatively small, occupying only around 7 per cent of the total. However, the expansion of the EIC's merchandise exports to China from Europe only played a partial role in the Court's decision to stop the shipment of bullion from England to China. The growth of other financial resources obtained in Asia was also an important contributing factor.

As discussed in Section 4.2, the Company also built up a commercial link with the Philippines from where a certain amount of specie was obtained. In return, the Canton supercargoes would issue bills to those merchants who acted as the middlemen between the EIC and the RPC. For example, the Company's Treasury at Canton received from Manila sums of \$150,000, \$180,000, \$400,000, \$193,000 and \$180,000 respectively in the years from 1808 to 1812.¹⁷⁰ Their contribution to the total funds in each year was, thus, 2.4 %, 3.71%, 6.3%, 2.9 % and 2.2% respectively. In relation to the Philippines'

¹⁷⁰ See Section 4.2. After being converted into Chinese currency, the amount for each season became 112,500 taels, T. 135,000, T. 300,000, T. 144,750 and T. 135,000 respectively.

financial contribution, the increasing British trade surplus between India and China played a more crucial role in the reduction of bullion shipments from Europe. This can be seen from the Court's letter of 1807 to the Canton Committee which stipulated that

So long as the balance of trade between India and China is as much in favor of the former, as the balance between England and China is in favor of the latter (which is the case at present) there cannot be any necessity to forward supplies of bullion from England for the service of Canton. There is no present appearance of this favorable state of the trade suffering any diminution.¹⁷¹

Indeed, because the Indian cotton trade with China was very profitable, the proceeds from the sale of cotton was a valuable means of supplying funds for the Company's tea investment. However, as already indicated, after the measure of issuing bills of exchange to the country traders was adopted by the Court of Directors, the Indian Presidencies let the country traders take the lion's share of the direct Indian cotton trade with China. However, the Indian Presidencies' unwillingness to provide large amounts of funds to support the Canton trade in a direct way incurred the Court's concern after the passage of the Commutation Act, when a larger capital was needed in order to purchase more tea. As can be seen in the their letter of 1786 to Canton, the Directors wrote that 'we observe a very small proportion thereof [the cotton trade] has been sent on the Company's account ...'¹⁷² After the period of 1786-91 in which the proceeds realised from the sale of Asian goods climbed to more than 10 per cent of the total receipts of the Canton Treasury, the relative importance of this item was reduced to less than 4 per cent in the years of 1792-1801. On the other hand, the capital received in exchange for bills, bonds

¹⁷¹ IOR: R/10/CL/7, 1807, No. 2, 8 April 1807, para. 37.

¹⁷² IOR: R/10/CL/1, 13 December 1786, para. 3.

and certificates together accounted for 41 per cent of the Canton Treasury's total receipts in the corresponding period. In order to prevent the Company's China remittance from depending too much on issuing bills and bonds, which would bring the Court under heavy financial pressure, the Directors in the first decade of the nineteenth century again instructed the Canton Committee that '... the Company should engage in the cotton trade to a certain extent for supplying ... bullion you require ...'¹⁷³

Whether this instruction had the effect of stimulating the development of the Company's trade between India and China is debatable. But the years after 1805 saw the total value realised from the Company's sale of Asian goods increasing when compared to that of earlier seasons. This is illustrated in Table 4.13. Because the EIC itself did not involve in the opium trade, it is reasonable to suggest that the expansion of the Company's sale of Asian merchandise to Canton was largely attributable to the growth of its cotton trade between India and China. The EIC's Indo-Chinese trade continued to grow in the second and third decades of the nineteenth century. As a result, the importance of the sale of Indian goods in the Company's financing of its China trade increased substantially in the period 1812-1833. When compared to less than 6 per cent in 1792-1811, its relative contribution increased to 22.5 per cent of the total receipts into the Canton Treasury in the period between 1812 and 1833, as shown in Table 4.14.

¹⁷³ IOR: R/10/CL/7, No. 2, para. 49, 8 April 1807.

Table 4.14 The total receipts into the EIC's Canton Treasury, 1812-1833 (taels)

Season	Treasure Remaining Over	Company Imports				Other Sources	Season's Total Receipts	Total Net Assets
		Realised from sale of merchandise import			Bullion from Europe			
		British Goods	Asian Goods	Total				
1812	2,017,454	2,732,906	1,232,566	3,965,472		2,054,203	6,019,675	8,037,139
1813	1,647,148	3,085,351	1,286,322	4,371,673		1,707,181	6,078,854	7,726,002
1814	1,809,715	2,814,036	892,620	3,706,656		2,658,552	6,365,208	8,174,923
1815	2,034,877	2,144,773	1,570,141	3,714,914	1,094,688	3,911,717	8,721,319	10,756,196
1816	2,442,176	2,520,345	1,014,892	3,535,237	2,561,103	1,468,804	7,565,144	10,007,320
1817	3,639,619	2,438,992	1,193,510	3,632,502		497,742	4,130,244	7,769,863
1818	3,281,859	2,035,937	1,084,459	3,120,396		416,056	3,536,452	6,818,311
1819	2,354,591	1,736,650	1,235,623	2,972,273		487,305	3,459,578	5,814,169
1820	446,474	2,381,234	1,202,520	3,583,754	1,982,941	1,668,849	7,235,544	7,682,018
1821	1,403,417	2,057,344	1,452,987	3,510,331		2,152,127	5,662,457	7,065,875
1822	1,529,706	1,055,553	1,513,069	2,568,622		2,387,074	4,955,696	6,485,402
1823	−506,724	2,312,848	1,417,178	3,730,026	689,197	2,239,723	6,658,946	6,151,222
1824	23,625	2,200,371	1,419,912	3,620,283		3,197,986	6,818,629	6,841,894
1825	1,203,441	2,776,368	1,415,462	4,191,830		1,579,767	5,771,597	6,974,038
1826	1,587,681	2,733,776	1,493,468	4,227,244		2,935,547	7,162,791	8,750,472
1827	1,694,670	1,576,251	1,677,398	3,253,649		2,142,073	5,395,722	7,090,392
1828	396,645	2,168,988	1,388,384	3,557,372		2,466,060	6,023,432	6,420,077
1829	1,329,821	1,957,327	1,271,315	3,228,642		1,355,743	4,584,385	5,914,206
1830	212,388	1,930,979	1,319,182	3,250,161		3,311,298	6,561,459	6,773,847
1831	−403,629	1,871,543	783,582	2,655,125		3,252,285	5,907,410	5,503,781
1832	−108,230	1,878,897	1,029,369	2,908,266		2,427,432	5,335,698	5,227,495
1833	−750,014	2,515,246	1,842,407	4,357,653		3,848,579	8,206,232	7,456,218
Total value		48,925,715	28,736,366	77,662,081	4,017,929	46,317,323	127,997,333	
% of Total		38.2	22.5	60.7	3.1	36.2	100	

Source: based on Morse, *The Chronicles of East India Company's Trading to China*, Vol. IV, p. 388.

As the total value of Indian goods sold in Canton increased, the position of British merchandise importation in the total receipts decreased to approximately 38 per cent in the years between 1812-1833. Nevertheless, after adding in the importation of Indian goods, the proceeds realised from the sale of merchandise goods in Canton on the Company's account remained the most important source of funds for the Company's China trade, with total receipts amounting to 60 per cent of the total in the period.

The second most important financial resource were the funds received from the issuing of bills of exchange to the private traders, which accounted for about 36 per cent of the total funds into the Canton Treasury. As this item accounted for around 32% and 34% of total receipts in the periods 1786-1791 and 1792-1811 respectively (as shown in Tables 4.11 and 4.13), it can be calculated that the capital received in exchange for bills, bonds and certificates contributed to approximately one-thirds of total Canton Treasury's receipts after the late 1780s. Because the opium trade finally became the largest and most lucrative branch of the country trade between Indian and China, it is reasonable to assume that a very large percentage of the capital obtained through this channel came from the sale of Indian opium to the Chinese. Thus, the opium trade clearly played an important role in the funding of the EIC's tea investment.

It should however be noted that with the capital accrued through the issuing of bills of exchange, bonds and certificates accounting for only approximately one-third of the total Canton Treasury's receipts in most seasons after the late 1780s (compared to about 60 per cent of the total being realised from the Company's sale of British and Indian articles

such as woolens and cotton in China), the opium trade's extreme importance and 'crucial' position in the financing of the EIC's Canton investment was apparently over-emphasised by some historians.¹⁷⁴ But when combining the capital obtained from the issuing of bills to the country traders who conducted the opium trade and the funds realised from the Company's sale of Indian goods such as cotton in Canton, the Indian financial resources together accounted for nearly three-fifths of the total receipts paid into the Canton Treasury in 1812-1833. This means that Indian source came to play a more crucial role than that of British merchandise goods in the financing of the EIC's China trade in the nineteenth century.

4.4.3 The Canton Committee's Estimate of Stock for Each Season

It is also necessary to consider the extent to which the EIC's Canton Factory borrowed money from the free merchants through the issuing of bills of exchange in each year. In each trading season, after the Company's ships arrived at Canton with bullion and cargoes on board, the Canton Committee first estimated the value to be realised from the sale of the European and Indian merchandise. After adding the silver bullion and cargo remaining from the last season and other forthcoming receipts, a total amount of available capital was produced. Then the Canton supercargoes compared it with the total amount of planned investment for that season and, accordingly, a balance for, or against, the Canton Treasury was produced. This gave the Canton Committee an idea about the funds they needed to receive through the issuing of bills of exchange drawn on London or India to fill the gap. For example, after comparing the total probable receipts with the planned

¹⁷⁴ For this issue, see e.g. Greenberg, *British Trade and the Opening of China, 1800-42*, Ch. V: Opium.

investment at Canton for the season 1802/03, an estimated balance worth 1,258,533 taels against the Company was produced.¹⁷⁵

The total amount of funds actually paid into the Canton Treasury from bills of exchange issued by the supercargoes to be drawn upon the Court of Directors for that season was 1,396,982 taels (£465,661).¹⁷⁶ After combining bills with certificates and bonds, the total receipts from these items amounted to 2,108,457 taels.¹⁷⁷ After adding those consignments from the sale of European and Indian goods, this sum would be, in theory, enough to cover the total investment. However, because the total value realised from the sale of imported goods was less than the supercargoes estimated, and the total investment reached 5,988,265 taels, the result was that an imbalance of 570,287 taels against the Canton Treasury was recorded at the close of the season.¹⁷⁸ In order to estimate the balance between total receipts and investment more accurately, the EIC in subsequent years deferred its estimate of each season's stock from September to November. This was because by November not only was the sale of the Company's imported goods into China had been under way or even finished, but also most teas and silk-related products contracted in the last season had already arrived at Canton and were prepared for loading on the EIC's ships.

¹⁷⁵ IOR: G/12/139 (1802), 25 September 1802, p. 165.

¹⁷⁶ BPP, 1812 (148), Vol. VI, Fourth Report from the Select Committee on the Affairs of the East India Company, Appendix No. 10.

¹⁷⁷ The figures are based on Morse, *The Chronicles of East India Company Trading to China*, Vol. IV, p. 387.

¹⁷⁸ *Ibid.*, pp. 387-8.

Table 4.15 The Canton Committee's Estimate of Stock for Season 1809/10

Receipts and Stock		Investment & Disbursement	
Item of Funds	Taels	Item of Disbursement	Taels
Balance in favour at the close of last season	3,919,819	Tea remaining over to be paid	
Consignment from Europe	3,200,000	Best Bohea 6,446 chests 4,296 peculs	82,857
Cotton from Bombay for 4 ships, 6000 bales	261,000	Congo 60,586 chests 39,994 peculs	1,008,585
Cotton sold at Bombay paid in Canton in Treasury	228,000	Twankay 500 chests 299 peculs	7,488
Sandalwood from Madras	114,000	Winter Purchases	
Certificates to commanders & officers of HM ships	450,000	Congo Campoi 14,901 chests 9,200 peculs	236,928
		Congo 39,714 chests 26,000 peculs	550,000
		Peko 400 chests 200 peculs	8,000
		Contract & Probable Purchases	
		Bohea 4,500 chests 10,800 peculs at T.15*	162,000
		Congo 64,500 chests 142,570 peculs at T.28	1,191,900
		Souchon 3,000 chests 1,920 peculs at T.40	76,800
		Hyson 8,700 chests 4,350 peculs at T.52	226,200
		Hyson Skins 6,000 chests 3,000 peculs at T.26	78,000
		Raw Silk 300 chests at T. 360 per chest	108,000
		Nankeen Cloth 100,000 pieces	70,000
		Other Charges	
		Charter Party Allowance	50,000
		Charges General	150,000
		St Helena & Cape of Good Hope Stores	100,000
		Contingencies including Marine Department	100,000
		Total expected disbursement (A)	4,830,758
		Balance in favour at close of Season 1809/10 (B)	3,473,001
Total anticipated receipts	8,303,819	A + B	8,303,819

Note: * at 15 taels per pecul.

Source: IOR: G/12/168, 16 November 1809, pp. 85-6.

Table 4.15 shows the Company's estimate of stock for season 1809/10. Having a huge amount of treasure left in the Canton Treasury (3,919,819 taels) from the last season and a relatively small disbursement when compared to the total anticipated receipts, the supercargoes estimated there would be a balance of approximately 3,473,000 taels in favour of the Company at the close of season 1809/10. With an anticipated large balance in favour of the EIC, the Canton Committee in this season issued fewer bills of exchanges to be drawn on England than the previous years. When compared to £641,995, £797,967 and £907,984 for seasons 1806-07, 1807-08 and 1808-09 respectively, the Court of Directors in London eventually made payment of only £155,703 for the bills issued by the Canton supercargoes in 1809-10.¹⁷⁹

Perhaps because the raw silk trade became less much profitable, in the season 1825 the supercargoes stopped purchasing silk from the Canton market, and by 1829 they also ceased exporting Nankeen cloth.¹⁸⁰ As a result, from 1829 onwards tea was the only Chinese produce exported from Canton by the East India Company. Accordingly, the total payment of the Company's procurement of China products was equal to the total investment on tea. Table 4.16 presents a detailed estimate of the EIC's Canton Factory's investment and payment for the season 1829-30.

¹⁷⁹ BPP, 1810/11, Vol. VII, Third Report from the Select Committee on the Affairs of the East India Company (250), Appendix, No. 6, p. 384; & 1812, Vol. VI, Fourth Report from the Select Committee on the Affairs of the East India Company (148), Appendix, No. 22, p. 488.

¹⁸⁰ BPP, 1830, Vol. VI, Minutes of Evidence before Committee of Lords on the Affairs of the East India Company (646), Appendix (A. 2), No. 10, p. 675; IOR: G/12/276, p. 512.

Table 4.16 The EIC's Estimated of Stock at Canton for Season 1829-30

Item of Stock and Receipts	Taels	Item of Investment and Disbursement	Taels
Balance in favour at the close of last season	1,329,821	Tea remaining over to be paid	
Deduct unavailable items	147,852	Winter Congo 84,563 chests 53,417 peculs	1,071,708
Total available balance left in the last season	1,181,969	Contract Congo 2,133 chests 1,344 peculs	33,996
Cotton from Bengal 21,174 bales 47,642 peculs	500,241	Total above: 86,696 chests 54,761 peculs	1,105,704
from Madras 13,500 bales 30,375 peculs	318,937	Contract & Direct Purchases	
from Bombay 15,000 bales 41,633 peculs	416,330	Canton Bohea 9,200 peculs at T.15 per pecul	138,000
Cotton Total: 49,674 bales 119,650 peculs	1,235,508	Tokien Bohea 20,000 peculs at T.16.5 per pecul	330,000
Sandalwood: 1,276 peculs, at T.12 per pecul	15,312	Woping Bohea 3,600 chests 2,230 peculs at T.17	37,910
Total Consignments from India	1,250,820	Souchon 2,500 chests 1,400 peculs at T.38	53,200
Broad cloth: Superfines	607,560	Campoi 6,500 chests 3,770 peculs at T.32	120,640
: Supers	102,890	Hyson 10,000 chests 4,900 peculs at T.46	225,400
: Worstors	31,777	Hyson Skins 2,500 chests 1,225 peculs at T.27	33,075
Broad cloth total	742,227	Twankay 50,000 chests 30,000 peculs at T.27	810,000
Long Ells	720,000	Congo 150,948 chests 95,097 peculs at T.25.5	2,424,974
Camlets	241,920	Old Congo 418 chests	4,208
British Calicoes	91,000	Total contract and direct purchases	4,177,407
Cotton Twist	67,500	Total payments for tea investment above	5,283,111
British Iron	68,142	North American Investment	200,000
Lead	77,296	Canton European Establishment	6,000
Total Consignments from Europe	2,008,085	Supplies to Bengal and other settlements*	25,000
Charges for rubbish and damaged tea	14,400	Expenses of Company's own ships	20,000
Commanders cotton bonds	412,482	Charges general	200,000
Certificates to commanders and officers	360,000	Purchases of winter tea at close of season	800,000
Total anticipated receipts before issuing bills (A)	5,227,756	Contingencies	30,000
Deficiency to be supplied by Bills (B)	2,050,355	Total above charges	2001,000
Total= A +B	7,284,111	Total Expected Disbursement	7,284,111

Note: * also including supplies to St Helena and Cape of Good Hope. Source: IOR: G/12/276, 15 November 1829, pp. 511-2, 531-2.

With an amount of over 6,000,000 taels being set aside for tea purchases, the total investment on tea accounted for nearly 84 per cent of the total Canton Factory's disbursement in the season.¹⁸¹ Moreover, with a clear picture regarding the total receipts and disbursement in mind, a gap between them was produced that the deficiency of the total funds needed would be 2,050,355 taels (2,856,048 dollars) and this was to be supplied by the issuing of bills on India and London. Table 4.16 also provides some additional valuable information. For example, it shows that the value of the three major Indian Presidencies' direct financial contribution to the Canton Factory in the season was quite similar, as opposed to earlier years when the cargoes of Bengal dominated the Company's exportation of Indian goods to China. In addition, the total value obtained from issuing of bonds and certificates to commanders and officers of the EIC's ships should be singled out. According to Pritchard, bonds and certificates together accounted for a share less than 4 per cent of the total Canton Factory's receipts in the period between 1775 and 1795.¹⁸² By the season 1829-30, however, the funds accrued from the issuing of bonds and certificates together were estimated to be 772,482 taels, a combination of 10.6 per cent of the total expected investment and disbursement in the season. The increasing importance of the issuing of bonds and certificates in the Company's funds reflected the expansion of the private trade between India and China in the later period.

Equally noteworthy is that the Company's disbursement at Canton also consisted of items, such as 'Supplies to Bengal, St Helena and Cape of Good Hope' and 'Bullion for

¹⁸¹ $6,083,111 \div 7,284,111 = 0.83512$.

¹⁸² Pritchard, *The Crucial Years of the Anglo-Chinese Relations*, p. 183.

shipment to Europe'. This indicates that the Canton Factory finally switched from its original role of receiving silver from the Indian Presidencies and London to become a financial supporter, supplying bullion for the Court and other establishments. With the problem of financing its China trade being solved, the Company could thus carry on expanding the scale of its tea trade. How the EIC's supercargoes conducted the tea procurement in Canton will be examined in the next chapter.

CHAPTER FIVE

THE EIC'S MANAGEMENT OF TEA PURCHASES AT CANTON

Until the early years of the eighteenth century, the procurement of Chinese tea did not cause too many problems for the English East India Company. Because only limited quantities of tea were needed, the EIC chiefly purchased tea directly in the open market at ports in China that were open to foreigners. However, the British tea trade with China began to grow from the second decade of the eighteenth century, not only because of the increase in tea-drinking among the Britons, but also because of changes to the EIC's tea trading system, which can not be ignored. This chapter thus explores the methods used by the EIC to procure tea at Canton with a view to better understanding how the Company coped with an expanding tea trade.

5.1 The Company's Tea-Purchasing Methods at Canton

As noted in Chapter Three, the years after the second decade of the eighteenth century saw regular quantities of tea being shipped back to Britain from China each year. This can be largely attributed to the EIC's establishment of a permanent factory at Canton. With a permanent foothold at Canton in 1715, the EIC possessed a base from which the supercargoes could more effectively conduct tea procurement. Furthermore, the tea-purchasing system adopted by the Company played an important part in ensuring that a large quantity of Chinese tea could be obtained for Britain's home consumption without interruption.

5.1.1 The adoption of the contracting system and money advances

No sooner was the permanent foothold established at Canton in the middle of the 1710s, than the supercargoes began to make tea purchases from the Hong merchants through contracts; this practice ensured that a large quantity of different sorts of tea could be obtained more effectively. Evidence of a contracting system soon after the Canton Factory was established can be seen in the Company's Canton Diary of 1716. It was recorded that after the EIC ship *Susanna* arrived at Whampoa, its supercargoes contracted with the Hong merchants Linqua and Anqua on 10 August 1716 for the delivery of articles, which included 450 peculs of Bohea tea, 100 peculs of Congou tea and 400 peculs of green tea.¹ The prices of tea were also stipulated in the agreement, with each pecul of Bohea being purchased for 34 taels, while 43 taels and 23 taels per pecul were to be paid for Congou and green tea respectively.²

The contracts between the EIC and the Hong merchants not only embodied an agreement regarding the quantities and prices of different teas, but they also set up a stipulated date for tea to be delivered. For example, in mid-1723 the Company 'contracted with Quiqua for 500 peculs of Bohea tea, head sort, at 23 taels per pecul, to be delivered in one hundred days'.³ A couple of days later, the supercargoes also contracted with Tonqua and Suqua for 500 peculs of first sort Bohea tea at 23 taels per pecul and 1,500 peculs of sugar and sugar candy respectively, and they agreed that these contract goods were to be

¹ IOR: G/12/8, 10 August 1716 [p. 1328].

² *Ibid.*

³ *Ibid.*, 29 May 1723, 1723 [p.1418].

loaded and dispatched from Canton in one hundred and twenty days.⁴ Although the time of preparation would vary between different contracts, the Chinese merchants were usually required to deliver their tea and other articles to the EIC between 100 and 120 days from the signing of the contract, if the contracts were made at the beginning of the trading season. This was also the case in the following seasons,⁵ until the second half of the eighteenth century when the Company began to sign contracts in winter time, which necessitated differences in tea preparation and delivery

Another major feature of the contracting system was the adoption of money advances. If necessary, the Canton Factory adopted the practice of advancing money to the Chinese merchants in order to ensure that contract teas could be obtained without any difficulty. One of the main reasons that the Company to adopt this measure was because of the Hong merchants' financial weakness. Although, as indicated in Chapter Two, the tea trade with foreigners was very profitable and some Hong merchants accumulated large fortunes, the majority of Canton *wai-yang-hang* merchants had only limited financial capacity. In July 1728, the EIC signed contracts with Khiqua, Honqua, Tinqu and Kinqa to provide teas, but after learning that these merchants were short of capital, the supercargoes on 24 July 'agreed to advance some money to Honqua, Tinqu and Kinqa on account of our accounts with them'. The next day, 'according to yesterday's resolution, the supercargoes advanced Honqua and Tinqu each two chests of treasure

⁴ *Ibid.*, 1 June 1723 [p. 1418].

⁵ For example, the Hongist Khiqua, after having an agreement with the EIC's supercargoes on 5 July 1728, was required to deliver his teas in 120 days, with another contract with Honqua four days later for his tea to be delivered in 110 days (see IOR: G/12/27, 5 & 9 July 1728, pp. 17, 20).

and Kinqua one.⁶ Since the EIC was in competition with other Europeans, such as the Dutch and the French, the Company's advance of money to the Hong merchants upon tea or silk contracts became commonplace in later decades when larger quantities of Chinese goods were ordered.⁷

After the 1740s and 1750s when a larger quantity of tea was required, adjustments were made by the EIC to its tea contracts with the Hong merchants to ensure that the tea delivered by the Chinese merchants met the required standard. For example, the Company would make the Hong merchants agree to reduce the price of their contract teas if the quality was found to be unsatisfactory. In some cases tea of an unacceptable quality was refused. In order to maintain flexibility, the price might remain undecided when the contracts were made; in these cases, the price was determined when the teas were delivered. This practice, in particular, applied to the higher-priced teas that were in limited demand.⁸ One more point is worth mentioning. As noted in Chapter Two, the 1740s and 1750s also saw the system of security merchants being gradually established, which meant that the EIC had to choose one Canton Hongist to be the security merchant for each of its vessels. In theory, every security Hongist had an equal opportunity, but in practice any merchants who could provide cheaper tea had more chance of being chosen by the Company as security for its ships.⁹

⁶ *Ibid.* 24-5 July 1728, p. 33.

⁷ See e.g. IOR: G/12/53, 15-29 September 1750, pp. 53-60. For the Dutch tea trade with China in the early decades of the eighteenth century, see K. Glamann, *Dutch-Asiatic Trade 1620-1740* (1958), Chapter XI.

⁸ The contracts made on 7 October 1755 was a good example that the Company 'Agreed with Puan Khiqua for 700 peculs of Singlo Tea at 22 tales per pecul to be delivered in 30 days, and ... in case we don't find the quality equal to price, to refuse it or have an abasement in the price. Also for 200 peculs of Hyson Tea of the head crops, the price to be estimated according to the quality ...' (IOR: R/10/Factory Records – China II/4 (hereafter R/10/FR/4), 7 October 1755, p. 54).

⁹ For instance, on 7 August 1755 the supercargoes recorded that 'On our application to Suqua, Tinqua, and

Until the 1750s, the EIC's tea contracts with Chinese merchants were mainly made after July and August when a new trading season started. Later on, however, when the British demand for tea continued to grow quickly, the need to secure a great quantity of tea for home consumption became one of the EIC's priorities and it became necessary to make adjustments to the contracting system. In particular, from the late 1750s the Canton Council began to sign contracts with the Hong merchants at the end of each trading season stipulating the quantity and sorts of tea required for delivery during the next season. For example, at the end of season 1759/60 before they left for Macao, the supercargoes signed several tea contracts with the Hong merchants. The Company contracted with Sweetia to provide 3,000 peculs of Bohea at 12.5 taels per pecul, 500 peculs of Twankay at 23 taels, and 500 peculs each for the first and second sorts of Singlo at 21 taels and 23 taels per pecul respectively. The contracts also stipulated the amount of money that the Company was to advance to the Hong merchant for different sorts of contract tea, based on the unit of one pecul. For Bohea tea, Sweetia would receive 10 taels each pecul by way of an advance, while 18 taels per pecul was the agreed advance for Twankay tea, with 16 taels and 15 taels per pecul being the advances for two sorts of Singlo tea respectively.¹⁰ These tea contracts made in the end of the 1759/60 season were required to be delivered in the early period of the ensuing season. In order to ensure that these contract teas would be delivered on time, the supercargoes also made it a condition that if any Hong merchant delayed the provision of his contract teas for the Company,

Coqua to be security for the ship *Prince George*, Suqua ... regard to his being security for the ship, insisting upon his fixing the price of Bohea Tea at 18 tales per pecul, on which terms we told him we should not give him any further trouble on that subject'. The supercargoes then turned to other merchants who were prepared to offer lower prices on tea and accordingly 'applied to Teunqua to be security for the ship *Prince George* which he readily accepted.' A few days later, the Company successfully contracted with Teunqua for 800 peculs of first leaf Bohea Tea, at 16.5 tales the pecul (see IOR: R/10/FR/4, 7-13 August 1755, pp. 34-6).

two taels per pecul on each of the said teas would be deducted.¹¹

This sort of contract, made at the end of each trading season, was known a ‘winter contract’¹² to distinguish it from other contracts or direct purchases being conducted in the summer or autumn. The winter contracts became commonplace after 1760 and they were generally concluded in February or March. However, it needs to be pointed out that even though the contracting system became established, the EIC did not entirely abandon the practice of purchasing tea ‘on the spot’. In general, there were two methods of direct purchase. First, the supercargoes purchased directly from the Hong merchants who had tea in store, and second, tea was procured through the tea-men who bought tea from growing regions down to Canton to be sold on the open market. In the second case, the Hong merchants still played a role by acting as the middlemen or brokers between the tea-men and the Company.¹³ The methods of procuring tea from Chinese merchants without contracts were referred to in the EIC’s records as ‘the selling system’.¹⁴ In Chinese the tea procurement through the ‘selling system’ was called ‘mai-chuang’ (賣庄) which means ‘sale goods’, while teas through contracts were named ‘pao-chuang’ (包庄), i.e. ‘contracting goods’.¹⁵

¹⁰ IOR: R/10/FR/4, 5 May, 1760, p. 26.

¹¹ *Ibid.*, 6 May 1760, p. 27.

¹² Morse, *The Chronicles of the East India Company Trading to China*, Vol. II, p. 184; Vol. III, p. 105.

¹³ British Library (hereafter BL): Additional Manuscripts, No. 38376, f. 179.

¹⁴ IOR: G/12/240, 18 September 1828, p. 338.

¹⁵ PRO: FO/1048/12/31, FO/1048/12/34; Chen, ‘Transaction Practices in China’s Export Tea Trade’, pp. 750-1; Sasaki, (佐佐木正哉) (ed.) 鴉片戰爭前中英交涉文書 (The Documents of the Sino-British Negotiations prior to the Opium War) (1967), p. 37.

Unlike the contracting system in which the price of tea was agreed in advance (although it might be re-adjusted according of its quality when tea passed to the EIC),¹⁶ the price of tea procured through the selling system was generally determined by supply and demand. Nevertheless, the left-over teas were usually bought by the Company at much reduced prices because, if unsold, their value was considered to be much diminished. Indeed, the EIC's tea purchases made on 7 August 1755 indicate that the prices for the new Bohea were agreed at between 17 taels and 13.5 taels per pecul, while those teas grown in the previous year were only 10 taels per pecul.¹⁷ However, it should be noted that the quality of those teas left over in the market was not always inferior. The Company would occasionally receive good quality of teas on the open market at a relatively low price. This was the case in December 1767 when the supercargoes bought 8,965 peculs of Bohea at prices from 12 taels to 12.8 taels 'which was the major part of what was left, & is a good quality.'¹⁸

After loading the contract teas and those obtained through direct purchases in the early part of the season, the supercargoes might make additional purchases on the open market if the Company's vessels still had some space. Even after ships were dispatched to England, the Canton Council sometimes purchased tea on the spot to be kept for the next season. This was the case, for example, in 1766 when totally around 5,200 peculs of tea were purchased in January after four Company ships had set sail for London.¹⁹ Because

¹⁶ See the next section for a discussion of quality control.

¹⁷ IOR: R/10/FR/4, 7 August 1755, p. 33.

¹⁸ IOR: R/10/FR/6, 21 December 1767, p. 68.

¹⁹ *Ibid.*, 27 January 1766, p. 74. These purchases included: Bohea 1650 peculs from 15.5 tael to 16.5 taels per pecul, 2nd Congo 1000 peculs at 14.5 taels per pecul, 1st Singlo & Twankay 2430 peculs at 19 & 23.5 taels per pecul respectively, and Hyson 124 peculs from 48 to 53 taels per pecul.

the end of the business season was in winter time, the practice of procuring teas on the open market in the period was later referred to in the EIC records as 'winter purchases' to distinguish them from other purchases made in summer and autumn.²⁰ The teas received through winter purchases were then known to the EIC as 'winter teas'²¹ and termed 'ya-tung' (押冬) by the Chinese tea dealers.²²

5.1.2 The impacts of Co-hong monopoly on the Company's tea trade

The 1750s and 1760s saw the main features of the EIC's tea-purchasing system becoming established, with both the contracting system and the selling system being adopted. However, the winter contracts between the EIC and Hong merchants in the season 1759/60 were made in May which was quite unusual. This delay in completing tea contracts was linked with the creation of a merchant-guild in early 1760;²³ its impact on the Company's tea procurement at Canton is worthy of some attention.

1. The early combinations of Chinese merchants

The early 1760s saw the Hong merchants combine among themselves to establish a guild through which they worked together to negotiate with European traders. However, long before the association was created, the Hong merchants at Canton had frequently made

²⁰ See e.g. IOR: R/10/MISC/2, 17 June 1818; & *idem.*, 2 December 1818, para. 29.

²¹ See e.g. IOR: G/12/176, 27 March 1811, para. 103, p. 50 & para. 107, p. 51; G12/248, 14 July 1832, p. 119; R/10/MISC/2, 2 December 1818, para. 25.

²² PRO: FO/1048/14/31; Chen, 'Transaction Practices in China's Export Tea Trade', pp. 749; Sasaki, (佐佐木正哉) (ed.) 鴉片戰爭前中英交渉文書 (The Documents of the Sino-British Negotiation prior to the Opium War) (1967), p. 37; & IOR: G/12/248, 14 July 1832, p. 119.

²³ The guild was officially established in August 1760, although several months before it was set up, the Hong merchants had already decided to combine themselves to deal with foreigners.

attempts to combine themselves in order to increase their bargaining power when dealing with foreigners. For example, in 1720 part of *Yang-hang* merchants in Canton, with official patronage, united and organised a guild, in order to control the Canton foreign trade. It was called the *Co-Hong* or *Cong-Hong* by the EIC.²⁴ The practice was somewhat similar to that established by the tea dealers in London who sometimes combined in order to control the tea trade in England.²⁵ With an exclusive right to deal with foreigners, the *Yang-hang* association was also commissioned to collect ordinary customs duties and port charges from foreign traders for the Canton authorities. This gave the guild-merchants an advantage when dealing with foreigners. In order to work against it more effectively, the EIC united with its European rivals to protest against the creation of the association. Perhaps because some Chinese merchants who did not belong to the guild also joined the action, the Europeans attempts to abolish the guild quickly took effect and it was dissolved one year later.²⁶

Indeed, although the EIC itself was a monopolistic company, the Chinese merchants' creation of business associations was certainly not welcome because it would have resulted in control of the tea trade being lost to the supply side. In mid-1728, only a few years after the 1720 Co-hong was abolished, a few of senior Canton Hong merchants again worked together when dealing with the European traders. The Company began to deal with those merchants in June. But after several days' negotiation, no contracts were

²⁴ IOR: G/12/11, pp. 57-8 [1720]. The name of Co-hong was derived from the Chinese term 'Kong-hang' (公行), meaning the public hall. In order to distinguish this guild from that one established in 1760, the 1720 guild was sometimes regarded as the first Co-hong, with the 1760 one being the second Co-hong, although the Ch'ing official documents never called the 1720 guild 'Kong-hang'.

²⁵ See Mui & Mui, *Shops and Shopkeeping in Eighteenth Century England* (1989).

²⁶ P. Auber, *China. An Outline of the Government, Laws, and Policy* (1834), p. 155; Morse, *The International Relations of the Chinese Empire* (1910), p. 65.

made because these Hongists combined to demand 30 taels for Bohea and 24 taels for Singlo, a price that the Company could not accept it.²⁷ While waiting, in the hope that the chief merchants might lower the prices of tea (the required price for Bohea was later reduced to 26 taels), the Company also made contact with other Hongists who were not in a business combination with those senior merchants. The greatest success was with Khiqua, a young merchant who just joined other Canton *Yang-hang* merchants to conduct the foreign trade. Because Khiqua was so eager to get the Company's tea contracts, the supercargoes succeeded in bringing the price of his teas down as low as possible, and they eventually contracted with him for his whole consignment with the price for both sorts of tea being lower than 20 taels per pecul.²⁸

The Company's successful contracts with Khiqua caused panic amongst the other senior merchants. Finding that the EIC had succeeded in purchasing cheaper tea from Khiqua and showed no inclination to deal with them, the chief merchants decided to lower their terms to 24 taels for each sort of tea, but they did require the Company to pay for tea chests and lead.²⁹ However, because the Company was in no hurry to complete tea purchases, the supercargoes decided to hold out for an even better deal. This was achieved a few days later when the supercargoes reported on 9 July that 'finding a difference this day in the demands of the top merchants we are in hope the combination is broke.'³⁰ Indeed, the chief merchants' combination soon broke up and each merchant offered the Company different prices for their teas so that in the following days several

²⁷ IOR: G/12/27, 28 June 1728, p. 15.

²⁸ *Ibid.*, 5 July 1728, p. 17. The tea contracts included 1000 peculs of best sort Bohea tea at 16 taels per pecul, and 600 peculs of best sort Singlo tea at 16 taels per pecul as well.

²⁹ *Ibid.*

agreements were struck with various merchants. For example, Honqua came first to offer 22 for Bohea and 20 for Singlo, however the supercargoes decided that they '[should] endeavour next morning to bring him lower if possible'.³¹ Accordingly, the Company supercargoes met Honqua on 10 July and after spending a considerable time in negotiation, they agreed on a contract, as follows: 'Tea Bohea best sort 2000 peculs at 20 tales per pecul; Tea Singlo best sort 200 peculs at 19 tales per pecul.'³² On 16 July 1728, the Company also came to an agreement with Tinquia and contracted for the following teas: 'Tea Bohea best sort 300 peculs at 18 tales per pecul; Tea Singlo best sort 300 peculs at 18 tales per pecul'. In their contracts, they agreed that Tinquia was 'to pay all duties and charges and to find chests and lead for the Bohea.'³³ On the same day, the supercargoes also 'contracted with Kinqa for 100 peculs of best Bohea Tea at 17 tales per pecul, and 100 peculs of Singlo Tea at 17 tales per pecul ... he to find chests and lead and to pay all duties and charges'.³⁴

The short-lived Hong merchants' combination failed due to their financial weakness, not to mention their eagerness to get tea contracts with the EIC and receive advances from the supercargoes, which placed the Company in a very advantageous position.³⁵ This encouraged the supercargoes to believe that they were conducting the Company's tea trade in Canton effectively, as they reported in their letter to the Directors of 15 October 1728 that

³⁰ IOR: G/12/27, 9 July 1728, p. 20.

³¹ *Ibid.*

³² *Ibid.*, 10 July 1728, p. 20. In many occasions, the supercargoes spelled 'taels' as 'tales'.

³³ *Ibid.*, 16 July 1728, pp. 23-4.

³⁴ *Ibid.*, p. 31.

³⁵ *Ibid.*, 24-25 July 1728, p. 33.

‘We humbly hope our Honourable Masters have so good an opinion of our knowledge in the trade of China, as to believe we are capable of buying whatever goods we have their orders for ... which we declare we have done to the utmost of our power in every bargain we have made ...’³⁶

There were other occasions in later years when supercargoes were successful in breaking up combination of Chinese merchants. In the season 1750/51, for instance, the tea-men from Nanking who brought down Hyson tea to Canton attempted to fix the price of their tea at 50 taels per pecul. However, because the VOC Factory was fully stocked with Hyson tea, the Dutch who were a principal buyer of green tea decided not to take any of that sort of tea in this year. This left the EIC the only major foreign buyer of Hyson in that season. But because the EIC’s supercargoes thought the total quantities of Hyson supplies would greatly exceed the demand, they, just like the Dutch, decided not to take any Hyson teas.³⁷ Without being able to sell to the VOC or the EIC, there were at least two thousand tubs of tea left in the tea-men’s hands at the close of the season, and eventually they were forced to sell their teas to local shopkeepers in Canton at a great loss.³⁸ In addition, the Hong merchant Beau Khequa was held responsible for organising the combination of these Nanking green tea-men, and as a result he was prohibited by the supercargoes from trading with the EIC in 1753.³⁹

This episode again demonstrated that the supercargoes were able to resist attempts by the Chinese merchants to establish temporary combinations, but this does not mean that the

³⁶ *Ibid.*, 15 October 1728, p. 81.

³⁷ IOR: G/12/55, 4 August 1751, p. 7.

³⁸ *Ibid.*

³⁹ W. E. Cheong, *Hong Merchants of Canton – Chinese Merchants in Sino-Western Trade 1684-1798*, pp.

Company always had the upper hand when dealing with the Chinese merchants. On some occasions the EIC had to give way to the terms made by the Canton Hongists. For example, in late September 1750 the EIC supercargoes applied to some Hong merchants to contract for Bohea tea and found that they would not contract with the Company at a price under 16 taels per pecul for the best sort. Based on those earlier experiences when the Company had, in the end, been able to get better terms, the supercargoes 'therefore ... determined to defer contracting with them for some time, in expectation that the want of money might induce them to lower the price'.⁴⁰ After a week of waiting, the Company applied again to the Chinese merchants to contract for tea. Knowing that the three principal Hong merchants were united together, the supercargoes went to those junior Hongists who had several small quantities of Bohea in stock, thinking that they might be willing to give a cheaper price. However, the supercargoes failed to convince any of them to sell the tea at less than 16 taels per pecul.⁴¹ The Company then returned to deal with the three senior merchants and after negotiations, the supercargoes finally agreed to pay 16 taels per pecul for Bohea tea, but did require the Hong merchants to deliver the first and best sort of tea within 25 days. The contracts with Texia, Suqua and Beau Quiqua were finally made on 1 October so that each of them, in equal shares, was to provide 300 peculs of head sort Bohea tea for the Company to be delivered before the end of the month.⁴²

156-7.

⁴⁰ IOR: G/12/53, 23 September 1750, p. 56.

⁴¹ *Ibid.*, 30 September 1750, p. 59.

⁴² *Ibid.*, 1 October 1750, p. 59.

In 1750 the supercargoes had no idea whether the Hong merchants' finance was in a sound condition or not. However, the key reason why the EIC was not able to bring the price down had nothing to do with the Hong merchants' financial ability, but instead was linked to the tea-purchasing conduct of other Europeans in Canton. As other European traders such the Dutch, French and Swedes had all contracted for Bohea at 16 taels per pecul in the period,⁴³ it can be seen why the Hong merchants could stand firm in order to resist the EIC's attempt to reduce the price of tea. This was also the case in the 1751 season when the EIC failed to bring down the price of Bohea to 15 taels. Instead, the supercargoes again had to purchase Bohea tea at 16 taels per pecul after the French, Dutch and Danes had contracted for a large quantity of Bohea at this price.⁴⁴ However, a more serious threat for the East India Company emerged in 1760 when a new Co-hong was created, a monopolistic body with the Chinese government standing behind it.

2. The EIC's response to the Co-hong

During the second half of the 1750s, the Ch'ing Government imposed more restrictions and regulations upon foreign trade and foreign merchants, and this finally paved the way for the creation of the Canton Commercial System. The mission of James Flint during the late 1750s, which was intended to open trade in north China (as discussed in Chapter One), can be seen as one kind of response to those restrictions. But with the failure of Flint's mission, the EIC decided to abandon attempts to alter the Canton System.⁴⁵ The Company instead turned their attempts to the management of their tea purchases in order

⁴³ *Ibid.*, 15 September 1750, p. 53.

⁴⁴ IOR: G/12/55, 5 September 1751, p. 12.

⁴⁵ It was not until the early 1790s, when Lord Macartney was sent to China, that the EIC again sought to establish trade at other Chinese ports.

to secure better terms when dealing and bargaining with the Hong merchants. In this case, the problem of how to deal with the Co-hong created in 1760 became a great concern for the newly-founded Canton Council.

The creation of the Co-Hong took effect in early 1760 when some of the senior Hong merchants at Canton combined into a body to bargain with the foreign traders. Having been authorised by the Chinese authorities, it soon became a monopolistic guild in Canton to deal with foreigners. When the association was formed, it consisted of ten Hong merchants and they endeavoured to divide trade with the EIC equally among them.⁴⁶ Moreover, unlike in previous times when their business with the EIC was conducted on an individual basis, which often resulted in different prices being offered from their tea, the Co-hong merchants made an agreement among themselves to fix the prices of different sorts of tea. Thus, when the supercargoes were preparing to conduct winter contracts, they were informed in late March that these Co-Hong merchants had agreed not to contract under 13.5 taels for Bohea tea, 22.5 taels for first of Singlo, 20 taels for second sort of Singlo, and 24.5 taels for Twankay.⁴⁷ The EIC generally settled their winter contracts with Hong merchants no later than March, but by the beginning of April 1760 none of tea contracts had been completed because the Company was determined not to pay such high prices for the teas. In order to break down the deadlock, the supercargoes from time to time told the Co-Hong merchants that the Company was willing to make new contracts with them if they would make individual proposals to

⁴⁶ IOR: R/10/FR/4, 18, April 1760, p. 18.

⁴⁷ *Ibid.*, 24 March 1760, p. 10.

supply tea.⁴⁸ However, it was not until 27 April that Puan Khiqua first came and offered new terms to provide Bohea tea at 12.8 taels per pecul, the first sort of Singlo at 21 taels, the second sort of Singlo at 19T. and 23T. for Twankay tea. Afterwards Sweetia and Chetqua also came to offer new proposals. The prices offered by them were lower than the original ones proposed in March, but because all of these three merchants required a high percentage of money to be advanced for their tea supply, the Company regarded the terms as very disadvantageous and, therefore, they decided not to accept their proposals.⁴⁹ As a result, no winter contracts had been made by 1 May 1760.⁵⁰

On 3 May 1760, Puan Khiqua came to the EIC Factory again to discuss business with the supercargoes at Canton. The Canton Council asked him to lower tea prices but he indicated that he could not enter into a contract with the Company under the prices given on 27 April, except for Bohea tea which he could sell at 12.5 taels per pecul. He also required the Company to provide a high percentage of money advances if he entered into the contracts. The advances he required were 10 taels per pecul for Bohea tea, 18T. for Twankay, 16T. for the first sort of Singlo, 15T. for second sort of Singlo, and he undertook to contract for inferior Bohea if the EIC could advance him 11.5T. per pecul for this tea.⁵¹ The supercargoes still did not think these were good terms for the Company, but because it was already far beyond the usual closing date of the trading season and the Chinese mandarins were pressing them to leave for Macao as soon as

⁴⁸ *Ibid.*, 12 April 1760, p. 18.

⁴⁹ *Ibid.*, 27 April 1760, pp. 21-22.

⁵⁰ *Ibid.*, 1 May 1760, p. 24.

⁵¹ *Ibid.*, 3 May 1760, p. 25.

possible,⁵² the EIC finally decided to accept Puan Khiqua's proposals. The tea contracts between the Company and Puan Khiqua were finally agreed on 4 May and the detail of their contracts is illustrated in Table 5.1.

Table 5.1 The EIC's tea contracts with the Hong merchant Puan Khiqua, made at the end of season 1759/60

Sorts of Tea	Peculs*	Tea prices (per pecul, tael [^])	Per pecul advanced (taels)	Money advanced (taels)
Bohea	2,000	12.5	10	20,000
Bohea Inferior	1,500	11.5	8	12,000
Singlo (first sort)	500	21.0	16	8,000
Singlo (second sort)	500	19.0	15	7,500
Twankay	600	23.0	18	10,800
Total advances				58,300
Total expected to be paid by the EIC				76,050

Notes: * 1 pecul = 133 1/3 lbs.; ^ 1 tael = £ 1/3 or 6s. 8d. (or 1 sterling pound = 3 taels).

Source: IOR: R/10/FR/4, May 4, 1760, p. 25.

From the data provided in the table, it can be calculated that the amount of money advanced by the EIC to Puan Khequa was 58,300 taels in all, which represented nearly 77 per cent of the total sum that the Company was eventually expected to pay him (i.e. 76,050 taels).⁵³ This percentage was much higher than that paid for tea and raw silk contracts in earlier years, or in the later period when the EIC in some cases delivered two-thirds or only around half of the total payments to the Hong merchants in advance.⁵⁴ Following the agreement with Puan Khequa, the EIC also contracted with Chetqua, Sweetia, Sisunqua, Tinqu & Wonsamye, Teunqua & Young-ti-ye, Geequa, Tootia and

⁵² *Ibid.*, 1 May 1760, p. 24.

⁵³ $58,300 \div 76,050 = 0.766$.

⁵⁴ See e.g. IOR: G/12/53, 22 September 1750, p. 55; IOR: R/10/FR/7, 20 November 1770, pp. 27-30; & R/10/FR/9, 2 February 1773, p. 189.

finally with Chowqua within three days, with the agreed prices of tea and the money advances for different sorts of tea being the same terms as those offered by Puan Khiqua.⁵⁵ In total, the advances made to the Co-Hong merchants on 7 May amounted to 327,750 taels.⁵⁶ The fact that the same price was paid for teas and the same proportion of money advanced to these merchants indicates that the Hong merchants worked as a unit when dealing with the EIC, and because the tea contracts were made according to the Hong merchants' proposals, this suggests that the Co-hong was working effectively. Whether the Co-hong merchants purposely held back the offer of contracts in order to gain an advantage is unclear. However, the pressure from the Chinese government upon the EIC certainly helped the Co-hong merchants to strengthen their bargaining power, although there is no evidence to prove these merchants and the Chinese government worked together to take advantage of the Company.

The Co-hong guild continued to operate in the same way in the following years. The merchants not only worked together to define the trading regulations and to strengthen their bargaining power in the tea trade, but they also combined to resist the EIC's attempts to raise the price of woollens they brought from England.⁵⁷ The Company supercargoes' complaints about the practice of the Co-Hong monopoly can be seen in their letter sent to the Court of Directors on 5 December 1765 which declared that

⁵⁵ IOR: R/10/FR/4, 4-6 May 1760, pp. 26-7.

⁵⁶ The amounts of EIC's advances to individual Co-hong merchant were: Puan Khiqua 58,300 taels, Tinqu & Wonsamye 38,300 taels, Chetqua 53,600 taels, Sweetia 54,500 taels, Sisunqua 75,600 taels, Teunqua & Young-ti-ye 18,400 taels, Geequa 10,000 taels, Tootia 5,000 taels and finally Chowqua 14,000 taels. See IOR: R/10/FR/4, 7 May 1760, p. 28.

⁵⁷ See e.g. IOR: R/10/FR/6, 5 December 1765, p. 65.

‘The Cong Hong remains in the same state it has done for these years. The ten merchants who compose this company (i.e. the Co Hong) make new regulations one day, and change them the next; ... seldom to the advantage of foreigners... The mandarins rise in their demands for presents every year, which by increasing the charges of the Co-Hong become an additional loads on the foreign trade; yet this evil appears to us to be without remedy ...’⁵⁸

This letter clearly shows that the Co-hong guild had become the channel through which the Chinese mandarins made exactions upon the Hong merchants, who in turn passed the burden onto the EIC and other foreign traders. In order to overcome these problems, the supercargoes not only bargained with the Hongists in order to reduce the price of teas, but they considered ways of dissolving the Co-Hong. One of the strategies they considered was to stop advancing money to the Hong merchants, and as Samuel Blunt, one of the Canton supercargoes, pointed out, putting a stop to money advances to the Hong merchants would be a powerful weapon to dissolve the guild.⁵⁹ In fact, even before the establishment of the Co-Hong, the EIC’s Court of Directors had already ordered their servants in Canton to stop making advances to Chinese merchants, having in 1748 declared that ‘great losses and delays having arisen from advances to the merchants’.⁶⁰ For the same reason, an instruction of 1764 again proclaimed that all advances to the Hong merchants for tea and other contracts (except for the purchases of raw silk) should be prohibited.⁶¹ The Directors’ order of 1764 suggests that the earlier instructions were ignored by the Canton supercargoes. In fact, the order of 1764 was not implemented either, as later years saw the practice continue. As argued by the supercargoes at Canton, the practice of advancing money not only allowed the Company to purchase tea more

⁵⁸ *Ibid.*

⁵⁹ IOR: R/10/FR/5, 26 July 1761, pp. 15-18.

⁶⁰ IOR: G/12/11, Memoir of the East India Company’s Intercourse with China, p. 93 (Year 1748).

efficiently, but also became necessary when other Europeans such as the Dutch and the French also adopted similar measures.⁶² Accordingly, the advance of money became also an essential tool in the competition with other foreign traders for the tea trade in Canton.

Other methods to dissolve the Co-hong were based upon attempts to divide the merchants by offering a larger share of business to those who would work to break up the guild. In fact, soon after the Co-hong was created in 1760, the Hong merchants were already being told by the supercargoes that if a few of them were able to put an end to the association, the Company 'would throw the greatest part of our business into their hands'.⁶³ However, such attempts were not successful until the late 1760s. After realising that the association was established by the former Governor General of Kwang-tung and Kwang-see provinces,⁶⁴ the Company began to work with certain influential Hongists to persuade the mandarins to dissolve the Co-Hong. One of the Co-hong merchants targeted by the EIC was Puan Khequa who in February 1768 informed the Canton Council that 'he has hopes of breaking the Conghong at this year...'.⁶⁵ But the hopes of achieving the dissolution of the guild in 1768 were not realised and the following couple of years saw the EIC continue to work with Puan Khequa in order to break up the association. It was only in 1771 that the dissolution of the Co-Hong was effected through the Canton Governor General's edict of 13 February 1771 and this was done largely through bribery, according to the EIC's own records. The cost of dissolving the association was large for the EIC, with 100,000 taels being paid to Puan Khequa who in turn used the funds to gain

⁶¹ *Ibid.*, p. 116 (Year 1764).

⁶² IOR: R/10/FR/6, 5 December 1765, p. 55.

⁶³ IOR: R/10/FR/4, 27 April 1760, p. 22.

⁶⁴ IOR: R/10/FR/5, 26 July 1761, p. 16.

the Canton Authorities' agreement to dissolve the Co-hong.⁶⁶

3. The years after the dissolution of the Co-hong

After the dissolution of the guild in 1771, the EIC supercargoes could again conduct tea contracts with the Chinese merchants on an individual basis. However, without the protection of the Co-hong, several Hong merchants encountered severe financial problems in the following years. This occurred because, in part, the Hong merchants lacked the capital necessary to deal with an expanding business with foreigners and, in part, they were frequently required by the Chinese mandarins to provide them with funds either for public or private purposes.⁶⁷ The result was that during the 1770s most of the Hong merchants had to borrow money from foreigners and other fellow-businessmen in order to carry on their business.⁶⁸

As with the other Hong merchants, Puan Khequa was not exceptional in having financial troubles. To assist him, the EIC lent him money to eradicate his debts, which included the payments demanded by the Canton officials. In order to reward Puan Khequa for his part in the dissolution of the Hong-guild, the supercargoes also provided him with funds to carry out business with tea-men and offered him a larger share of the tea contracts with

⁶⁵ IOR: R/10/FR/6, 21 February 1768, p. 93.

⁶⁶ IOR: G/12/11, p. 125; & Auber, *China. An Outline of its Government, Laws, and Policy*, p. 178.

⁶⁷ For the financial difficulties of Hong merchants in the 1770s, see K. T. Chen, *The Insolvency of the Chinese Hong Merchants 1760-1842* (1990); W. E. Cheong, *Hong Merchants of Canton – Chinese Merchants in Sino-Western Trade, 1684-1798* (1997), pp. 257-9; Morse, *The Chronicles*, Vol. II, pp. 39-49, & Vol. V.

⁶⁸ For a discussion of this issue, see Chapter Six.

the Company.⁶⁹ In fact, even before dissolution of the Co-hong, the Company had already offered him better terms of trade, which in 1768 included selling lead to him at 4.5 taels per pecul, compared to at least 5 taels for other merchants.⁷⁰ Having a closer relationship with the EIC from which he received special assistance both in commerce and finance, Puan Khequa eventually emerged as the leading Canton Hong merchant, and as a result he made a considerable fortune. Thus, as noted in Chapter Two, he and his family's business achievement was one remarkable story in the history of the Canton Hong merchants' trade with foreigners.

Unlike the situation of Puan Khequa who received assistance from the EIC, the severe financial predicaments of some of the other Hong merchants in the period resulted in their seeking to re-establish a guild similar to the original Co-hong. Indeed, the 1770s witnessed several attempts to recreate a new guild (e.g. in seasons 1775, 1777 and 1778).⁷¹ Fearing that the re-establishment would again put the Company in a disadvantageous position in the tea trade, the Canton supercargoes once more worked with Puan Khequa to stop the re-birth of the Co-hong.⁷² The EIC's 'demand' that he prevent the revival of the Co-hong can be clearly seen in a Company letter written to Puan Khequa in the beginning of the trading season of 1776, which stipulated that

‘As we have received information ... that a combination of the merchants is formed with the oppressive regulations respecting the trade at Canton ... We do therefore take the earliest opportunity to enforce to you that we do expect as you value our

⁶⁹ For Puan Khequa's share of EIC's tea trade in 1770s, see Morse, *The Chronicles*, Vol. II.

⁷⁰ IOR: R/10/FR/6, 21 February 1768, p. 93. This conduct was kept secret from other C-hong merchants.

⁷¹ See e.g. IOR: R/10/FR/9, 4 July 1775, pp. 20, 23-5; G/12/59, 12 July 1776, p. 46; G/12/64, 26 September 1778, p. 19; & Morse, *The Chronicles*, Vol. II, p. 13.

⁷² Morse, *The Chronicles*, Vol. II, p. 16.

Honourable Company's protection & favour to you ... that you will not only discountenance but exert your every power to extirpate an association that in every instance points out destruction to a free commerce ...⁷³

The Company regarded the prevention of the re-birth of the Co-hong as Puan Khequa's responsibility. In fact, although Puan Khequa had received 100,000 taels from the Canton Council to dissolve the Co-hong, he was also placed under the obligation that he would return the money to the Company if a similar association was restored.⁷⁴ Another case can also illustrate the special commercial and financial relations between the EIC and Puan Khequa. When Puan Khequa was found involved with other Hong merchants in trying to restore several former customs duties which included the so-called Hoppo's ten per cent, the supercargoes immediately threatened to cut him out of the Company's trade.⁷⁵ As a result, the Hong merchant under the supercargoes' threat abandoned a plan to restore the Hoppo's charge.⁷⁶ As a result, the Hong merchants' attempts to re-establish a trading association in the 1770s were in vain. It was only in 1780 when the Canton authorities attempted to solve the Hong merchants' financial problem by ordering that a Hong-guild be established that any sort of a Hongist-association was finally re-established.⁷⁷ However, as the Hong merchants of the association could not 'trust each

⁷³ IOR: G12/59, 2 July 1776, p. 46.

⁷⁴ Cheong, *Hong Merchants of Canton*, p. 164, & p. 186 (no. 112).

⁷⁵ *Ibid.*, p. 118. The 'Hoppo's ten per cent' taxed from the foreign trade had been used to buy gifts for the emperor, but it was repealed in 1736. After that, the local Canton officials bought gifts from the Hong merchants at low prices or asked them to provide valuable goods which were obtained from foreigners. In order to relieve the burden, the Hong merchants thought the restoration of the Hoppo's ten per cent duty could easily switch the tax to foreign traders. The Hong merchants' plan to restore several former customs duties was much linked to their financial difficulties. See Chapter Six for a discussion of this issue.

⁷⁶ Morse, *The Chronicles*, Vol. II, p. 16.

⁷⁷ See the next chapter for a discussion of the creation of the new guild and its function in solving the Hongists' financial difficulties.

other in any combination',⁷⁸ the new guild did not bring as serious a threat to the Company in the later period as the Co-hong had done in the 1760s.

As mentioned before, in order to reduce its merchandise trade imbalance with China, the EIC made efforts to dispose of more British commodities, including woollen products, at Canton. After the Co-hong was dissolved, and with several Hong merchants in financial difficulties, the EIC made use of its increased bargaining power to force the Chinese merchants to take quantities of woollens as a condition of its tea purchases. As seen in Chapter Three, the 1770s, therefore, saw that the system of trucking was gradually established and became commonplace.⁷⁹ The years after the 1770s also witnessed the practice of winter contracts continuing to be adopted by the EIC. Most of them were made in February and March just before the supercargoes left for Macao at the end of the season,⁸⁰ but in order to give the Hong merchants plenty of time to prepare a large amount of tea for the Company, the supercargoes set the time of delivery in late October or November. This made the time allowed for the preparation and delivery of tea through winter contracts between 250 and 300 days. For instance, on 2 February 1773 the Company agreed tea contracts with four Hong merchants and arranged that 'Tinqu, Chowqua & Munqua to begin to deliver their Bohea and green teas in 270 days (the 29th Oct.) to finish in 300 days (the 28th Nov.); Kewshaw to begin to pack Bohea in 250 days (9 Oct.) to finish packing in 280s days (the 8 Nov.) and to begin to deliver his green teas

⁷⁸ Greenberg, *British Trade and the Opening of China*, p. 52.

⁷⁹ For the EIC's conduct of tea contracts in exchange for woollens in the 1770s, See IOR: R/10/FR/7, R/10/FR/8, & R/10/FR/9.

⁸⁰ See e.g. Morse, *The Chronicles of East India Company Trading to China*, Vol. II, p. 184; Vol. III, p. 105.

in 270 days (the 29th Oct.) and to finish in 300 days (the 28th Nov.)'.⁸¹ Each of them would also take one-eighth of the Company's woollens expected in the ensuing season.⁸² Following the above-mentioned contracts, the EIC also agreed with Yngshaw to provide him with one quarter of the woollens expected to arrive in the ensuing season. In return, the Hong merchant had to provide 3,000 peculs of Bohea tea at 14 taels per pecul, 1,000 pecul of Twankay at 23 taels per pecul, and 2,000 peculs of first sort Singlo at 21 taels.⁸³ In order to ensure that the above five Hong merchants had sufficient capital to buy tea for the EIC, the supercargoes also gave them money advances which accounted for about half of the total payments expected from the Company.⁸⁴

With the contract and advance system being well-established after the 1760s and 1770s, most of the tea bought by the EIC was through contracts, particularly through the so-called 'winter contracts'. In most years in the last decades of the eighteenth century and early nineteenth century, contract teas accounted for at least two-thirds or even three-quarters of the total quantity of tea procured by the Company in Canton.⁸⁵ This meant that the supercargoes would leave one-third or only around one-quarter of the tea to be procured through direct purchases. Nevertheless, the significance of direct purchases were of great importance at particular moments, such as in the couple of seasons after 1784 when there was a great increase in tea sales in Britain as a result of the passage of the Commutation Act.

⁸¹ IOR: R/10/FR/9 (Letter Books), 2 February 1773, p. 190.

⁸² *Ibid.*, p. 189.

⁸³ *Ibid.*, 3 February 1773, p. 193.

⁸⁴ *Ibid.*, 2-3 February 1773, pp. 189 & 193.

⁸⁵ British Parliamentary Papers (BPP), 1830, Vol. VI, Reports from Select Committees of the House of Lords on the Affairs of the East India Company (646), p. 267.

5.1.3 The Effects of EIC's Tea-Purchasing System after the Passage of the Commutation Act

Expecting a dramatic increase of tea consumption in Britain after the passage of the Commutation Act, the Court of Directors ordered the Canton Committee to purchase a much larger quantity of tea than before. In order to meet the suddenly increased demand for Company tea in Britain, the Canton supercargoes decided to purchase as much tea as they could in the open market. This is clearly illustrated in the Canton Factory Diary of 1785 which noted that tea was purchased 'on the spot' almost every three or four days between late October and December. In total, these purchases amounted to more than 26,000 chests of various kinds of tea,⁸⁶ and they represented a necessary response to the increase in demand for Britain.

In order to obtain more tea for the Company, the supercargoes also made several winter purchases for the ships that would arrive in the ensuing season. Indeed, the practice of winter purchases became another important method of tea procurement for the EIC following the passage of the Commutation Act, and the Directors noted in their letter to Canton of 24 February 1786 that 'we approve ... of your winter purchases; think them well bought and that will be useful in forwarding the dispatch of the first ships of the [next season]'.⁸⁷ With many additional purchases made in the season, the non-contract

⁸⁶ From the late October 1785, the supercargoes began to make direct purchases on a large scale and frequently until the beginning of 1786. For instance, after a purchase made on 27 October, there was another purchase on 2 November that the Company procured Geowqua 2,500 chests of Congo, 750 chests of Hyson (5 chops) and 178 chests of Hyson Skins, and it was followed on 4 November that the supercargoes made purchases of Pinqua 1,063 chests of Congou, 258 chests of Hyson and 453 chests of Hyson Skins. Further large-scale direct tea purchases were also made on 16, 20, 22 November and 1, 12, 22, 27 December 1785 before entering into 1786. For details of these purchases, see IOR: R/10/FR/14, pp. 68-105 (October – December 1785).

⁸⁷ IOR: R/10/CL/I, 24 February 1786, para. 12.

tea contributed to nearly half of the total tea exported from Canton by the Company in 1785/86.

Because of their relatively low prices, winter purchases continued to be approved by the Court of Directors in London in the following years. In particular, because, as discussed in Chapter Two, the years after the introduction of the Commutation Act saw a rapid increase in the consumption of Congou, Souchong and Hyson teas, the Court ordered the Canton Committee to focus its winter purchases on those teas for which there was a large home demand.⁸⁸ This was particularly the case with Congou which became the most popular sort of tea in the British market. Indeed, in early 1790s the Court was confident enough to order purchase of ‘even the lowest description of it provided it is not unfit for sale ...’.⁸⁹ Accordingly, the Directors wrote to the Canton supercargoes noting that ‘... having made the winter purchases of Congou tea ... we recommend that you omit no opportunity of securing any Congou teas there may be particularly when you found are so ample and you can procure it at reduced prices, as the consumption of that species kept increasing rapidly ...’.⁹⁰ However, with such a dramatic increase in Company tea consumption in Britain during the late 1780s, the problem of how to calculate the quantities of different tea required more scientifically became one of the Company’s most urgent priorities.

After a permanent Council was established in Canton, the supercargoes followed the Court’s instructions and used the so-called ‘List of Investment’ to conduct the tea

⁸⁸ IOR: R/10/CL/II, 20 March 1789, para. 1.

⁸⁹ IOP: R/10/CL/III, 16 May 1793, para. 28.

contracts and purchases. Firstly, the Court calculated the total quantities of each sort of tea received in the current season, then a list of investment for each assortment of tea was produced and sent to Canton for the supercargoes to use. Secondly, after receiving the guideline from the Court, the supercargoes made a calculation of the Company's needs for tea purchases, based on the following five variables.

1. The quantity originally stipulated in the Court's orders.
2. The quantity actually shipped during the current season.
3. The excess, or the deficit, of 2 over 1.
4. The estimated annual consumption.
5. The quantity to be provided in the next season.⁹¹

This tea-purchasing principle continued to be followed by supercargoes in the last decades of the eighteenth century. However, it should be noted that the Commutation Act not only stipulated that the EIC should hold four sales of tea every year, but, more importantly, it required the Company to keep enough tea for at least one year's domestic supply. To meet the requirements of the Act, it became necessary to make a more precise calculation of the quantities of different teas to be procured in Canton. After a couple of years of rapid increase in home demand for tea, the EIC formulated in 1787 what Mui and Mui have described as a 'systematic estimate of the Company's needs that would ensure an adequate and uninterrupted supply'.⁹² Thus, the Court sent an order on 24 May 1787 to Canton that listed the quantities of each sort of tea required to be purchased and loaded on ships destined to arrive in London in 1788. The List of Investment for the five major sorts of tea to be procured by the EIC in Canton in 1788 is illustrated in Table 5.2.

⁹⁰ *Ibid.*

⁹¹ Morse, *The Chronicles of the East India Company's Trading to China*, Vol. II, pp. 126-7.

⁹² Mui & Mui, *The Management of Monopoly – A Study of the East India Company's Conduct of its Tea*

Table 5.2 The EIC's List of Investment for tea in 1788, 24 May 1787

Teas	Original order to be purchased in 1788	
	peculs	Invoice lbs.
Bohea	44,378.64	5,917,161
Congou	26,983.65	3,597,820
Souchong	1,936.44	258,192
Singlo	55,481.18	7,397,490
Hyson	8,110.56	1,081,408
Total	136,890.47	18,252,061

Note: 1 Chinese pecul was equal to approximately 133 $\frac{1}{3}$ lbs.

Source: IOR: R/10/CL/I, 24 May 1787, para. 6.

Table 5.3 The quantities of different sort of tea expected and received in 1787

	Expected to be Received In 1787	Actually received In 1787	Received more than calculated	Received less than calculated
Teas	Peculs (invoice lbs.)	Peculs (invoice lbs.)	Peculs (invoice lbs.)	Peculs (invoice lbs.)
Bohea	44,211.10 (5,894,813)	56,936.56 (7,591,541)	12,725.46 (1,696,728)	
Congou	40,833.16 (5,444,422)	34,604.08 4,613,878		6,229.08 (830,544)
Souchong	5,430.88 (724,117)	9,859.70 1,314,626	4,428.82 (590,509)	
Singlo	54,639.78 (7,285,304)	44,025.44 5,870,058		10,614.35 (1,415,246)
Hyson	11,241.05 (1,498,806)	10,425.30 (1,390,040)		815.75 (108,766)
Total	156,355.97 (20,847,462)	155,851.08 (20,780,143)		

Source: IOR: R/10/CL/I, 28 November 1787.

The tea order was made upon a calculation of the quantities for each sort that would be received in 1787⁹³ and is shown in Table 5.3. The order however had to be re-adjusted later on because the quantities of each variety received in 1787 were different from the original estimate. After the above quantities were added to or deducted from what was originally ordered for the year 1788, a new figure for each sort of tea expected in 1788

Trade 1784-1833, p. 95.

could be produced, and this can be seen in Column B of Table 5.4. Moreover, as the Company expected that the ships sent to Canton in 1788 would bring more tea than was ordered because there were surplus tonnage to load more tea, an additional amount of tea was produced.⁹⁴ Accordingly, the quantities to be expected in conformity with that order were calculated and listed in the column C of Table 5.4. As a result, the whole Company tea of each variety expected to be loaded on the ships scheduled to arrive in Canton in 1788, exclusive of private trade, was as illustrated in Column D of the table. Those teas would be brought home in 1789 and were to be kept in warehouses and finally put on sale in 1790. Accordingly, the tea first ordered in 1787 was sold in London in 1790.

Table 5.4 The whole quantity of tea expected to be loaded on ships arrived in Canton in 1788, dated on 28 November 1787

Teas	Column B		Expected in addition (Column C)		Finally expected (Column D)	
	Invoice lbs.	Peculs	Invoice lbs.	Peculs	Invoice lbs.	peculs
Bohea	4,220,423	31,653.17	61,955	464.66	4,282,378	32,117.83
Congou	4,428,364	33,212.73	49,805	373.54	4,478,169	33,586.27
Souchong	----	----	---	----	----	----
Singlo	8,812,736	66,095.53	61,458	460.94	8,874,194	66,556.47
Hyson	1,190,174	8,926.31	17,800	133.50	1,207,974	9,059.81
Total	18,651,697	139,887.74	191,018	1,432.64	18,842,715	141,320.38

Source: IOR: R/10/CL/I, 28 November 1787.

This method of calculating tea orders was followed in the ensuing seasons. However, as described in the last chapter, the EIC also allowed supercargoes and maritime officers to conduct trade on their own accounts, and the tea they purchased in Canton in the privilege trade was also put in auctions together with the tea received under the Company's accounts. There was, thus, a need for the tea received in the private trade to

⁹³ IOR: R/10/CL/I, 24 May 1787, paras. 6-7.

be taken into calculation by the Directors as they estimated the amount of tea that the Company should purchase from Canton. In addition, in order to more precisely calculate the quantities of teas they should order for the following seasons, unsold teas were also taken into consideration. Consequently, a List of Investment for different sorts of tea ordered by the Court of Directors to be loaded on ships arrived in Canton in 1789 and returned in 1790 was produced in the form set out in Table 5.5. With a rapid decrease in demand for Bohea in the late 1780s, no Bohea needed to be brought back to Britain by EIC ships sailing to China in 1789 and returning home in 1790.

By making these adjustments, the Court of Directors were able to produce a much more precise calculation of the quantities of different teas to be purchased by the supercargoes at Canton. After years of experience of calculating the quantities of different sorts of tea to be purchased by the Canton supercargoes through these methods, the Court of Directors from the 1790s onwards was able to produce an estimate to cover three years' sales.⁹⁵ This helped to provide the Canton Committee with better information, from which the supercargoes could decide how much tea they were going to procure. The changes to the Company's tea-quantity management were generally successful in terms of procuring sufficient quantities of tea for home demand after the passage of the Commutation Act.⁹⁶

⁹⁴ IOR: R/10/CL/I, 28 November 1787.

⁹⁵ See e.g. IOR: R/10/CL/III & R/10/CL/IV, 8 February 1797.

⁹⁶ According to Canton supercargoes, there were only a few occasions on which the EIC found it difficult to procure sufficient tea ordered by the Directors and they appeared in seasons 1819-20 and seasons 1825-26 when there was a considerable increase in tea demand. See British Parliamentary Papers (BPP), Vol. VI (Reports of Committees), p. 452 (Minutes of Evidence, by James Urmston, before Committee of Lords). Urmston was once the president of the Canton Committee. Another case occurred in the first half of 1820s when the supercargoes were unable to procure enough green tea to supply for home consumption because the Americans offered a much higher price in order to purchase a larger quantity of green tea to be shipped to the United States and the European Continent. For this issue, see Chapter Seven.

Table 5.5 The quantities of different variety of tea ordered by the EIC's Court of Directors (dated on 20 March 1789) to be loaded on ships arrived in 1789 and returned Britain in 1790

	Bohea	Congou	Souchong	Singlo	Hyson	Total
The quantity of tea now ordered & expected in 1789, private trade to be expected in 1789 & 1790 and what the 21 ships will bring in 1790 will together be lbs. 59,211,838, which estimated according the deliveries from Michaelmas to Christmas 1788 (A)	lbs. 10,861,672	lbs. 21,695,588	lbs. 4,265,103	lbs. 15,617,121	lbs. 6,772,354	Invoice lbs. 59,211,838
Tea unsold in January 1789 including the private trade (B)	10,660,241	4,840,684	1,801,732	4,929,448	1,069,557	23,301,662
Ordered and expected in 1789 (C)	2,505,888	4,173,260	35,592	8,116,804	2,063,456	16,895,000
Private trade to be expected in 1789 & 1790 (D)			155,054		716,122	871,176
Deduct (E = B+C+D)	13,166,129	9,013,944	1,992,378	13,046,252	3,849,135	41,067,838
Remains (F = A-E)	-2,304,457	12,681,644	2,272,725	2,570,869	2,923,219	
For the Exceeding of Bohea in proportions according to the deliveries from Michaelmas to Christmas 1788 deduct (G)		1,034,051	203,283	744,341	322,782	
Remains the quantities which should be brought by ships now sailing to China and returning in 1790 (H = F-G)		11,647,593	2,069,442	1,826,528	2,600,437	18,144,000

Source: IOR: R/10/CL/II, 20 March 1789.

However, the rapid increase in tea purchases at Canton after the late 1780s also created some other problems. One of the issues concerned the price of the tea purchased by the supercargoes in Canton. Because the passage of the Act helped the Company increase its tea sales at home dramatically and made it the dominant European tea purchaser at Canton, it may be expected that this would give the EIC the advantage when dealing with the Hong merchants. Indeed, as noted in Chapter Three, the years after the late 1780s saw a rapid growth in the exportation of British manufactures to China and this was very much linked with the increase in the EIC's bargaining power. However, the Company, despite its advantage position, failed to bring down the price of tea as originally expected. High tea prices had existed for several years during the late 1770s and early 1780s and this was, according to the supercargoes, attributable to the shortage of capital in the Canton Treasury, accordingly, they argued that 'if they had cash enough, it would enable them to reduce the price immediately.'⁹⁷ Yet although there was a reduction in the price of some better sorts of tea sold in Britain because customs duties had fallen, there was no change in the prices of tea procured by the Company in Canton, and this threatened to affect profit margins.⁹⁸ As a result, some opponents of the EIC's monopoly in the China trade declared that 'this appears a most striking instance of bad management'.⁹⁹ Whether the Company's management of its tea trade in Canton was efficient or not can be examined through a comparison with the methods used by other foreigners to conduct their tea purchases.¹⁰⁰ But what was of more concern to the Court of Directors after the late 1780s was the quality of tea, and this will be discussed in the next section.

⁹⁷ IOR: H/339, p. 140.

⁹⁸ *Ibid.*, p. 128.

⁹⁹ *Ibid.*, p. 140.

¹⁰⁰ See Chapter Seven.

5.2 The Tea Quality Control

In addition to adopting several methods to ensure that sufficient quantities of tea were available for home market, there was also a need for the Company to ensure that the tea it purchased was of a suitable standard. In particular, when a much larger quantity of tea was demanded after the late 1780s, a Company's major concern was to prevent the deterioration of the quality of tea provided by the Chinese merchants. Accordingly, this section examines the question of quality control.

5.3.1 The EIC's basic measures of tea quality control

As identified in the last sections, there were two major methods of tea procurement at Canton adopted by the East India Company: contract purchases or direct procurement on the open market. In each case, the supercargoes undertook inspection of the teas and the tea chests when they reached their hands. If the quality of tea or tea chests was unsatisfactory, or did not meet the original agreement, the Company supercargoes would negotiate with the Hong merchants to adjust the price and if completely dissatisfied, they rejected the tea. Before discussing how the Company carried out the tea quality inspection, however, it is necessary to understand how Chinese merchants packed teas and delivered them to the EIC.

After tea trees were grown, the farmers picked leaves and dried them either naturally or by cooking them in metal containers.¹⁰¹ When the process of picking and drying was completed, tea was packed and put into chests and then made up into parcels, denominated by the Chinese as ‘chops’ (字號), with each being marked with the name of the tea-grower, or the district where it was grown.¹⁰² Tea was then sold to the tea-men who transported them from the producing areas down to Canton. There were no fixed number of chests in any one chop because it was merely a collective name given to a number of chests owned by an individual, although those superior sorts of tea (in terms of price) usually had a smaller number of chests in a chop.¹⁰³

Once teas arrived in Canton, they were first deposited in the warehouses of the tea-men or Hong merchants. Then the Hong merchants made a muster and selected a few chests out of each chop to provide samples for the EIC’s inspection.¹⁰⁴ The teas were examined at the Company’s ‘Tea Hall’, and there were many different ways of testing the quality of tea.¹⁰⁵ For example, the inspectors first poured boiling water on the tea leaves in an empty cup and left it for a while until both colour and flavour appeared. Then the tea was examined for colour and taste, which in the best qualities ‘was armatous and oily, and a clear yet strong fluid is in the cup’. The quality of tea could also be judged from the shape of the leaves, and it was believed that those that ‘when in the water unroll without

¹⁰¹ For contemporary description of the cultivation and manufacture of Chinese tea in the eighteenth and early nineteenth centuries, see, for example, Ball, S. *An Account of the Cultivation and manufacture of Tea in China* (1848); *Chinese Repository*, Vol. VIII, No. 3 (July 1839); & Fortune, R. *A Journey to the Tea Countries of China* (1852).

¹⁰² Milburn, *Oriental Commerce* (1813), Vol. II, Chapter XXVIII: China, p. 522; PRO: FO/1048/12/22, FO/1048/14/38.

¹⁰³ Milburn, *ibid.*, pp. 522-3; *Chinese Repository*, Vol. VIII, No. 3, July 1839, p. 154.

¹⁰⁴ K. T. Chen, *Transaction Practices in China’s Export Tea Trade*, p. 751.

¹⁰⁵ Parkinson, *Trade in the Eastern Seas*, p. 92. The Tea Hall belonged to the EIC’s Canton Factory.

tearing are the best.’ There were some other ways of testing the quality of tea which included weighing each unit and judging the flavour and colour of the dry leaves.¹⁰⁶ These tests of tea quality were essential because the EIC used the results of its inspection to negotiate prices in transactions with the Hong merchants. Although the prices of different sorts of tea were agreed when contracts were signed, the Company supercargoes would re-negotiate and adjust the price with the Hong merchants if the quality of tea itself or the packing was deemed to be unsatisfactory. This generally resulted in a reduction of the tea price.

Take a tea transaction made in 1755 for example. On 13 August, soon after the vessel *Prince George* was measured and received a trade permit, the supercargoes contracted with Teunqua, chosen to be security merchant for the ship, for 800 peculs of first leaf Bohea Tea at 16 taels and 5 maces per pecul to begin packing in 45 days.¹⁰⁷ The EIC also disposed of 2,000 peculs of lead, brought to Canton by the *Prince George*, to him as advances.¹⁰⁸ In addition, the Company contracted with Teunqua for 3,000 pieces of Nankeen cloth at 3.3 taels per piece and advanced him two-thirds of the total money to be used for purchasing the commodity.¹⁰⁹ Teunqua delivered the contract teas to the EIC on time. However, on 10 October when the supercargoes began to pack the first 100 chests of Bohea tea, they found that the tea chests did not look as good as they usually were and therefore they applied to the merchant for an abatement in the price. Teunqua in the beginning argued that it was not his fault, but was due to the wet season in the tea-

¹⁰⁶ For the methods of testing the quality of tea, see *Chinese Repository*, Vol. VIII, No. 3, July 1839, pp. 142-3 in detail.

¹⁰⁷ IOR: R/10/FR/4, 13 August 1755, p. 36.

¹⁰⁸ *Ibid.*

growing country, but the Company 'insisted upon his lowering the price, and at last got him to abate 5 mace per pecul'.¹¹⁰ As a result, the contract teas provided by Teunqua were re-adjusted from the original 16.5 tael to 16 taels per pecul.¹¹¹

The practice of the Hong merchants' selecting a few chests of tea out of each chop and passing them to the EIC for the inspection was also applied to those teas purchased on the open market. Before making direct purchases, the supercargoes would first judge the qualities of teas provided by the Chinese merchants and then they fixed the price of such teas with the Hong merchants. At the end of season 1767/68, for example, the Company decided to make some winter purchases. After examining several musters of first sort Singlo tea provided by different Chinese merchants, the Company paid the Hong merchants slightly different prices for the same sort of tea. For example, the supercargoes purchased 1,133 chests of Singlo tea at 17 taels per pecul from Cowshaw, with 440 chests at 16 taels per pecul from Chowqua, and 194 chests at 16.5 taels and 726 chests at 17 taels from Yngshaw and Yokqua respectively.¹¹² Occasionally, the Hong merchants acted as the middlemen between the EIC and tea-men or local teashops for winter-tea business. In this case, the supercargoes would go to the Hong merchants' warehouses to inspect tea provided by tea-men and then make direct purchases. On 1 February 1777, for example, the supercargoes examined several chops of first sort Singlo Tea, Twankay and Hyson Skins at Yngshaw's packing house and then made some purchases, while rejecting others. Those purchases were listed as followed.

¹⁰⁹ *Ibid.*, 16 & 19 August 1755, p. 38.

¹¹⁰ *Ibid.*, 10 October 1755, p. 55.

¹¹¹ *Ibid.*, 16 & 21 October 1755, pp. 57, 62.

¹¹² IOR: R/10/FR/5, 24 & 27 February 1768, p.8; *ibid.*, 8 March 1768, p. 10.

First Singlo		
Hongsee	chests 600	agreed at 14T per pecul
Quanhing	chests 300	agreed at 15T per pecul
Tienlong	chests 516	rejected.
Twankay		
<u>Suefong</u>	chests 210	rejected
<u>Tyhew</u>	chests 308	rejected
Quanchune	chests 285	agreed at 15T per pecul
Tongfong	chests 226	agreed at 15T
Comseune	chests 200	rejected
<u>Shunhing</u>	chests 150	rejected.
Hyson Skins		
Chowkee	chests 70	rejected
Powkee	chests 63	rejected
Kemee	chests 64	rejected
Hopkee	chests 38	rejected
Quankee	chests 40	rejected.
Moutchin	chests 50	agreed at 16T per pecul
Monyeck	chests 23	agreed at 16T per pecul
Yeckee	chests 480	rejected
Mowkee	chests 25	rejected
Peckee	chests 15	rejected. ¹¹³

The Company's report did not provide information regarding the quality of these teas provided by the above tea-men, but the majority of the samples were rejected by the supercargoes. With such a high percentage of tea being refused, it is unreasonable to suppose that many of these teas were of a very inferior quality. Instead, it is more likely that because the EIC already had sufficient teas in stock, the supercargoes did not need to procure a large quantity of winter teas. Consequently, the Company could simply make some additional purchases of very high quality tea from the open market.

¹¹³ IOR: G/12/59, 1 February 1777, pp. 2-3.

The discussion above illustrates some basic principles and measures adopted by the Canton supercargoes upon the inspection of teas before they were purchased or delivered. After teas were received and before they were loaded, the EIC would undertake another inspection of the teas by selecting one out of every twenty chests at random in order to ensure that other chests of tea were of equal quality to the muster.¹¹⁴ If the teas were discovered to be inferior to the muster, the price agreed earlier would be reduced. For instance, in late 1785 the EIC's Factory recorded that '... receiving a parcel of Souchong Tea from Conseequa this day, finding [it] to be inferior to the muster, we reduced in prices 4 tales per pecul.'¹¹⁵ Even when the tea arrived in England, some chests would be still ordered by the Court of Directors to be shipped back to Canton if they were found to be unacceptable in terms of quality. However, up to early 1780s, the Court did not give many specific instructions to the Canton Council on the subject of the tea-quality control system. The Directors' concern about the efficiency of tea-quality control system adopted by the supercargoes in Canton only fully emerged from the second half of the 1780s after the passage of the Commutation Act.

5.2.2 The Commutation Act and Changes to the Tea-Quality Control System

The passage of the Commutation Act in October 1784 caused the Canton supercargoes to procure a greater quantity of tea in 1785 than ever before. However, it is apparent that the Court of Directors was not happy with the quality of tea they were sent from Canton. After checking the tea purchased in the season 1785, they complained that 'The packages

¹¹⁴ Parkinson, *Trade in the Eastern Seas*, p. 93.

¹¹⁵ IOR: R/10/FR/14, 8 December 1785, p. 94.

of the tea in general, small as well as large, were in very bad condition, and were very much decayed, and has occasioned great losses ...'.¹¹⁶ Laying the blame on the poor quality of tea chests, the Directors made it clear to the supercargoes that 'You must be careful to see that the chests are made of better wood, and shipped in the best possible condition; and endeavour to get the Chests made stronger, as they are too light, even if made with good wood.'¹¹⁷

Those poor quality tea chests appeared to contain, in particular, Congou.¹¹⁸ This was perhaps because Chinese merchants, in order to provide a suddenly larger quantity of Congou tea for the EIC, had not had enough time to prepare good quality wooden chests. In the same way, the Canton supercargoes had to quickly purchase a large quantity of Congou from the open market without much examination. Finding that the chests which contained Hyson and Singlo were in general of much better quality, the Court of Directors wrote to the Canton Select Committee that 'You are therefore desired to exert your interest with the merchants to have the Congou tea packed in chests made of the same wood as those of the Singlo and Hyson, which will be great saving to the Company.'¹¹⁹ However, in spite of the Directors' criticism of the poor quality of Congou tea chests, they also found that lead had been loaded inside some chests of Congou to prevent the tea moving around in holds of the Company ships. They thought that this was a good idea and thus suggested that the Canton supercargoes place lead in the tea chests of all other sorts of tea 'as it would be a means of preventing a great deal of

¹¹⁶ IOR: R/10/CL/I (1784-87), 12 April 1786, para. 15.

¹¹⁷ *Ibid.*

¹¹⁸ *Ibid.*, para. 16.

¹¹⁹ *Ibid.*

damage as well as better preserve the quality of the teas'.¹²⁰

The Directors also paid attention to careless packing, preservation and transportation. For example, the Court's letter of 19 April 1787 noted that 'The packages of the tea in general ... were in very bad condition, and much decayed which has occasionally great loss and expense, more care must be taken to see that the chests are made of better wood'.¹²¹ Some chests were found to have been completely damaged and the Court believed that this happened because the teas in these chests had been packed in a damp state.¹²² In addition, some tea chests were discovered to be filled with rubbish. It was stated in the same letter that 'There are several packages of rubbish, which will be returned on the *Hartwell*, and you must not fail of insisting on the merchants, of whom the same were purchased supplying you with others in lieu thereof'.¹²³

'False package' of tea was also singled out by the Court as a problem when they discovered that teas shipped back to England by some vessels did not match their loading documents, the so-called 'packing books'.¹²⁴ They found that some parcels of one sort of tea were packed in mixture or even mistakenly packed and marked as another different variety. For example, the tea loaded on the *Alfred* which returned to Britain in 1786 was found to be very irregularly packed. Several parcels of tea invoiced as Twankay were actually Singlo, while some parcels of Hyson tea appeared to have been packed with

¹²⁰ *Ibid.*

¹²¹ IOR: R/10/CL/I, 19 April 1787, para. 17.

¹²² *Ibid.*, para. 24.

¹²³ *Ibid.*, para. 23.

¹²⁴ *Ibid.*, para. 27.

Singlo.¹²⁵ In the same year, two parcels of Singlo tea shipped by the *Lord Macartney* were found to be in poor condition and the Court wrote to Canton supercargoes that they should avoid purchasing all such tea in future.¹²⁶ Some chests had been found to be also filled with rubbish and the result was that they were to be returned to China. Then the Select Committee in Canton would request that the Hong merchants who had provided these teas re-supply them with others of a proper quality.¹²⁷

In addition to instructions concerning quality control, the Court also provided the Select Committee with ‘an account of the sales compare with the prime costs of the different parcels of teas, ... by which may be observed, that many of the higher priced teas were not so good quality as the lower ones.’¹²⁸ Based on it, the Court pointed out that

‘It is therefore recommended that the chops of the lower priced teas, which sold here at the best prices should be procured if possible, in preference to the others. And that those of the highest prices which sold low here should not be purchased. It is proper you inform those merchants of whom the higher priced teas which sold here at inferior prices were bought of the inferiority of their qualities.’¹²⁹

In spite of these instructions from the Court of Directors, the Canton supercargoes focused their attention on procuring more teas for home consumption rather than on quality in the following years. Consequently, the Directors highlighted in their letter to the Canton Select Committee of 21 March 1788 that ‘The packages of the tea continue to

¹²⁵ *Ibid.*, paras. 28-30. The *Alfred* (763 tons) arrived at Whampoa on 10 July 1785 and after loading tea, the vessel sailed home and finally returned to Britain in June 1786. For details of its voyages, see A. Farrington, *Catalogue of East India Company Ships' Journals and Logs 1600-1834*, p. 15.

¹²⁶ IOR: R/10/CL/I, 19 April 1787, para. 21.

¹²⁷ See e.g. *ibid.*, 12 April 1786, para. 29; 19 April 1787, para. 23; 24 May 1787, para. 25.

¹²⁸ *Ibid.*, 19 April 1787, para. 22.

come in [a] very bad condition, which every care must be taken to prevent.¹³⁰ Of the teas received in that season, 154 chests were found to be filled with rubbish and they were returned to Canton on the *Earl Talbot*.¹³¹ As with the previous season, the problem of 'false package' remained and some parcels of the black tea were found to be different from the accounts in the packing books, with several chests of tea being found to be very dusty.¹³²

The problem of 'false package' and poor preservation of the green tea appeared to be even more serious than that of the black tea. The Court recorded in March 1788 that 'a great deal of the tea invoiced Twankay still continues to turn out only Singlo. Care should be taken to prevent [it], as it is a loss to the Company.'¹³³ Some parcels of Twankay and Hyson Skin also appeared to be irregularly packed.¹³⁴ Moreover, several parcels of tea marked as Hyson were again found to be packed with other cheaper green teas, such as Twankay and Hyson Skin so that the Court had to emphasise that 'we must here again repeat and recommend to your utmost attention the circumstance of the Hyson teas being so much falsely packed with [other] green teas ...'.¹³⁵ As indicated in Chapter Two, the EIC purchased much more black tea than green tea, but the above discussion indicated that the EIC's London headquarters showed considerable concern about the false packing of many parcels of green tea imported into Britain. Indeed, this was mainly because in general the black tea could be kept for a few years without injury if it was well

¹²⁹ *Ibid.*

¹³⁰ IOR: R/10/CL/II (1788-1790), 21 March 1788, para. 33.

¹³¹ *Ibid.*, para. 41. The *Earl Talbot* left England on 4 April 1788 and arrived Canton on 9 August of the same year (Farrington, *Catalogue of East India Company Ships' Journals and Logs*, p. 214).

¹³² IOR: R/10/CL/II, 21 March 1788, paras. 35, 42, 48.

¹³³ *Ibid.*, para. 45.

¹³⁴ *Ibid.*, 56.

preserved, but the green tea quickly lost its flavour when it became old.¹³⁶ Therefore, the Directors suggested to the supercargoes in Canton that all teas, but particularly green teas, should be kept in dry places so that the tea would not be injured by air or dampness. If there was not enough tonnage to send all the teas home, 'particular care must be taken [that] the greens have the preference.'¹³⁷

As the problem of false and mixed package affected all sorts of tea, the Court of Directors came to believe that the Chinese had adopted a system of adulteration by mixing two sorts of tea and selling them as the finer sort to the EIC. For example, it was said that the Chinese tea-growers or tea-men first separated the best leaves of the Bohea from the broken ones and dust by sifting them out. Then they put the remaining better leaves of Bohea in small chests and finally sold them out as Congou. Or they would directly mix the leaves of Bohea with Congou and mark these chests as Congou. This method of mixing two kinds of tea could also be seen in the mixture of the Hyson teas with Singlo, Twankay or Hyson Skin. The Court thus ordered the Canton Committee to examine their teas carefully so that the system of adulteration by mixture would be prevented in future.¹³⁸ In order to deal with the issue efficiently, the Court advised the supercargoes that¹³⁹

'The best method of preventing finer sort of tea (both black and green) from being mixed with the inferior ones will be to take care that the lower sorts are good of their kind as the Chinese would not venture to mix the finer sorts with

¹³⁵ *Ibid.*, p. 57.

¹³⁶ BPP, 1830, Vol. VI, Reports from Select Committee (646), p. 359.

¹³⁷ IOR: R/10/CL/II, 21 March 1788, para. 33.

¹³⁸ *Ibid.*, para. 48-49.

¹³⁹ *Ibid.*, para. 50.

the inferior ones of low qualities and all parcels that are discovered to be mixed should be rejected. This will be the only means to put a stop to this increasing evil.'

Moreover, in order to ensure that the Canton supercargoes took greater responsibility for the examination of tea, the EIC Court of Directors wrote to the Select Committee and ordered that¹⁴⁰

'Each supercargo shall be required to affix his name to the different assortments of teas, at which he or they shall attend the packing or inspection, and when great defects shall appear in any parcel of teas which must have existed at the time of the purchase, and that might already have been discovered if proper attention had been paid by the inspecting supracargoes at China (and one of whom at least must always be of the Select Committee) and the teas thereby rejected, those gentlemen shall in such case be liable to forfeit to the amount of the commission on such teas for their representative proportion.'

Yet in spite of the Court's many increasingly detailed orders about quality control in Canton, many teas continued to be of a very poor-quality condition in the season of 1789, with again several teas of an inferior sort being found in place of others of a superior variety.¹⁴¹ Thus, it can be seen that the procedure for tea inspection used by the Canton supercargoes were still failing after years of specific concerns from the Directors. Accordingly, the EIC's London headquarters decided that the system of quality control in Canton had to be adjusted in order to make tea examination more effective. As a result, the Company decided to send a professional tea examiner to Canton to assist the supercargoes with tea inspection; Charles Arthur was appointed to take this important position.¹⁴²

¹⁴⁰ IOR: R/10/CL/II, 18 March 1789, para. 21.

¹⁴¹ IOR: Home Miscellaneous Series/Vol. 399 (hereafter IOR: H/399), pp. 132-3.

¹⁴² *Ibid.*, p. 133.

As a professional tea inspector, Arthur's main job was to examine the quality of the samples of tea and to inform the supercargoes whether the qualities of teas were acceptable or not.¹⁴³ During his first years in Canton, several chops of were tea were rejected and many were reduced in price; on one occasions the price was even reduced to ten taels per pecul.¹⁴⁴ Indeed, following his appointment in 1790, the quality of tea imported and sold by the EIC seemed to improve, according to the Company's own records.¹⁴⁵ The Company's report did not directly attribute this achievement to Arthur's contribution, but the Court appeared to be happy with the result, for they noted on 16 May 1793 that 'It give us great pleasure to observe that the quality of the teas in general is improved. We hope in a short time to find that they have recovered their original excellence.'¹⁴⁶ The problem of poor and false package had also been improved and the Directors in the same letter noted that 'we are happy to find that the species of fraud lately practised of packing up damaged teas appeared to [be] declining as we have discovered only two chests which have that appearance'.¹⁴⁷

Arthur played a crucial role in conducting tea inspection while in Canton, however, because he was not a member of the Canton Select Committee, Arthur did not have the right to interfere in the practices used by the supercargoes. For example, the practice of mixing different sorts of tea into the same chest continued during the second half of the 1790s. The practice was not only used by the Chinese merchants, but it was also

¹⁴³ Mui & Mui, *The Management of Monopoly*, pp. 38-9, 164. Charles Arthur, originally a member of a London brokerage firm, held the post between 1790-1800.

¹⁴⁴ See Morse, *The Chronicles of the East India Company Trading to China*, Vol. II, p. 181.

¹⁴⁵ For example, IOR: H/399, p. 136.

¹⁴⁶ IOR: R/10/CL/III (1791-95), 16 May 1793, para. 29.

¹⁴⁷ *Ibid.*, para. 30.

conducted by the Company's supercargoes who adopted the system because they thought these mixed teas would sell well in London and, thus, benefit the Company. The practice, however, was condemned by the Court because the Directors believed that the customers would not be keen to consume the mixed teas and accordingly would lower their sale prices.¹⁴⁸ As illustrated in Table 5.6, the Directors demonstrated to the Select Committee in Canton that mixing teas was a bad idea and they made it clear that 'we must therefore repeat our directions of last season that you desist from this practice in future'.¹⁴⁹ This indicates that those in London, and not those in Canton, had the final say on quality control, because they, of course, were in the best position to determine the nature of consumer demand.

Table 5.6 An estimate of profit and loss of mixed Bohea-Congou teas (taels, per lb.), made in May 1797

	Bohea	Congou	Bohea & Congou mixed
Prime Cost (per lb.)	7.69	14.96	10.15
Fright and Demorage	7.33	7.33	7.33
Charges of Merchandize	1.50	2.50	1.50
Insurance	0.61	1.34	0.80
Total Above	15.13	24.13	17.78
Interest 1 year at 5 per cent	0.86	1.40	0.99
Total Cost	15.99	25.53	18.77
Average sale prices 1 March Sale 1797	17.45	28.13	18.60
Profit or Loss	1.46	2.60	-0.17

Source: IOR: R/10/CL/IV, 12 May 1797, para. 40.

¹⁴⁸ IOR: R/10/CL/IV, 12 May 1797, para. 40 .

¹⁴⁹ *Ibid.*

In order to encourage the Hong merchants to supply tea of a superior quality, the Canton supercargoes offered good terms for contracts. For instance, at the end of 1794/95 season the Company made an announcement that it would provide at least 20 taels as money advances for each pecul of Souchong tea, and the final price would be according to the quality.¹⁵⁰ Accordingly, Puan Khequa accepted the proposal and contracted to provide 5,000 chests of best quality Souchong; he received 20 taels per pecul as advance. The final price was to be decided in November or December when his teas were delivered to the Company. Both the EIC and Puan Khequa also agreed that this tea contract (as well as other winter contracts between them in this season) followed 'the usual penalties of an abasement of one tale per pecul in price for every month deficient, and to be answerable for all accident till shipped'.¹⁵¹

On most occasions, the supercargoes would simply require the Chinese merchants to reduce the price of teas already purchased if they were found to be in a poor condition. If tea was found to be mixed with dust or was poorly packed, the supercargoes would also lower the price, as was the case in 1802 when the Canton Consultation recorded that 'A chop of Twankay, Song Thung 1150 chests, received this day from Gnewqua ... was reported ... uncommonly dirty. It was found ... to contain 4 per cent of dust which exceeding the quantities in the contract we reduced it two taels per pecul.'¹⁵² However, the practice of receiving inferior teas by reducing their prices was not always welcome by the Court of Directors. Accordingly, the Canton Committee added a new practice, whereby, when tea was discovered to be inferior to the muster, the whole chop would be

¹⁵⁰ IOR: G/12/110, 27 May 1795, p. 21.

¹⁵¹ *Ibid.*, pp. 22-3.

returned to the provider if he could not accept a large price reduction. A good example is provided in the Canton Diary of March 1802 when the supercargoes recorded that

‘On weighing Congo tea at Mowqua’s for ... a chop Taysing 540 chests purchased at 29 tales was discovered to be inferior to the muster, ... we thought it advisable in order to deter the tea merchants from attempting similar practices either to reduce it 4 tales per pecul or reject it altogether to be left to Mowqua’s opinion ... who being sent for informed of our determination and after endeavouring in vain an equal abatement from the tea merchant, he request we would reject it which was accordingly done.’¹⁵³

The seasons after 1790, thus, saw changes to the EIC’s tea quality-control system in Canton. It should, however, be pointed out that, for example, in the 1793 season there were still 217 chests of tea containing rubbish and these teas, with two damaged chests (mentioned above), had to be returned to Canton. There were another 26 chests which had been refused as unfit for sale and they were later destroyed by the EIC.¹⁵⁴ This demonstrates that even though Arthur was in Canton, he could not guarantee that all teas sent to Britain were of good standard. Indeed, given the huge quantity of Chinese tea being purchased by the Company at Canton, it was impossible for Arthur and the supercargoes to check every chest in detail. However, perhaps Arthur’s most striking contribution to the Company’s quality control of tea purchases at Canton was that a system of quality grading was introduced.¹⁵⁵ Largely attributed to Arthur and his successors, the system of quality grading became well established in the early nineteenth

¹⁵² IOR: G/12/138, 12 March 1802, para. 12, p. 162.

¹⁵³ IOR: G/12/138, 12 March 1802, para. 13, pp. 162-3.

¹⁵⁴ IOR: R/10/CL/III (1791-95), 16 May 1793, para. 36.

¹⁵⁵ R. Gardella, ‘Fukien’s Tea Industry and Trade in Ch’ing and Republican China’, Ph.D. thesis, University of Washington (1976), p. 77.

century.¹⁵⁶ By the first decades of the nineteenth century, there were more than twenty different sorts of technical terms used for describing the grades in tea quality, based on the inspectors' judgement. These terms varied from the poorest levels of 'musty and mouldy', 'musty', 'odd smell', 'dusty', 'smoky', through 'ordinary', 'good ordinary', 'but middling', 'middling', 'good middling', 'good', 'very fine', and so on, up to the best quality 'superfine'.¹⁵⁷

As discussed earlier, the supercargoes would first select and inspect a few chests of tea from a chop and based on the inspection, they then decided how much they should pay for the tea. By using the system of quality grading, a mark was put upon each chop by the Company's inspector to indicate the quality according to the technical terms mentioned above.¹⁵⁸ The EIC's Canton Committee could accordingly negotiate their tea purchases with the Chinese merchants much more carefully and accurately. For example, the EIC Canton Diary of 14 April 1811 noted that 'The chop Suie Tia 124 chests Congo Campoi receiving of Kinqa which according to the muster is characterised "But middling to middling tea blackish leaf" is reported inferior being "But middling tea mixed leaf Campoi kind"; it is accordingly reduced in price from 26 to 25 tales per pecul'.¹⁵⁹

In order to encourage the Hong merchants or tea-men to provide good quality tea, the Company occasionally even agreed that if tea was discovered to be superior to the

¹⁵⁶ For a list of other tea inspectors at Canton, see Mui & Mui, *The Management of Monopoly*, p. 164.

¹⁵⁷ Crawford, *The Monopoly Examined*, p. 83.

¹⁵⁸ Milburn, *Oriental Commerce*, Vol. II, Chapter XXVIII: China, p. 522.

¹⁵⁹ IOR: G/12/76, 14 April 1811, p. 78.

original agreement, a higher price would be paid by the supercargoes. This was the case in April 1811 that the EIC recorded that ‘The chop Chun Fuie 115 chests Congo of Kinqua, muster but middling tea, “is reported preferable, being but middling to middling”, we accordingly deem it equitable to raise the price from 25 to 26 tales, and the tea will invoiced Congou Campoi instead of Congo’.¹⁶⁰ The description of ‘but middling’ was the mid-point in the system of quality grading. In reality, in order to make sure that all the teas procured at Canton reached a certain standard, the Court of Directors expressed their hope that the quality of all contract teas had to be at or above the ‘but middling’ character defined by tea inspectors.¹⁶¹

The Directors delivered this instruction at the turn of the 1810s, and afterwards it became an important criteria by which the Canton Committee chose tea. However, in order to obtain sufficient tea ordered by the Directors, the supercargoes would still purchase teas of their quality slightly lower than the criteria of ‘but middling’, such as those being marked as ‘ordinary’ or ‘good ordinary’. But in order to avoid sending too much tea of inferior quality to England, the Canton Committee would limit the total quantity of tea of quality lower than the ‘but middling’ criteria. For example, in season 1819/20, the Select Committee decided to limit the total teas to be received to the character of ordinary and good ordinary to the extent of 10,000 chests, when compared to the total Congou tea of 230,000 chests which would required in this season.¹⁶² Teas of quality below the ‘but middling’ criteria often would be received at a cheaper price. As can be seen in Court’s

¹⁶⁰ IOR: G12/176, 14 April 1811, p. 78. Congou Campoi was a superior kind of Congou tea.

¹⁶¹ Mui & Mui, *The Management of Monopoly*, p. 97.

¹⁶² British Parliamentary Papers (BPP): 1831, Vol. VI, Reports from Committees on the Affairs of the East India Company, Appendix II: Papers Relating to China (320B), p. 78.

letter of 11 April 1821 the Canton supercargoes received a quantity of Congou tea from a Hong merchant, and it was characterised as ‘good ordinary to but middling quality’. Because the tea did not meet the muster’s criteria which was ‘but middling quality’, the price was reduced from 29 taels to 28 taels per pecul.¹⁶³

Table 5.7 The EIC’s Souchong tea contracts made on 25 October 1830 (by chests)

	Middle to Good Middle Tea	Middle Tea	But Middle to Middle Tea	But Middle Tea	Good Ordinary to But Middle Tea	Total
Howqua		383	402	230		1,015
Mowqua			200	200	430	830
Puan Khequa			306	202	200	708
Goqua	200	210	204	206	414	1,234
Kinqu				206		206
Chum Wu				420	420	840
Shune Tae					412	412
Total	200	593	1,112	1,464	1,876	5,245

Source: IOR: G/12/244, 25 October 1830, p. 105.

Indeed, the supercargoes did not follow the Court’s instructions on every case. On some occasions, some teas of quality marked below the grading level ‘but middling’ would be purchased, but received as an inferior variety of teas. Their prices were thus reduced.

¹⁶³ IOR: R/10/CL/18, 11 April 1821 (Section II), para. 47.

For example, in late October 1830 the Company agreed to purchase 5,245 chests of Souchong teas from seven Chinese merchants, as illustrated in Table 5.7. But because there were 1,876 chests of these teas marked as ‘good ordinary to but middling tea’, the supercargoes after negotiations agreed to take them under the name of Congou Campoi.¹⁶⁴

On some occasions, if the quality was discovered to be inferior to the agreement, the tea, instead of being reduced in price and procured immediately, was left behind and later taken up under the terms of winter tea. In this way, the Company could receive some original contract teas at a much lower price. The adoption of this practice is illustrated in the Court’s letter of 1812 to Canton that ‘We are sorry to observe that your expectation upon the head by no means realised the Congo of this season, having a much larger proportion of inferior teas than the proceeding importation and among the contract teas are many of a quality too low to have been taken except as winter purchase’.¹⁶⁵ Indeed, the practice was later agreed by the Directors who noted in April 1821 that ‘We approve your having left the inferior Hysons and Souchongs to be afterwards on the terms of winter purchases instead of taking them at a less reduction of price for the purpose of immediate shipment.’¹⁶⁶

These above two cases indicate that the Directors accepted the practice of taking up the unaccepted contract teas as winter purchases. But in order to prevent the Canton supercargoes from taking too many winter teas whose quality might be poor, the

¹⁶⁴ IOR: G/12/244 (Canton Consultations), 25 October 1830, pp. 105-6.

¹⁶⁵ IOR: R/10/CL/11, 29 January 1812, No. 1, para. 5.

Directors gave the Canton Committee instructions to confine the total quantity of winter tea within a limit. For example, it was ordered in the beginning of the 1810s that the total winter teas could not exceed 30,000 chests.¹⁶⁷ However, although winter purchases of tea were relatively cheaper because they were older, this does not mean that all winter teas were of poor quality. The Canton Committee sometimes received good quality teas from winter purchases at cheap prices and this was applauded and encouraged by the Directors. The Court of Directors' letter to Canton of 1821 provides a good example as they wrote that 'The Winter Congou of the Canton season 1818/19 at 17 tales received last year have proved of satisfactory quality, and we are desirous you should let no opportunity escape of making similar purchases, in respect to both price and quality'.¹⁶⁸

Table 5.8 Charges for rubbish and damaged tea to be placed to the Hong merchants' respective accounts, March 1800

Hong Merchant	Amount of Charges (taels)
Puan Khequa	439.927
Mowqua	1516.506
Puiqua	1026.873
Yanqua	471.894
Ponqua	1080.663
Chunqua	159.765
Gnewqua	176.538
Conseequa	272.728
Munqua	1834.630
Geowqua	379.107
Shy Kinqa	1322.109
Total	8680.740

Source: IOR: G/12/128, 21 March 1800, p. 138.

¹⁶⁶ IOR: R/10/CL/18, 11 April 1821, Section II, para. 52.

¹⁶⁷ IOR: G/12/176, 27 March 1811, p. 53.

¹⁶⁸ IOR: R/10/CL/18, 11 April 1821, Section II, para. 59.

The final step of quality control used by the Company was that if any rubbish and damaged teas were to be found in London, they would be shipped back to Canton and the Chinese merchants who provided them would be held responsible for that. That is, the Chinese merchants were to be required to pay back money received from the East India Company. Take the season 1799/1800 for example. The amount of rubbish and damaged tea to be shipped back to Canton by the Company's ships and to be placed charges on each Hong merchant's account in the season is illustrated in Table 5.8.

As the total EIC's tea investment in the previous season was around 2,900,000 taels, the amount of tea to be returned to Canton represented only around 0.3 per cent of the total purchases. Indeed, with several measures of quality control being adopted, the number of chests discovered to be entirely filled with rubbish was tiny in most years after the nineteenth century. Take Twankay tea for example. In the season 1821/22 only two packages of this sort of tea were found to contain wholly rubbish, with the following season being entirely free from fraudulent packing. In the season 1823/24, although some chests of Twankay were again found to contain false packing, no packages of other sorts of tea were discovered to be entirely filled with rubbish.¹⁶⁹ Even in the final years of the EIC's China trade when a larger quantity of tea was purchased, the rubbish and damaged tea that was returned to China from Britain accounted for less than 0.3 per cent of the Company's total tea purchased in Canton.¹⁷⁰

¹⁶⁹ IOR: R/10/CL/XXII, 20 April 1825, f. 36, paras. 72-73.

¹⁷⁰ See e.g. IOR: G/12/276, 15 November 1829, p. 511.

With many adjustments and several different measures being used, the EIC thus succeeded in developing a flexible system of tea purchases and struck a balance between organising an adequate tea supply for British consumption and conducting an efficient quality-control system. However, this does not mean that the Company's management of its tea procurement at Canton was always smooth. By contrast, the EIC frequently had to face some problems, including the Hong merchants' financial difficulties, thus creating trouble in the EIC's Canton tea trade, and this will be discussed in the next chapter.

CHAPTER SIX

THE HONG MERCHANTS' FINANCIAL DIFFICULTIES AND THEIR EFFECT ON THE EIC's TEA TRADE

The previous chapter demonstrated that the EIC succeeded in developing a flexible method of tea purchase and struck a balance between organising an adequate tea supply for British consumption and conducting an efficient quality-control system. However, the Company from time to time was to face a situation in which several Hong merchants encountered serious financial difficulties and many of them became insolvent which resulted in the closing of their hong. The financial difficulties of the Hong Merchants, the only Chinese group authorised to deal with western traders, had a direct and serious effect on the EIC's tea trade at Canton. This chapter is concerned with the issue of the Hong merchants' financial problems and how the EIC dealt with these in order to keep its Chinese tea trade going smoothly.

6.1 The EIC's Handling of the Hong Merchants' Financial Problems Before 1780

6.1.1 The earlier period

As noted earlier, the EIC supercargoes in the 1720s and 1730s had already discovered their Chinese counterparts' financial problems, and for this reason the practice of advancing money upon the tea and silk contracts became commonplace. However, the problem of the Chinese Hong merchants' indebtedness to foreigners in the first half of the

eighteenth century was not serious, and the EIC's records do not discuss the issue much in the years before 1750s. Neither did the Chinese official documents mention it in the corresponding period. The earliest major instance relating to the Chinese merchants' indebtedness to foreigners, which came to the attention of the Canton authorities and also involved the Chinese government in the settling of the debt problem, occurred in 1758/59.¹ One of the main reasons that the Chinese government became involved was because of the death of Beau Khiqua, a long-standing and leading Hongist in Canton, whose customs duties and considerable debts to foreigners were left unpaid.²

Beau Khiqua died in late 1758, but for several years before his death, his credit worthiness had been in doubt. For example, in 1755 the Hongist had to borrow money from the EIC in order to remain liquid. In order to ensure that the money advanced to him could be returned, the Company made a deal with Beau Khiqua whereby he was obliged to mortgage his factory and warehouses to the EIC in return for an advance payment of 10,600 taels.³ After the Hong merchant passed away in 1758, his foreign creditors reported to the Canton authorities. Through the government's settlement, Beau Khiqua's house and warehouses were redeemed by another Hong Merchant Chowqua,⁴ and in return he gave a sum of 10,600 taels to the Company in January 1759.⁵

¹ See 許地山 (Hsü Ti-shan), 達衷集 (*Ta Chung-chi*) (Collected Letters and Ordinances), pp. 127-9.

² Chen, *The Insolvency of the Chinese Hong Merchants*, pp. 182-3.

³ For the issue, see IOR: G/12/11, 1755, p. 98; Basu, 'Asian Merchants and Western Trade', p. 329; Cheong, *Hong Merchants of Canton*, p. 157;

⁴ Chen, *The Insolvency of Chinese Hong Merchants*, p. 183.

⁵ IOR: R/10/FR/4, 2 January, 1759, p. 2; Morse, *Chronicles of the East India Company Trading to China*, Vol. V, p. 73.

In addition, because Sweetia (another Canton Hongist) had preciously joined dealings with Beau Khiqua, he was held to be responsible for the rest of his trading partner's debts owed to the English Company.⁶ The debts he was obliged to discharge were to be paid in installments over a four-year period.⁷ The amount that he agreed to pay was 14,706 taels for the first year⁸ and the second year was 10,626 taels.⁹ Unlike Chowqua who paid his debt in cash, Sweetia discharged his obligation by providing tea to the EIC. For instance, in December 1759 he agreed to provide the Company with 406 chests of Souchong tea to be taken on account of a fourth part of Beau Kiqua's debt.¹⁰ Similarly, the EIC in December 1760 'agreed to receive of Sweetia 200 chests of Souchon tea in part of payment of Beau Khiqua's debt'.¹¹

In reality, Sweetia's financial condition was not much superior to that of Beau Khiqua. Indeed, Sweetia's joint operations with Beau Khiqua¹² did not remove the need for money advances from the EIC. To enable them to procure tea from the suppliers, the EIC, in 1756, offered ten chests of treasure in advance and the price of Bohea tea was contracted at 12 taels per pecul. When the price in the Canton open market fell below the contracted price, the Company's supercargoes refused to take the tea delivered by Sweetia and Beau Khiqua. Instead, they bought the tea on the spot. The Bohea tea provided by the two merchants was then sold back to them by the EIC at a profit for the

⁶ Cheong, *Hong Merchants of Canton*, p. 149.

⁷ Chen, *The Insolvency of Chinese Hong Merchants*, p. 183.

⁸ IOR: R/10/FR/4, 2 January, 1759, p. 2; Morse, *The Chronicles*, Vol. V, p. 68.

⁹ IOR: R/10/FR/4, 8 January, 1760, p. 1; Morse, *The Chronicles*, Vol. V, p. 86.

¹⁰ IOR: R/10/FR/4, 10 December, 1759, p. 156.

¹¹ *Ibid.*, 20 December, 1760, p. 120.

¹² Sweetia had joined operations with Beau Khiqua in 1755 (see Cheong, *Hong Merchants of Canton*, p. 149).

Company.¹³ Beau Khiqua's and Sweetia's financial dependence on the EIC was undoubtedly linked to the two merchants' accepting the Company's unfavourable arrangement. Having no money to pay the EIC, Sweetia provided tea instead of paying cash to the Company in 1759 and 1760 for the settlement of Beau Khiqua's debts. In January 1762, when the EIC's supercargoes opened a contract with Sweetia to pay off the last part of Beau Khiqua's debt, he had to plead with the Company to let him postpone his obligation. Because the Chinese New Year was coming, Sweetia's request was accepted by the Canton Council and the payment was left to be resolved after February.¹⁴

While the Governor-General of Kwang-tung & Kwang-si Provinces and the Canton Hoppo were tackling the issue of Beau Khiqua's insolvency, the news of Canton Hong merchants' debts reached Peking. This may be attributed to James Flint's report to other high-ranking officials in North China. James Flint was then one of the EIC's commanders in Canton, and as mentioned in Chapter One, had been sent by the English Company to Peking in order to open up trade and alter the Canton system. On his mission to Tientsin,¹⁵ Flint complained to the Governor-General of Zhi-li (or Chih-li 直隸),¹⁶ Fang Guan-cheng (方觀承), that a Chinese merchant named Li Kuang-hua (黎光華) owed [him] money to the sum of 50,000 taels and he was unable to get it back.¹⁷

¹³ Cheong, *Ibid.*, p. 158.

¹⁴ IOR: R/10/FR/5, 18 January, 1762, p. 135.

¹⁵ Tientsin, near Peking, is a major harbour-city of North China.

¹⁶ *Zhi-li* (or Chih-li 直隸) was the province in which Peking and Tientsin were located and therefore, the position of the governor-general of Zhi-li was in general higher than those of other provinces.

¹⁷ 史料旬刊 (Shih-liao-hsün-k'an) (Historical Materials published every ten days), No. 4, pp. (天) 114-5. The Chinese document did not make clear whether the sum of 50,000 taels which James Flint claimed, was owed to Flint alone, or there were other English creditors, such as other supercargoes of the EIC, who lent

Through the Governor-General of Zhi-Li, Flint's complaints about the Chinese debts due to the English finally reached the Imperial Court in Peking. After hearing about the debt problem in Canton, the Ch'ing Emperor *Chien-lung* (乾隆) ordered the Governor-General of Kwang-tung and Kwang-si Provinces, Li Shih-yao (李士堯), to handle the problem carefully and also adopt measures for the prevention of similar problems.¹⁸ The Governor-General and the Hoppo in Canton then reported to the Emperor about the situation of Canton merchants' borrowing money from foreigners. The report also mentioned that the Chinese merchants' debts with English traders, such as James Flint, might cause foreigners to exert power over the debtors in order to get back the money owed to them, which might have considerable impact in the future. Accordingly, they suggested to the Emperor that he should issue laws prohibiting Chinese merchants from borrowing money from foreigners.¹⁹

It appears, from the EIC records and Chinese official documents, that Li Kuang-hua was almost certainly the same person as the Hong merchant 'Beau Khiqua'. It is unclear whether the Canton authorities' settling of Beau Khiqua's debts was based on orders laid down by the Imperial Court. Nevertheless, the lessons learnt from Beau Khiqua's insolvency and Flint's complaints resulted in a new set of regulations governing Chinese commercial relations with foreigners being made by the Ch'ing Authority. These regulations were stipulated in a decree issued by the Chinese Emperor in early April of 1760, and they were described by Morse as the 'Regulations for the Control of Trade at

money to the Chinese merchant.

¹⁸ Chen, *The Insolvency of Chinese Hong Merchants*, p. 184.

Canton, 1760'.²⁰ They stipulated that all Hong merchants' commercial accounts had to be settled by the time of the departure of the foreign ships. If any outstanding debts were not settled by then, they had to be repaid by the end of the season and not be prolonged from year to year. The Canton Hong merchants were also prohibited from borrowing money from foreigners that was not to be used in the procurement of tea and silk ordered by the foreign traders. If the Hong merchants violated these regulations, they were to be severely punished for loans in question or all the goods purchased with the borrowed money were to be confiscated.²¹

6.1.2 The 1760s and 1770s

The timing of the issue of these new regulations coincided with the establishment of the Co-hong guild by the Canton Hong merchants. This association is chiefly regarded as the means by which the Hong merchants sought to monopolise foreign trade in Canton and gain a stronger bargaining power over foreign traders. However, for those merchants who had insufficient capital or had debts to foreigners, the formation of the guild also had financial implications.²² For example, Sweetia had financial difficulties in running his business, as mentioned earlier, and after the Co-hong was established in 1760, he became a member of the association. The position which Sweetia played in the creation of the guild is not clear, but it has been argued that his financial distress played a crucial part in

¹⁹ 許地山 Hsü Ti-shan, 達衷集 (*Ta Chung-chi*) (Collected Letters and Ordinances), pp. 127-9.

²⁰ Morse, *The Chronicles*, Vol. V, pp. 94.

²¹ For the English translation of these regulations, see IOR: R/10/FR/4, 12 April, 1760, pp. 11-17.

²² Cheong, *Hong Merchants of Canton*, p. 254.

his support of the establishment of the Co-hong in 1760.²³ Indeed, as most of the Co-hong merchants had some level of financial difficulties or debts recorded by the EIC in 1761,²⁴ it is reasonable to assume that the Hong merchants had to make use of the Co-hong organisation in order to improve their financial situation. In addition, it became an ideal institution through which the Chinese government could deal with the unpaid duties left by the Hong merchants. When Beau Khiqua died, as noted earlier, not only did he owe money to foreigners, but he also left customs duties unpaid. As a result, the Chinese government made a rule that the Co-hong was to pay off any arrears of duties left unpaid when any merchant went bankrupt.²⁵

The formation of the Co-hong guild bound the Hong merchants together to set the price of tea and other Chinese commodities. However, this did not protect some of the Co-hong merchants against insolvency, especially after the late 1760s when, due to the leadership struggles among the merchants, the association gradually became only a nominal guild without any of the real functions of a monopolistic body.²⁶ Some merchants were under such financial pressure in the late 1760s that they owed a considerable amount of money to the EIC.²⁷ For example, Cowshaw by the beginning of 1769 owed the EIC 33,050 taels. After being pressed by the Supercargoes, the merchant, on 20 January, promised to pay the Company ten thousand taels in a few days time. As for the remainder of 23,050 taels he owed to the Company, the Supercargoes negotiated with him to provide tea at much reduced prices. The prices being offered to solvent

²³ *Ibid.*, p. 149.

²⁴ IOR: R/10/FR/5, (Diary 1761/62), 26 July 1761, pp. 16-7.

²⁵ Chen, *The Insolvency of Chinese Hong Merchants*, p. 185.

²⁶ For the Hong merchants' leadership-struggle, see Cheong, *Hong Merchants of Canton*, Chapter Three.

merchants at that time were 16 taels for Bohea Tea, 24 taels for Singlo and 26 taels for Twankay. However, the prices offered to Cowshaw were set at only 13.5 taels for Bohea, 22 for Singlo, with 24 taels for Twankay Tea.²⁸ The EIC also had meetings with Chetqua, another debtor, to discuss the settlement of his debt of 189,500 taels. The EIC placed Chetqua under considerable duress by threatening to report the depth of his indebtedness to the government. Consequently the merchant repaid 40,000 taels in cash, then contracted to supply teas worth 110,311 taels at reduced prices, and finally he gave an IOU for 30,189 taels.²⁹ His debt of 146,500 taels owed to the EIC in the next year was settled in a similar way.³⁰

The extent of financial embarrassment suffered by some Hong merchants became more apparent after the dissolution of the Co-hong in 1771. The abolition of the guild not only removed the Hong merchants' umbrella of corporate bargaining power, but also meant that they had to face competition from other Chinese counterparts who had more trading capital. In order to compete with these others traders and in order to pay duties and exactions to the government on time, some junior merchants, whose financial capacity was poor, had to borrow money from foreigners. Nevertheless, because they were unable to pay back the debts immediately when their creditors pressed them for the money, this resulted in financial crises that, for some, even brought about the closure of their hong. For example, Ni Hung-wen (倪宏文), known as Wayqua by the EIC, became a Hong

²⁷ IOR: R/10/FR/7 (Letter Book 1769), 20 January 20 1769, p. 85.

²⁸ *Ibid.* The EIC also advanced money to Cowshaw, with 6 taels for Bohea tea per pecul, 12 taels each pecul for both Singlo and Twankay tea respectively.

²⁹ Cheong, *Hong Merchants of Canton*, p. 141.

³⁰ *Ibid.*, p. 183, no. 63. For the settlement of the debts of 146,500 taels in 1770, Chetqua repaid 38,000 taels in cash, 25,700 taels in an IOU and 84,000 taels in teas at much reduced prices.

merchant after the abolition of the Co-hong and because of his financial problems, he immediately had to borrow money from the English Company to enable him to carry out his trade. At the end of the 1771 trading season (March 1772), the EIC pressed him to return the money owed to the Company, a sum totalling 11,726 taels, but he was unable to repay it at once.³¹ After negotiations, the EIC decided to let him repay his debt in the next season. However, by the beginning of the 1772 season, he was still not able to repay his debts, either in cash or by delivering tea and other goods. The EIC's Canton Council therefore decided to bring Wayqua's case before the Canton authorities. The Governor-General and the Hoppo, however, did not deal with the case immediately, although the reason for this is unclear. It was only dealt with in late 1776 when Li Chih-ying (李質穎), then the Governor of Kwang-tung Province, sent a report relating to Wayqua's debts to Peking.³² Due to the fact that Wayqua's creditors did not receive repayments, the merchant's debt of 11,726 taels was carried over from year to year in the Company's accounts between 1772 and 1776.³³ The reporting of Li Chih-ying to the Emperor resulted in an imperial edict being issued in 1777 which decided Wayqua's destiny. Because he did not have enough money to repay his duties and foreigners' debts, the Emperor ordered him to be banished immediately and permanently to I-li (伊犁),³⁴ a remote region on the border of North-West China with the Central Asia. His debt of Tls.11,216 to the EIC was then settled by the Canton authorities in November 1777.³⁵

³¹ 梁廷楠 Liang T'ing-nan (ed.), 粵海關志 *Yueh-hai-kuan-chih* (A Gazetteer of the Kwangtung Maritime Customs), 卷二十五: 行商 (Chapter 25: Hong Merchants), p. 2; Morse, *The Chronicles*, Vol. II, p. 25.

³² Chen, *The Insolvency of Chinese Hong Merchants*, p. 187.

³³ *Ibid.*, pp. 189, 405, no. 21; see also IOR: R/10/FR/9, 1772/03/09, p. 1, & 1774/01/3, p. 1; G/12/58, 1775/01/12, p. 1; G/12/59, 1776/01/29, p. 1.

³⁴ 粵海關志 *Yueh-hai-kuan-chih*. Ch. 25, pp. 2-3.

³⁵ Morse, *The Chronicles*, Vol. II, p. 25.

Coqua's debts to the EIC is another case in the 1770s worth mentioning. Without sufficient capital to trade with, the merchant's position was not much better than that of Wayqua and he also had to borrow money from foreigners to run his business. In 1776, for instance, Coqua owed a total of 1,428,128 Spanish dollars to English and French merchants,³⁶ with the sum of 20,388 taels owed to the English Company.³⁷ Because he had no money to repay the debt, Coqua offered tea as a part of his debts instead of paying in cash to be delivered in the next season.³⁸ Nevertheless, while dealing with the EIC in February 1777 for the delivery of tea in the next season, the merchant was reluctant to take a 1/8 share of the woollens which the Company arranged for him.³⁹ He also asked the supercargoes to advance more money to help him carry out tea purchases for the Company. Seeing his potential insolvency, the EIC decided not to advance him money which he required.⁴⁰ In September 1778, after having an unsatisfactory meeting with Coqua for the settlement of his debts, the Canton Council decided to stop all business with him and gave his original share of the woollens and tea contracts to another merchant, Munqua.⁴¹ The Chinese tea merchants also refused to give Coqua financial support in this period because of his poor credit.⁴² Being unable to clear his debts and to continue to carry out his trade with Europeans, his position as a Hongist was later removed by the Chinese government.⁴³

³⁶ For the data of Coqua's debts to foreigners, especially for the English and the French creditors, see Dermigny, *La Chine et l'Occident: Le Commerce A Canton Au XVIII Siècle 1719-1833*, II: 898-9.

³⁷ Morse, *The Chronicles*, Vol. II, p. 25.

³⁸ Cheong, *Hong Merchants of Canton*, p. 142.

³⁹ IOR: G/12/59, 8 February 1777, p. 8. He finally accepted to take the 1/8 share of woollens and made tea contracts with the Company).

⁴⁰ Morse, *The Chronicles*, Vol. II, pp. 25-6.

⁴¹ IOR: G/12/64, 27 September 27 1778, pp. 21-22.

⁴² A. B. White, 'The Hong Merchants of Canton' (1967, unpublished Ph.D. thesis, University of Pennsylvania), p. 70.

⁴³ Cheong, *Hong Merchants of Canton*, p. 142.

While dealing with the Hong merchants, the EIC's commanders in Canton had noticed that the Chinese merchants' financial predicament was principally due to their lack of capital and also the want of a western-style banking system to provide loans.⁴⁴ The foreign traders, who had abundant capital at their disposal, naturally became their creditors. It should be emphasised that the foreign creditors were not only the European chartered companies, such as the EIC and the VOC, but also the commanders of the ships of European Companies, as well as some private traders. As noted in chapter four, the private traders benefited from their country trade between India and China. A sizeable percentage of these private traders' profits had been employed in the purchase of the East India Company's bills of exchange issued in Canton, to be cashed either in India or more often in London. In the early 1770s, however, the EIC's Court of Directors ordered the Canton Council to curtail the issuing of bills, partly because the Company had a serious financial crisis in London in the early 1770s.⁴⁵ Accordingly, because their profits could not be completely remitted home by means of bills of exchange, these private traders offered their spare money to Chinese merchants, with interest rates being as high as twenty or even thirty per cent. Due to the very high interest rate, the money owed by the Hong merchants accumulated very rapidly in the following years and later on many of them were in the position of being unable to repay the debts.⁴⁶ This created a financial crisis for the Hong merchants and finally resulted in some of these merchants' declaring bankruptcy.

⁴⁴ IOR: R/10/FR/8 (Letter Book 1775), 17 November 1775, p. 84.

⁴⁵ According to White ('The Hong Merchants of Canton', p. 66), the reason that the Company decided to reduce the bills issued to private traders was because its London tea sales had declined.

⁴⁶ White, 'The Hong Merchants of Canton', pp. 66.

A famous case was that of Yngshaw who owed a considerable amount of money to foreigners. Yngshaw (顏時瑛) had, since the early 1770s, owed money to foreigners and by 1779/80 his debts had accumulated to the sum of over 1,354,000 Spanish dollars, according to the Canton Customs Office.⁴⁷ The figures presented by Dermigny, as well as those in the English Company's records were even larger, showing that total Yngshaw's debts to the French and the British were 1,502,407 dollars, with 1,387,310 dollars belonging to British creditors.⁴⁸ Because the Company was among the creditors, the newly-founded Select Committee was asked by some private merchants to deal with Chinese merchants who owed them money. For instance, Mr. Parkes, the captain of a country ship, asked the EIC in 1779 to deal with the 80,000 taels he was owed by Yngshaw. After negotiations, Yngshaw first paid the Company a sum of 74,000 taels from which the EIC recovered its losses of 44,000 taels and then paid Parkes 30,000 taels, leaving Yngshaw still owing Parkes 50,000 taels. Then the Chinese merchant was obliged to deliver teas worth of 148,000 taels, for which the Supercargoes only paid him at half price, i.e. 74,000 taels which, of course, would yield a greater profit for the EIC when the tea was eventually sold in London.⁴⁹

As with Yngshaw, another Hongist Kewshaw (張天球) had also owed a considerable amount of money to foreigners during the 1770s. In 1771, for example, the merchant owed the EIC 87,603 taels, then 22,742 taels in 1774, and 44,000 taels in the 1778

⁴⁷ 粵海關志 *Yueh-hai-kuan-chih*, (卷二十六: 夷商, 八), Ch. 26, p. 8.

⁴⁸ See IOR: G/12/168, 4/12/1779, pp. 69-82; Dermigny, *La Chine et l'Occident*, Vol. II, pp. 898-9. The debts of \$1,387,310 were the sum owed to the EIC's commanders and other private traders. This figure does not include the Hong merchants' debts to the Company.

⁴⁹ *Ibid.*, p. 186.

season.⁵⁰ By 1779/80 the total amount of Kewshaw's debts to foreigners, based on Chinese official data, was 438,000 Spanish dollars.⁵¹ The EIC Canton Records and Dermigny suggested that the figure was 448,016 dollars, with 399,643 dollars owed to the English.⁵² After adding Yngshaw's 1,502,407 dollars, the two merchants in total owed 1,950,423 dollars to the British and French. Yet, this figure does not include their debts to other people, such as their fellow countrymen. For example, they owed money to other Chinese merchants that amounted to 1,300,000 taels for Yngshaw and 600,000 taels for Kewshaw.⁵³ Apart from their debts to foreigners and fellow countrymen, the two merchants also had unpaid customs duties for 150,000 taels.⁵⁴ With so many debts left unsettled, Yngshaw and Kewshaw were on the verge of bankruptcy. The EIC Select Committee, representing all British creditors, then petitioned the local government and the Canton authorities finally had to arrange the liquidation of the two merchants' debts.

Firstly, after reporting to the Emperor about the Canton merchants' debts, an imperial edict was issued to Canton in 1780. In the decree, the Chinese government insisted that the edict of the 25th year of the Emperor *Chien-lung*'s rule (i.e. 1760) stipulated that Chinese merchants were prohibited from being indebted to foreigners,⁵⁵ and therefore 'any debts contracted after that year would be deemed illegal.'⁵⁶ Accordingly, the Canton authorities regarded the two merchants' debts occurred after 1760 as violating official

⁵⁰ Cheong, *Hong Merchants of Canton*, p. 152.

⁵¹ 粵海關志 *Yueh-hai-kuan-chih*, Ch. 26, p. 8.

⁵² Dermigny, *La Chine et l'Occident*, Vol. II, pp. 898-9; IOR: G/12/168, 4 December 1779, p. 69.

⁵³ Chen, *The Insolvency of Chinese Hong Merchants*, p. 202.

⁵⁴ *Ibid.*, 206.

⁵⁵ IOR: R/10/FR/10, 16 February 1780, p. 15; 粵海關志 *Yueh-hai-kuan-chih* (卷二十六: 夷商, 八), Ch. 26, pp. 8-9.

⁵⁶ Chen, *The Insolvency of Chinese Hong Merchants*, p. 202.

regulations.⁵⁷ As a result, Yngshaw and Kewshaw had to be punished for being indebted to foreigners for many years during the 1770s. To evade the punishment, Yngshaw and Kewshaw in consequence made false statements asserting that all their debts had been incurred before 1758.⁵⁸ However, this did not prevent them from being punished by the government. After the Governor of Kwang-tung Province, Li Hu (李湖), had informed the Imperial Court in Peking about the merchants' financial difficulties, Yngshaw and Kewshaw were sentenced to jail and then sent to *I-li*, the same fate that Wayqua received.⁵⁹ The remaining effects of the two merchants were then confiscated by the government and sold to cover their arrears of customs duties. Because the money was not enough to cover the total duties they were obliged to pay, the Hoppo ordered the balance to be paid by the rest of security Hongists.⁶⁰

The government then took on the job of settling the foreign debts owed by Yngshaw and Kewshaw. It should be noted here that the Chinese government's settlement of the two merchants' foreign debts was quite different to that of Wayqua's. In Wayqua's case, the Chinese government repaid almost the full sum of his debts to the foreigners. However, when handling the Yngshaw's and Kewshaw's debts, the Chinese government made efforts to reduce the total amount owed to foreigners. Although the Canton authorities demanded that the foreign creditors should provide a detailed account of the debts owed by the two merchants,⁶¹ the Ch'ing officials, in order to reduce the amount of money to

⁵⁷ Basu, 'Asian Merchants and Western Trade', p. 331.

⁵⁸ *Ibid.*, pp. 202-3. Yngshaw and Kewshaw did contract their business and had debts before 1758, however, most of their debts occurred in the 1770s.

⁵⁹ 粵海關志 *Yueh-hai-kuan-chih* (卷二十五: 行商, 三), Ch. 25: Hong Merchants, p. 3.

⁶⁰ Chen, *The Insolvency of Chinese Hong Merchants*, p. 206.

⁶¹ IOR: R/10/FR/10, 10 February 1780, p. 13.

be repaid to the foreign creditors, emphasised the debts on the 'original principals'.⁶² They insisted that the Chinese tradition of 'one principal, one interest' was reaffirmed in a law of 1708, and accordingly the Canton authorities made clear that any legal claim of debts could be only 'for an amount of interest equal to the principal'.⁶³ With this idea in mind, the Chinese government agreed to repay the foreign creditors the original principals borrowed before 1760 with interest being approximately equal to the principal.

As just noted, Yngshaw's and Kewshaw's debts to foreigners in 1779/1780 were 1,354,000 Spanish dollars (about 1,000,000 taels) and 438,000 dollars (about 320,000 taels) respectively, according to Chinese sources. In fact, the original principals were relatively small when compared to the total amount of debts that they owed; the principal amounts were only 165,600 taels for Yngshaw's and 136,700 taels for Kewshaw's respectively.⁶⁴ The Canton authorities thus declared that the original principals be doubled and this payment made to foreign creditors.⁶⁵ Accordingly, the total sum of Yngshaw's and Kewshaw's debts that the government arranged to pay to the foreigners was approximately 600,000 taels. This was slightly less than half the amount declared by the creditors. The final settlement of 600,000 taels was to be paid by other solvent Hong merchants and this was to be repaid over a ten year period, due to finish in 1790.⁶⁶ The first instalment was made in April 1781 and the amount which the EIC received was 81,738.5 Head dollars (around 58,000 taels).⁶⁷ The second installment was made in April

⁶² Chen, *The Insolvency of Chinese Hong Merchants*, p. 203.

⁶³ White, 'The Hong Merchants of Canton', p. 74.

⁶⁴ 粵海關志 *Yueh-hai-kuan-chih*, Ch. 26, pp. 8-9.

⁶⁵ Chen, *The Insolvency of Chinese Hong Merchants*, p. 203

⁶⁶ *Ibid.*, p. 205; White, 'The Hong Merchants of Canton', pp. 70, 75.

⁶⁷ IOR: G/12/72, 25 April 1781, p. 80; 30 April 1781, p. 83.

1782, followed by the third and fourth installments being repaid in March 1783 and April 1784 respectively.⁶⁸

The mode of settling Yngshaw's and Kewshaw's debts became the model that was to be followed for other similar cases in later years. When any Hong merchant became insolvent, the EIC would send a petition to the Canton authorities asking them to deal with the debts. The procedure of the settlement of the debts by the government was as follows. The case would be first reported to the Imperial Court and the bankrupt merchants holding foreign debts would be punished according to the Emperor's edict. The Governor-General and the Hoppo in Canton then arranged for the solvent Hongists to be responsible for the payments of the debts, to be repaid by installments over a certain number of years.

⁶⁸ IOR: G/12/76, 1782/04/14, p. 24; G/12/77, 1783/03/03, p. 22; G/12/79, 1784/04/18, p. 36. The repayments of the following three years' installments can be seen in G/12/79, 1785/03/11, p. 16; G/12/82, 1786/03/09, p. 15; G/12/86, 1787/06/12, p. 12.

6.2 The Years after the Establishment of the Consol Fund and Charges

Under the Chinese government's arrangements, Yngshaw's and Kewshaw's unpaid customs duties and foreign debts were to be settled by the other solvent Hong merchants over a ten-year period. However, these two Hongists were not the only merchants who suffered from financial embarrassments. A few of the other Canton Hong merchants also encountered serious financial difficulties in the late 1770s, owing money to foreigners as well as having insufficient capital to pay customs duties and other official charges.⁶⁹ This helps to explain why the Hong merchants in 1770s repeatedly attempted to restore the Co-hong guild, as mentioned in the last chapter. With the majority of Hong merchants having financial difficulties in the period, the Chinese government decided to take steps to adjust the Hong-merchant system.

6.2.1 The 1780s

In order to tackle the Hong merchants' debt problems, the Canton authorities first bound the Hongists together as a body with responsibility for the unpaid government duties and debts left by the bankrupt merchants. The settlement of the Hong merchants' debts was administrated in the traditional Co-hong guild building,⁷⁰ i.e. the 'Wai-yang-hang Hui-kuna' (外洋行會館)⁷¹ or 'Yang-hang Hui-kuan' (洋行會館)⁷² which means the public

⁶⁹ For other merchants' debts to foreigners, see IOR: G/12/68, 4 December 1779, pp. 69-82; Dermigny, *La Chine et l'Occident*, Vol. II, pp. 898-9.

⁷⁰ Basu, *Asian Merchants and Western Trade*, p. 344.

⁷¹ Chen, *The Insolvency of the Chinese Hong Merchants*, p. 388, no. 112.

⁷² 梁嘉彬, 廣東十三行考 *Kuang-tung Shih-san-hang K'ao* (Liang, C. P., *A Study of the Kwangtung Thirteen Hongs*), Ch.3, Section 3 (尾篇, 第三節), p. 368.

hall of the [foreign trade] Hong Merchants. It was known to foreigners as the 'Consoo House' because it was 'the public hall' for all the Hong merchants who traded with foreigners.⁷³ In order to obtain sufficient capital to meet the demands for repayment of official duties and debts owed to foreigners, the government then decided that an association fund for that purpose was to be set up. As a result, a public fund of the Hong merchants was established in 1780, and this was known to foreigners as the 'Consoo Fund'.⁷⁴

To enable the Consoo Fund to work effectively, the government decided that many traded articles were to be taxed at an *ad valorem* rate of three per cent.⁷⁵ The *ad valorem* charge of 3 per cent had to be distinguished from regular customs duties that already existed.⁷⁶ Moreover, it was based on a price upon each article that was fixed by the Canton authorities.⁷⁷ For example, the price of cotton was fixed at 8 taels per picul, with 15, 13.5 and 4.5 taels per picul for imports of copper, tin and lead respectively. As for the main export commodities, 160 taels per picul was the fixed price for raw silk and 25 taels per picul for Nankeen cloth, while all sorts of tea, including green and black, were set at 20 taels per picul. The only exception was Bohea tea which was fixed at 10 taels per picul.⁷⁸

⁷³ Hunter, *Bits of Old China*, pp. 172-3 (The word of 'Consoo' was derived from *Gong-suo* or *Kung-so* (公所), meaning 'the public hall'.)

⁷⁴ J. R. Morrison, *The Chinese Commercial Guide*, p. 33; J. Phipps, *A Practical Treatise on the China and Eastern Trade*, p. 151.

⁷⁵ Morrison & Phipps, *Ibid.*

⁷⁶ Basu, *Asian Merchants and Western Trade*, p. 344.

⁷⁷ Chen, *The Insolvency of the Chinese Hong Merchants*, p. 89.

⁷⁸ For the fixed price of each commodity, see the table in Phipps, *A Practical Treatise on the China and Eastern Trade*, p. 157.

The charges collected for the purpose of the Consoo Fund were known to the Company as the 'Consoo charges' or 'Cohong charges',⁷⁹ and they were derived from taxes upon the articles traded between the Hong merchants and foreigners that were called 'hang-yung' (行用) in Chinese, that is "for the disbursement of Hong".⁸⁰ In the beginning, only twenty-two commodities were liable to the Consoo charges, but from the late 1780s onwards, another forty-seven articles were also added. In total, therefore, there were sixty-nine articles liable to the charges for the Consoo Fund and they 'remained subject to the imposition throughout the existence of the hong system'.⁸¹ It is however noteworthy that although most major trading commodities were liable to be charged, a few important articles imported into Canton, such as woollens, calicoes and iron, were exempted. As the trade of these commodities were principally confined to Puan Khequa who was the leading Hong merchant and had a close relationship with the EIC, it is most likely that the three articles were exempted because of his powerful influence in the Canton trade.⁸²

In order to raise more money for the repayment of the Hong's debts, the Canton authorities soon decided to impose extra duties on certain articles, in particular upon the export of tea and raw silk. Accordingly, the surcharge of three per cent upon these articles was increased to six per cent, although the fixed price for each article remained

⁷⁹ IOR: G/12/118, 11 & 12 September 1797, pp. 127, 132. Because the Canton Hoppo bound the Hong merchants together for the responsibility of the unpaid duties and debts, the EIC regarded the body of the Hong merchants as a sort of 'Co-hong' (guild) in finance.

⁸⁰ 陳國棟 Chen K. T., '論清代中葉廣東行商經營不善的原因', ('Reasons as to the Perennial Insolvency of the Ch'ing Dynasty's Canton Hong Merchants'), 新史學 (New History), Vol. 1, No. 4, p. 23; Morrison, *The Chinese Commercial Guide*, p. 33; Phipps, *A Practical Treatises on the China and Eastern Trade*, p. 151.

⁸¹ Chen, *The Insolvency of Chinese Hong Merchants*, pp. 89-90.

⁸² Basu, 'Asian Merchants and Western Trade', p. 344; Morrison, *The Chinese Commercial Guide*, p. 33; Phipps, *A Practical Treatises on the China and Eastern Trade*, p. 151.

unchanged.⁸³ This occurred in March 1781 when the EIC's Council of Supercargoes was informed by Puan Khequa that a charge of 0.62 tael per pecul for Bohea tea and one tael and two maces (i.e. 1.2 tael) per pecul for other sorts of tea was to be made for the purpose of repaying Yngshaw's and Kewshaw's debts.⁸⁴ Because the arrangement resulted in an increase in the prices of tea, the Company complained to Puan Khequa 'how unjust it was to make the Company's trade pay the debts of individuals'.⁸⁵

The EIC's complaint was in vain owing, in part, to the Consoo charges being arranged by the Canton authorities. Furthermore, because by the season 1780-81 only Puan Khequa, Chowqua, Munqua, Shy Kinqa and Seunqua (III) still remained solvent, the Company did not have any option but to trade with this handful of Chinese merchants who controlled the foreign trade in Canton. The Chinese merchants' advantage is reflected in the tea contracts. Puan Khequa, for example, in March 1781 expressed the view that the price of tea contracted in the previous year had been too low. Accordingly, he requested that if the Company desired to buy his tea at a cheaper price than the price he demanded, a high percentage of money had to be advanced to him. For instance, the price was 14 taels per pecul with an advance for Bohea Tea, or 15 taels per pecul without an advance.⁸⁶ Chowqua, Munqua and Shy Kinqa later also asked the EIC for the same price and terms as Puan Khequa had received. The Council of Supercargoes felt it was a disadvantageous agreement, but they observed that 'as we are entirely in the hands of these men, we fear

⁸³ Morrison & Phipps, *Ibid.*

⁸⁴ IOR: G/12/72, 16 March 1781, p. 44.

⁸⁵ *Ibid.*

⁸⁶ *Ibid.*, p. 43.

we shall be obliged to come into their terms however unreasonable'.⁸⁷ A similar case took place in April 1782 when the EIC made an agreement with the Hong merchants for the delivery of Nankeen cloth. The Company wanted to 4 maces and 3 candareens (i.e. 0.43 tael) per piece, however, Chowqua insisted that he would not take less than 0.44 tael, and also that he preferred to have an advance upon it. As no cheaper and better alternatives could be found, the re-established Canton Council agreed to comply with his terms, but asserted that this was not to be a precedent for other years; Chowqua consented to.⁸⁸

The two cases cited above indicate that the Company was in a disadvantageous position in its Canton trade when it was dominated by a handful of Hong merchants. These few surviving Canton Hong merchants, however, were not always in a superior position when dealing with the EIC for tea contracts. At the same time as they were contracting Nankeen cloth with Chowqua, the supercargoes observed that Shy Kinqa 'was much in want of ready money' and the Council found this to be a good opportunity to get a better deal on tea contracts. Indeed, the supercargoes succeeded in contracting Shy Kinqa to deliver a total number of 3,000 peculs of Bohea tea at 14 taels with an advance and also 1,000 peculs at 14.5 taels without an advance.⁸⁹ This also helped the Company to establish deals with two other wealthier merchants, Chowqua and Puan Khequa. Chowqua agreed to provide the EIC 3,000 peculs of Bohea, and Puan Khequa for 9,000

⁸⁷ *Ibid.*, p. 45.

⁸⁸ IOR: G/12/76, 8 April 1782, pp. 18, 20. After the Consoo Fund was established, the Company re-established a council of supercargoes, and the Select Committee formed in 1778 was dissolved (see Chapter One for the structure of the EIC's administration in Canton).

⁸⁹ *Ibid.*, pp. 17, 18.

peculs, with prices at 14 taels with an advance and 14.5 taels without an advance.⁹⁰

Considering that there were only few merchants in business who were responsible for the trade with Europeans and for the Consou charges, the Canton authorities in late 1782 recruited five new merchants to join the survivors.⁹¹ The new five Hong merchants were Seequa, Lunshaw, Pinqua, Sinqa and Geowqua,⁹² and their acceptance as Hong merchants increased the number of Chinese merchants eligible to deal with Europeans to ten.⁹³ Due to the unfavourable conditions of the 1780/1 and 1781/2 seasons when the Company had to comply with the terms laid down by the few Chinese merchants who controlled the entire foreign trade, the supercargoes soon contracted with the new merchants for the delivery of tea. For example, the EIC on the 5th March 1783 contracted with Geowqua to deliver 250 peculs of Singlo Tea and also 250 peculs for Twankay Tea. The price for the tea was agreed at 23 taels per pecul for Singlo, with 25 taels for Twankay. These prices were the same as those teas offered by Shy Kinqa and Chowqua, although the two latter senior merchants provided a larger quantity.⁹⁴

The emergence of the new Hong merchants gave the EIC more choice in its procurement of tea and prevented the China trade from being controlled by a few senior Hongists.

⁹⁰ *Ibid.*, pp. 18, 23. Unlike Puan Khequa, Chowqua, Munqua and Shy Kinqa being often noted by the EIC's supercargoes, Seunqua's name seldom appeared in the Company's records. The reason that he was not mentioned by the Company was not clear. Probably it was due to his mainly dealing with other European other than the EIC.

⁹¹ Apart from Puan Khequa, Chowqua, Munqua and Shy Kinqa being often noted in the EIC's records, Sunqua was also a Hong merchant trading in the same period. The reason that he was not mentioned by the Company was not clear. Probably it was due to his mainly dealing with Europeans other than the EIC.

⁹² Cheong, *Hong Merchants of Canton*, pp. 154, 186, no. 110.

⁹³ Cheong, *Hong Merchants of Canton*, pp. 154, 186, no. 110; Chen, *The Insolvency of Chinese Hong Merchants*, p. 14.

⁹⁴ IOR: G/12/77, 5 March 1783, pp. 23, 24. The quantities of tea that the EIC contracted with Shy Kinqa

However, in order to prevent the total number of Hong merchants being reduced again in the future, thus weakening its bargaining power, the EIC sought to give trade opportunities to those, including senior merchants, who were in financial difficulties. This was the case with Munqua who although he managed to overcome the late 1770s' debt crises, found that he was in trouble in the early 1780s. Unlike Puan Khequa who traded mainly with the EIC, a large percentage of Munqua's business was with the VOC. The absence of the Dutch Company's trade at Canton in 1780-4 because of war precipitated a financial crisis for Munqua.⁹⁵ Thus the Canton Council, in March 1783, observed that 'as Munqua's situation is at present rather embarrassed ... had we excluded him [from our trade] entirely, it might have been ruin.'⁹⁶ The EIC therefore decided to contract with him for the delivery of tea to enable him to continue his business. However, thinking it not proper to entrust him with a large quantity of tea as with other senior merchants, the Supercargoes only contracted with him for 250 peculs of Singlo Tea and 250 peculs for Twankay. These amounts were much smaller than those of 1,000 peculs of Singlo and 500 peculs of Twankay granted to Shy Kinqa and Chowqua respectively.⁹⁷

Se-unqua (蔡昭復), another senior merchant who remained in business after the debt crisis of the late 1770s,⁹⁸ had similar financial difficulties to those Munqua encountered in the first half of the 1780s. Because his Hong (義豐行 *I-feng Hong*) had also traded

and Chowqua were the same which were 1000 peculs for Singlo and 500 peculs for Twankay respectively.

⁹⁵ Cheong, *Hong Merchants of Canton*, p. 172.

⁹⁶ IOR: G/12/77, 5 March 1783, p. 23.

⁹⁷ *Ibid.*, pp. 23, 24.

⁹⁸ He had e.g. a total amount of around 603,061 Spanish dollars indebted to the British subjects for the season of 1779 (according to Dermigny, *La Chine et l'Occident*, Vol. II, p. 898).

mostly with the Dutch and other Continental Europeans, their disappearance from the Canton market seriously affected Seunqua's business.⁹⁹ Consequently, his finance was so seriously jeopardised that in 1784 the Hoppo reported it to the Emperor. The result was that his hong was closed and it was ordered that his debt of 166,000 taels was to be repaid by other solvent security merchants in installments over a certain number of years.¹⁰⁰ However, because he seldom contracted with the EIC, the supercargoes did not take action to help him with finance in order to keep him in business, as they did with Munqua.

In the beginning those newly-recruited junior merchants had no serious financial problems. However, Seequa (one of the five merchants recruited in 1782) unexpectedly died in 1784 and left foreign debts behind which included an amount of 1,077,760 taels owed to the EIC.¹⁰¹ The Company's supercargoes thus negotiated with Howqua (Lin Shih-mao 林時懋), a new Hong merchant recruited by the Canton authorities in October 1784,¹⁰² to be responsible for the repayment of the debt. It is not clear whether or not his becoming a Hong merchant was because the Canton authorities appointed him to take over Seequa's position. However, partly because of his being once a close colleague of Seequa in Puan Khequa's hong,¹⁰³ the supercargoes succeeded in making Howqua consent to take the responsibility of paying back Seequa's debt of 1,077,760 taels.¹⁰⁴ As

⁹⁹ Chen, *The Insolvency of Chinese Hong Merchants*, p. 411, no. 93.

¹⁰⁰ 粵海關志 *Yueh-hai-kuan-chih*, Ch. 25, p. 6.

¹⁰¹ IOR: G/12/79, 10 February 1785, p. 155.

¹⁰² *Ibid.*, 2 October, 1784, p. 63. Howqua obtained a chop from the Canton Hoppo and was appointed as a Hong merchant. His proper Chinese name was Lin Shih-mao (林時懋). He should not be confused with the other Howqua who acted as the head merchant mentioned in Chapter Two. They were different people.

¹⁰³ Chen, *The Insolvency of Chinese Hong Merchants*, p. 225. Both Seequa and Howqua had formerly been clerks and pursers in Puan Khequa's hong.

¹⁰⁴ IOR: G/12/79, 10 January 1785, p. 155.

a newly-appointed Hong merchant, Howqua showed his strong desire to contract with the Company for tea delivery. The EIC's Canton Council, therefore, saw it as an opportunity to purchase tea on good terms. Consequently, on 11 October 1784, around ten days after becoming a Hongist, the Company contracted with him for 1,000 peculs of Bohea Tea at 14 taels a price, a deal which Seequa had declined during the previous season.¹⁰⁵ In January 1785, the EIC again purchased tea from him, contracting for 329 chest of good Hyson Tea at 36 taels per pecul and 524 chests of Souchon Tea at 25 taels per pecul.¹⁰⁶

When considering the Hong merchants' financial problems in the 1780s, it should be noted that in this period the Company was also experiencing financial difficulties. As mentioned earlier, the Company's Canton Factory was unable to receive any silver bullion from England in the period of 1779-85 because of the outbreak of the American War. Moreover, the passage of the Commutation Act in 1784 pressurised the Canton Treasury into providing capital to finance its enlarged export trade from China. As a result, in many years during the 1780s the EIC had to buy tea on account from the Hongists. Purchasing tea on credit in this period left the EIC indebted to the Chinese merchants in most years of the decade and this can be clearly seen in Table 6.1. Indeed, the increasing quantities of tea purchased by the Canton Factory after 1785 resulted in a rapid rise in debts owed to Chinese merchants. From a figure of only 453,865 taels payable to Chinese merchants in 1785, there was an increase in indebtedness to 1,271,284 taels in 1786, with the figure reaching 1,352,292 taels in 1787.

¹⁰⁵ *Ibid.*, 11 October 1784, p. 71.

¹⁰⁶ *Ibid.*, 10 January 1785, p. 155.

6.1 The EIC's debts to Chinese Hong Merchants in the 1780s (taels)

Year	Debts to Hongists	Debts by Hongists	Balance
1781	none	none	-----
1782	266,560	none	– 266,560
1783	245,110	236,880	– 8,230
1784	207,983	none	– 207,983
1785	452,865	none	– 452,865
1786	1,271,284	none	– 1,271,284
1787	1,352,292	none	– 1,352,292
1788	580,948	106,394	– 474,554
1789	144,332	305,502	+ 161,170
1790	none	73,109	+ 73,109

Source: Morse, *Chronicles of the East India Company's Trading to China*, Vol. II, pp. 74, 83, 95, 110, 118, 135, 151, 172, 179.

The Company had to purchase tea by credit in the period due to its special financial conditions, but, as already indicated, many Hong merchants did not have sufficient capital with which to conduct their business. The years after the passage of the Commutation Act put serious financial pressure upon these merchants. Whether the Hong merchants who lacked capital to trade had to borrow money on a large scale from private traders or their fellow-countrymen to cope up with any financial difficulties in the late 1780s requires further examination. It is apparent, however, that from around 1789 onwards the financial relationship between the EIC and the Hong merchants returned to being much the same as it was the 1770s and the EIC again played the role of creditor, while the Hong merchants again became debtors.

6.2.2 The 1790s

The new situation became more obvious by the middle of the 1790s when the total amount of Chinese debts to the Company reached 1,606,669 taels for the season of 1793, and 1,488,642 taels in the following year.¹⁰⁷ A rapid increase of debt to the Company in the early 1790s implies that the Canton Hong merchants again encountered serious financial difficulties. Indeed, many Hongists became insolvent in 1790s. For example, in 1791 Eequa (吳昭平), who in 1785 took over Sinqua's hong (T'ai-hung Hong 豐泰行), failed to repay his debt owed to foreign lenders and after being reported to the Imperial Court, his hong was forced to close. He was then banished to *Yi-Li* (i.e. I-li 伊犁), the place where Yngshaw and Kewshew had been sent in 1780.¹⁰⁸ His debt (i.e. 400,000 dollars) was first repaid to the foreign creditors by the Canton Customs Administration and in turn the Hoppo demanded the body of the Hong merchants to reimburse the same amount of money by instalments to the government.¹⁰⁹ Pinqua, one of the five merchants recruited to be Hongists in 1782, also had financial problems and his hong became seriously involved in debts by the end of the 1792/93 season. Finding his situation irretrievable, the Canton authorities ordered him to retire. Then the Hoppo made Gnewqua (Pinqua's business partner) a Hong merchant in place of Pinqua and arranged for him repay by Puiqua's.¹¹⁰

¹⁰⁷ Morse, *The Chronicles of the East India Company's Trading to China*, Vol. II, pp. 192, 205.

¹⁰⁸ IOR: G/12/101, 28 September 1791, p. 49.

¹⁰⁹ 粵海關志 *Yueh-hai-kuan-chih*, Ch. 25, p. 9; 王之春 Wang Chih-ch'un 國朝柔遠記 *Kuo-ch'ao jou-yuan chi* (The Records of the Ruling Dynasty's Graciousness to Strangers), Ch. 6, ff. 4-5.

By the late 1780s Howqua had insufficient capital to run his business and pay the official duties. Indeed, at the end of 1788, he was unable to pay the customs duties to the Hoppo. In the meantime, he also failed to pay for the goods he had purchased from two American traders, Frazier and Mifflin, and Howqua later received promissory notes from these two creditors.¹¹¹ Moreover, he also had a negative balance which needed to be settled with the East India Company.¹¹² Knowing that trouble was ahead, Howqua absconded on 24 December 1788.¹¹³ As a result, through arrangements made by the Canton authorities, Howqua's arrears of customs duties were repaid by Munqua who had just become the head merchant. The Hoppo also commissioned Munqua to provide goods to the amount owed to the two Americans and redeem the promissory notes from them.¹¹⁴

Before Howqua went bankrupt and ran away, the EIC made efforts to help him keep solvent. On 19 December 1788 (a few days before Howqua disappeared), the Company agreed to purchase a chop of 628 chests of Congo Tea from him, despite the fact that the chop was not thought to be of very good quality. For the procurement, the Company successfully brought the price down and the tea was purchased at 26 taels per pecul which the supercargoes thought favourably compared with former purchases made at 28 taels or more from other merchants.¹¹⁵ The tea was soon received, but it was not allowed to be shipped on board immediately because Howqua was in arrears to the Hoppo for

¹¹⁰ Chen, *Insolvency of the Chinese Hong Merchants*, p. 212.

¹¹¹ *Ibid.*, p. 214. The money owed to the two Americans was around 6,000 dollars, but after adding other foreign debts, the total amount of the promissory note was worth 39,830 dollars.

¹¹² IOR: G/12/94, 19 December 1788, p. 35.

¹¹³ *Ibid.*, 24 December 1788, p. 43.

¹¹⁴ Chen, *The Insolvency of the Chinese Hong Merchants*, p. 214.

¹¹⁵ IOR: G/12/94, 19 December 1788, p. 35.

duties. Consequently, Munqua was ordered by the Hoppo to be answerable for the fees¹¹⁶ and finally 'Howqua's chop of Congo [Tea] was shipped off through means of Munqua' on 24 December 1788.¹¹⁷

Geowqua, another Hong merchant recruited in 1782, had the same destiny. He was once Yngshaw's purser and after Yngshaw's failure, the Hoppo made him a Hong merchant.¹¹⁸ Lacking capital and being unable to repay his debts to foreigners, Geowqua found it difficult to continue his trade by the season 1797/8. In particular, when his creditors, mainly Indian country traders, pressed him to repay the debts, he had to plead with the Company for financial assistance. In January 1798 Geowqua informed the Canton Committee that he had been for a while unsuccessful in his trade and 'his difficulties had so increased upon him that without our assistance he was afraid it would not much longer he is in his power to ... but that if we would afford him relief to enable him to ... [repay the money] to whom [the country merchants] he was indebted would ... [make him] delivering more of his contract teas to us'¹¹⁹ Nevertheless, because Geowqua already owed the Company between 50 and 60 thousand tales, the Committee 'considered it both useless and imprudent to involve the Company further in his debts' and therefore declined his plea.¹²⁰ Afterwards, because it was not possible to get debts back from him, Geowqua's foreign creditors made a petition to the Chinese officials. The arrears on the customs duties were then arranged to be repaid by the body of the Hong merchants who

¹¹⁶ *Ibid.*, 20 December, 1788, p. 37.

¹¹⁷ *Ibid.*, 24 December, 1788, p. 43.

¹¹⁸ Chen, *The Insolvency of Chinese Hong Merchants*, p. 216.

¹¹⁹ IOR: G/12/119, 26 January 1798, pp. 96-97.

¹²⁰ *Ibid.*

contributed charges to the Consou Fund.¹²¹ As for the repayment of the foreign debts, however, the Canton Hoppo ordered Geowqua's cousin Puiqua, also a Hongist, to be held responsible for it.¹²² As Geowqua's debt was huge, the Select Committee decided to let Puiqua retain Geowqua's share of the Company's business in the following season.¹²³ In order to continue to help Puiqua reimburse himself in the following seasons, the Company added one share to Puiqua's holding for all the Company's future transactions with this merchant.¹²⁴

Our discussion indicates that several junior merchants became insolvent in the 1790s, but even the senior and long-standing Hong merchants encountered financial problems in the late 1790s. Shy Kinqa (石鯨官), for example, began to run his firm (Er-yi Hong 而益行) in 1778.¹²⁵ Although it was observed by the Company in the early 1780s that he 'was much in want of ready money',¹²⁶ Kinqa managed to stay in business and was granted a four-sixteenths share of the EIC's woollens in February 1790. This was the largest share after that of Puan Khequa's hong which was for five-sixteenths.¹²⁷ In this year his son (石中和) took over the business from him. The son was also known as Shy Kinqa (hereafter as Shy Kinqa II) and under his management, the *Er-yi Hong* continued to play an important role in providing tea for the EIC. The Company's records

¹²¹ Chen, *The Insolvency*, p. 217.

¹²² IOR: G/12/119, 6 February, 1798, p. 117. According to Chen (*The Insolvency*, p.217), Puiqua was Geowqua's nephew.

¹²³ Both Puiqua's and Geowqua's previous holdings of the Company's business were two shares each.

¹²⁴ See Chen, *The Insolvency*, pp. 216-7 (based on IOR: G/12/121, 1798/04/24, p. 61; G/12/124, 1799/01/27, p. 48; G/12/126, 1799/02/14, p. 48; G/12/128, 1800/04/18, p. 224).

¹²⁵ 石鯨官 was his commercial title and his proper Chinese name was 石夢鯨.

¹²⁶ IOR: G/12/76, 8 April 1782, p. 17.

¹²⁷ IOR: G/12/96, 12 February 1790, p. 145. Puan Khequa II was son of Puan Khequa who helped the Company to dissolve the Co-hong in 1771.

of 9 February 1793 showed that Shy Kinqa (II) was the leading Hong merchant, in terms of the total quantities of tea contracted for the EIC,¹²⁸ even ahead of Munqua (the chief merchant) and Puan Khequa (II).¹²⁹ This is illustrated in Table 6.2.

In spite of such an achievement, Shy Kinqa (II) had financial difficulties after the 1794 season, and both the Hoppo and the EIC's Committee had to arrange meetings with other merchants to deal with his affairs.¹³⁰ Because the amount of debt that Shy Kinqa II left behind was so large,¹³¹ the Canton Hoppo considered not reporting the case to Peking because of 'the dread of the Emperor's displeasure at seeing so large a debt arise during his administration and the merchants from the apprehension of it falling on the trade'¹³² Accordingly, Shy Kinqa continued to run his business throughout the 1794/95 season.¹³³ However, by the end of the season, he became insolvent. His property was then sold off by the Canton authorities to pay for his debt.¹³⁴ Shy Kinqa's estate and houses were sold at a value of around 600,000,¹³⁵ but because his debt was far over 1,000,000 taels, this money was not enough to cover all of his debts. The Hoppo later arranged for the remaining debt of over 598,000 taels to be repaid by other security merchants, through instalments over six years.¹³⁶

¹²⁸ IOR: G/12/103, 9 February, 1793, p. 241.

¹²⁹ Puan Khequa (II) was the son of Puan Khequa who helped the EIC to dissolve the Co-hong in 1771.

¹³⁰ IOR: G/12/108, 17 November, 1794, p. 117.

¹³¹ The total amount of Shy Kinqa's debt was not mentioned in Chinese documents. But, according to the EIC's records, the figure was over than 1,200,00 (IOR: G/12/108, 24 March, 1795, p. 245), while Cheong (*Hong Merchants of Canton*, p. 190) noted that Shy Kinqa left a debt over 1,500,000 taels.

¹³² IOR: G/12/108, 17 November 1794, p. 117.

¹³³ See IOR: G/12/108 (1794/95).

¹³⁴ 粵海關志 *Yueh-hai-kuan-chih* (The Gazetteer of Kwangtung Maritime Customs), Ch. 25, p. 10.

¹³⁵ IOR: G/12/108, 24 March 1795, p. 235.

¹³⁶ 粵海關志 *Yueh-hai-kuan-chih*, Ch. 25, p. 10; IOR: G/12/118, 12 September 1797, p. 131.

Table 6.2 The quantities and prices of the EIC's winter contracts with the Hong merchants for tea in season 1793

	Bohea	Price (taels)	Congo	Price (taels)	Hyson	price (taels)
Munqua	1000 chests	13.5 per pecul & 10 advance.	12000	25 & 27, & 20 advance	2000	57 & 40 advance
Puan Khequa	2000	13.5 per pecul & 10 advance	15000	26 & 28, & 12 advance	4000	57 & 40 advance
Shy Kinqua	2200	(as above)	30000	25 & 27, & 20 advance	4000	57 & 40 advance
Geowqua	1000	(as above)	12000	(as above)	1000	(as above)
Mowqua	1000	(as above)	12000	(as above)	1000	(as above)
Puiqua	600	(as above)	10000	(as above)	1000	(as above)
Yanqua	600	(as above)	8000	(as above)	1000	(as above)
Total	----- 8400 -----		----- 99000 -----		----- 10000 -----	

Source: IOR: G/12/103, 9 February 1793, p. 241.

It is clear that the Hong merchants' financial difficulties continued to exist in the 1780s and 1790s and that these problems were not removed after the establishment of the Consol Fund in 1780. As a matter of fact, the establishment of the Consol Fund was mainly designed by the Chinese government to pay off the customs duties and debts. With the collection of Consol charges, the unpaid customs duties left by those insolvent merchants could be repaid, to some degree, through the Canton authorities. These arrangements were nothing to do with the improvement of the Hong merchants' financial conditions. On this issue, as noted, the EIC's supercargoes had noted that the nature of the Chinese merchants' financial predicament was principally due to their lack of capital and also the want of a western-style banking system and financial market.¹³⁷ It should be emphasised, however, that the tendency of the Hong merchants to become insolvent had a close link with the Canton Hongists' being required to make financial contributions to the Ch'ing Government's treasury, as well as with the Canton high-ranking mandarins' extortions. From time to time, the Hong merchants were obliged to make unexpected contributions due to natural disasters such as the flooding of the Yellow River, or they were asked to donate money for the government's use in emergence, such as the need for military actions to be undertaken for the purpose of quelling civil unrest.¹³⁸ Moreover, they were frequently required to present money or gifts to Canton's high-ranking Mandarins, such as the Governor-General of Kwang-tung and Kwang-si Provinces, the Governor of Kwang-tung Province and the Hoppo of the Canton Customs Administration. The money was partly for private extortions and partly was used as gifts for tribute to the Imperial Court by Canton officials seeking to win the Emperor's and the

¹³⁷ See e.g. IOR: R10/FR/8 (Letter Book, 1775), 17 November 1775, p. 84.

¹³⁸ PRO: FO/1848/17/21.

highest-ranking Mandarins' pleasure.¹³⁹ This is evident from the observation of Lord Macartney during his mission to China in 1792-94 when he noted that 'the system of administration at Canton has been corrupt and oppressive to a great degree ...' and the Hong merchants had been required to present numerous and magnificent presents to the superior Mandarins at Canton who, in turn, sent a part of these presents to the Emperor in Peking.¹⁴⁰ As a result, the Hong merchants' financial burden became even heavier because the creation of the Consoo Fund soon became the Canton high-ranking officials' preferred method of collecting money for the public revenue or for personal purpose.¹⁴¹

The Canton mandarins' extortion upon the Hong merchants was linked to Shy Kinqa's insolvency, and was noted in the Company's diaries. In November 1794, the EIC's Committee observed that the Canton Hoppo's financial oppression had 'contributed very much to hasten it [the failure of Shy Kinqa's business], by extorting or receiving gratuitous presents to a prodigious amount from Shy Kinqa ...'.¹⁴² As with Shy Kinqa, other Hongists, and in particular other senior Hong merchants, also became the target of exactions by Canton officials. This was especially the case with the chief merchants, who were generally much wealthier than others. For example, after Puan Khequa passed

¹³⁹ For a discussion of the Hong merchants' compulsory financial contributions to the Ch'ing government, see 陳國棟, '論清代中葉廣東行商經營不善的原因', 新史學 (Chen, 'Reasons as to the Perennial Insolvency of the Ch'ing Dynasty's Canton Hong Merchants', *New History*), Vol. 1, No. 4; Chen, *The Insolvency of the Chinese Hong Merchants*, especially Chapter Three; Phipps, *A Practical Treatises on the China and Eastern Trade*, pp. 151-2.

¹⁴⁰ J. L. Cranmer-Byng, *An Embassy to China: being the journal kept by Lord Macartney during his embassy to the Emperor Ch'ien-lung 1793-94* (1962), p. 261.

¹⁴¹ Lin Yen-ch'ing 林延清 argued that the Company's adoption of trucking in exchange woollens for tea also worsened the Hong merchants' financial difficulties ('試論清中期夷欠問題' ('On the issue of the Hong Merchants' foreign debts in the middle Ch'ing period'), 近代史研究 (Modern History Studies), No. 1, 1985, pp. 118-120).

¹⁴² IOR: G/12/108, 17 November 1794, p. 117.

away in 1788, Munqua became the chief merchant.¹⁴³ Nevertheless, burdened by the heavy mandarins' exactions and insufficient capital, Munqua was eventually forced to end his life by suicide. Several years before his death (on 10 April 1796),¹⁴⁴ his financial predicament had been noted by the Company, and in the early 1780s the EIC had provided him with financial assistance. Munqua also received great assistance from his friends, particularly Mowqua, who assisted him with the payment of his duties to the Hoppo.¹⁴⁵ Indeed, While in financial difficulties, Munqua, instead of fulfilling his tea contracts, even sold the woollens, provided by the EIC in exchange for tea by truck, to be used for the liquidation his old debts or 'sold it to procure money for the payment of the Emperor's duties'.¹⁴⁶

Munqua left unpaid duties and debts owed to the Dutch and country merchants, amounting to the sum of 148,874.550 dollars, i.e. 105,087.918 taels, with an additional debt of 188,604.958 taels being owed to the Company and its supercargoes.¹⁴⁷ Having been for many years in connection with Munqua in business, Mowqua was asked by the

¹⁴³ Originally, when Puan Khequa (I) passed away, the Canton authorities thought his son Puan Khequa (II) the best person to take over the job of the head merchant, but he declined. After Munqua died, Puan Khequa (II) finally took the job. In order to escape heavy extortions, Puan Khequa (II) had worked for several years seeking to get permission to terminate his job as a Hong merchant. It was probably also a main reason to answer why he did not want to take on the role of the head merchant in 1788 when his father (Puan Khequa I) passed away.

¹⁴⁴ IOR: G12/110, 10 April 1796, p. 238.

¹⁴⁵ *Ibid.*

¹⁴⁶ *Ibid.*, p. 239. In later years, some of the Hong merchants who had financial difficulties even took money advanced by the Company and used for another purpose. This became a concern for the supercargoes who frequently reminded the Hongists of using the advanced money for the procurement of tea only (PRO: FO/1048/12/23, FO/1048/12/27).

¹⁴⁷ IOR: G/12/118, 11 September 1797, p. 127. The total amount of Munqua's original debts was much larger than these figures. However, after negotiations between the creditors and the representations of the Hong merchants, e.g., for the debt owed to individuals, the interest was cancelled and the principal was also deducted by 30 per cent.

Company to be responsible for Munqua's debts.¹⁴⁸ After realising that the rest of the Hong merchants would bear their share of the arrears of the customs duties left by the late Munqua, Mowqua agreed to take on the responsibility for the whole debt of 188,604.958 taels.¹⁴⁹ Despite agreeing to repay Munqua's debt, Mowqua and Puan Khequa (II) in September 1797 made a proposal to the EIC's Committee seeking to get favorite terms for the repayment of Munqua's debt and also for Mowqua's trade with the Company. This consisted of six main points which were as follows:¹⁵⁰

1st. That Munqua [family] shall no longer be responsible for any part of the debt either Company's or private & that all contracts whatever now existing between the Hon'ble Company & Munqua shall from this instant be null & void.

2nd. That Mowqua shall be held responsible to the Hon'ble Company to the whole debt of 188,604.958 (mcc), one half of which to be placed to his amount at the close of the present Chinese year & the other half at the close of the ensuing Chinese year, and the Hon'ble Company on the other hand to guarantee the individual their share of the said debt payable in Bills on Europe at the same period and at the current exchange of each year.

3rd. That Mowqua shall enter into contracts for the delivery during the present season of teas to the amount of (300,000) three hundred thousand tales, independent of his ordinary share of the business of which Munqua's present contracts amounting on conjectural calculation to two hundred thousand tales shall form one part, & the remainder shall consist of such sorts as the Committee may hereafter settle, and the whole to be of unexceptionable qualities, and the prices the same as agreed for with the other merchants.

4th. That the Committee to enable him to perform these engagements shall agree to give him an immediate advance of one hundred thousand tales in bullion & one hundred thousand tales during the season in either bullion or cargo as they may find most convenient.

¹⁴⁸ IOR: G/12/118, 11 September 1797, p. 126.

¹⁴⁹ *Ibid.*, pp. 126, 128.

¹⁵⁰ *Ibid.*, pp. 127-9.

5th. That Mowqua shall enter into contracts for the delivery of tea during the ensuing season, independent of his ordinary share of our business to the amount of four hundred thousand tales of such sorts as we may hereafter settle, of unexceptionable qualities and at the same prices that may be agreed on with the other merchants when we from (or for?) our engagements at the close of the present season.

6th. That in aid of these further engagements the Committee shall agree to give Mowqua in the course of the next season independent of his ordinary share of our imports, bullion or cargo as may best suit the Board's [129] convenience to the amount of two hundred thousand tales.

At first, the Canton Committee considered postponing their decision on Munqua's affairs because these proposals made by the Hong merchants were much too favourable to Mowqua. Later, however, hearing that the case might go to the Hoppo if it was left unresolved, the Committee members changed their mind and decided to take the plan into consideration. There were two main reasons why the EIC thought it unwise to let Munqua's case go to the Hoppo. Firstly, the Chinese authorities' handling of Munqua's case might have been similar to their settlement of Shy Kiqua's affairs, which resulted in the debts being repaid over six years. Secondly, as Shy Kiqua's insolvency had just been settled by the Chinese mandarins, the Company worried that the repayment of Munqua's concerns might be left until all of Shy Kiqua's debts had been discharged. Thus, instead of letting the Munqua's case go to the Hoppo, the Select Committee preferred to enter into a private arrangement immediately.¹⁵¹

Accordingly, the Company agreed to contract with Mowqua to provide more tea for the Company. The suggestion of Mowqua's taking the original share of the Company's trade which belonged to Munqua for the ensuing season was also accepted by the President of

the Committee, Richard Hall. However, by April 1798 when the supercargoes were to conclude their contracts for the next season, the other Hongist, Geowqua, also became insolvent and therefore the Committee had to rearrange the shares of woollens and teas between the Hong merchants. Because Mowqua and Puiqua were held responsible for the repayment of Munqua's and Geowqua's debts respectively, Mr. Hall suggested that an additional share of woollens was to be given to Mowqua and Puiqua.¹⁵² Nevertheless, Hall's proposal was objected to by Samuel Peach, another Committee member, who thought that the shares left by Munqua and Geowqua could be given to any of the junior merchants who might like to take them.¹⁵³

Table 6.3 The woollens allotted to the Hong merchants for the season of 1798/99, made on April 24, 1798

Hongists	Shares (seventeenths)
Puan Khequa (II)	4
Mowqua, original share	2
Mowqua, being arranged due to Munqua	1
Puiqua	3
Yanqua	2
Ponqua	1
Chunqua	2
Gnewqua	1
Conseequa	1
Total	17

Source: IOR: G/12/121, 24 April 1798, p. 3.

The dilemma was solved after another member, Mr. Cuming, divided the shares into seventeenths, and the Committee voted to give one additional share to Mowqua, and the

¹⁵¹ *Ibid.*

¹⁵² IOR: G/12/121, 23 April 1798, pp. 58-59.

¹⁵³ *Ibid.*, 24 April 1798, p. 59.

share left by Geowqua was granted to Puiqua. This gave Mowqua and Puiqua three shares each. Accordingly, the EIC's woollens for the ensuing season (1798/99) were allotted as in Table 6.3. The Committee then rearranged the tea contracts with the Hong merchants to ensure a division into seventeenths. The total quantities of tea contracted to be delivered in the 1798 season for each Hongist is shown on Table 6.4.

Table 6.4 The quantities of winter contracts of tea agreed by the Hong merchants to provide for the EIC in season 1798 (by chests)

	Bohea	Congo	Souchon	Singlo & Twankay
Puan Khequa (II)	880	19,500	3,000	5,000
Mowqua	440	10,000		3,000
Puiqua	660	15,000	1,000	4,500
Yanqua	440	10,000	500	4,000
Ponqua	200	5,000		1,500
Chunqua	440	10,000		3,000
Gnewqua	220	5,000		1,500
Conseequa	200	5,000		1,500
Mowqua (arranged for Munqua)	680	500		6,000
Total	4,200	95,000	4,500	30,000

Source: IOR: G/12/121, 24 April 1798, p. 62.

6.2.3 The early decades of the nineteenth century

In 1798 the EIC had rearranged their China trade into seventeenth shares and divided them between the remaining eight Hong merchants. The allotment remained the same for the following season (i.e. 1799/1800). By February 1800, however, the Canton Committee, mindful of their promise to Yanqua to extend his share, decided to increase

the number of shares to eighteen and then granted the extra one to Yanqua.¹⁵⁴ Accordingly, the EIC's business allotted to the Hong merchants for the season of 1800/01 was assigned as in Table 6.5. The reason why the Company wanted to offer Yanqua a larger share of its business is unclear. The Supercargoes, nevertheless, recorded that they were at liberty to re-allot the assignments with the Hong merchants and the new arrangement was made according to the Committee's judgement that it would be best for the Company.¹⁵⁵

Table 6.5 The EIC's China trade allotted to the Hong merchants for the season of 1799-1800 and 1800-01

Hong Merchants	Shares	
	1798-99 & 1799-1800	1800-01
Puan Khequa (II)	4	4
Mowqua	3	3
Puiqua	3	3
Yanqua	2	3
Ponqua	1	1
Chunqua	2	2
Gnewqua	1	1
Conseequa	1	1
Total	17	18

Source: IOR: G/12/121, 24 April 1798, p. 3 & G/12/126, 14 February 1800, p. 48.

Not long after the re-allotment of the total shares of the Company's business into eighteenths, the Committee made an arrangement for the Hong merchants' repayment of the fifth dividend of Shy Kinqa's debts. The fifth repayment of Shy Kinqa's debts on the Company's account and to individual creditors was settled at the Consou House and discharged by the eight Hongists, noted in Table 6.6. From the table, it is clear that

¹⁵⁴ IOR: G/12/126, 14 February 1800, p. 48.

¹⁵⁵ *Ibid.*

Mowqua and Puiqua who had close business relations with Shy Kinqa were the two merchants required to make the greatest contribution.

Table 6.6 The settlement of the 5th dividend of Shy Kinqa's debts on Company's account & individual creditors

Hong Merchant	East India Company	Individuals
	T.mcc	T.mcc
Puan Khequa (II)	130.862	317.846
Mowqua	9,655.394	23,451.629
Puiqua	5,455.882	13,251.588
Yanqua	1,146.808	2,785.441
Ponqua	4,050.902	9,839.087
Chunqua	3,910.308	9,497.600
Gnewqua	4,489.682	10,904.821
Conseequa	262.684	638.030
Total	29,102.525	70,686.042

Source: IOR: G/12/128, 21 March 1800, p. 136.

Earlier discussions indicated how the EIC settled the bankrupt merchants' debts owed to the Company or its commanders, and how the Canton Committee rearranged its trade of woollens and tea with the surviving Hong merchants for the ensuing seasons. One further issue worth discussing is the settlement of the returned tea, procured originally from the insolvent Hong merchants. As mentioned in Chapter Five, the supercargoes at Canton examined the tea before it was loaded, but when it arrived in London, the Court of Directors sent inspectors to re-check it. Tea of an unacceptable quality was shipped back to Canton and the Hong merchant who had provided those teas for the EIC had to take responsibility for repaying the Company. Table 6.7 shows the amount of rubbish and damaged teas returned on the ships of the 1799/1800 season.

Table 6.7 The amount of returned tea shipped back to Canton in the 1799/1800 season to be placed to each Hong merchant's account

Hong Merchant (surviving) (A)	Taels	Hong Merchant (out of business) (B)	Taels
Puan Khequa	439.927	Munqua	1834.630
Mowqua	1516.506	Geowqua	379.107
Puiqua	1026.873	Shy Kinqa	1322.109
Yanqua	471.894		
Ponqua	1080.663		
Chunqua	159.765		
Gnewqua	176.538		
Conseequa	272.728		
Total above (A)	5144.894	Total above (B)	3535.846
Total (A + B)	8680.740		

Source: IOR: G/12/128, 21 March 1800, p. 138.

Table 6.8 The amount of damaged and returned teas of bankrupt merchants, arranged to be repaid by eight solvent Hongists

Hong Merchants	Taels
Total amount of returned teas, provided by Shy Kinqa, Munqua and Geowqua	3535.846
Puan Khequa	157.752
Mowqua	1014.379
Puiqua	628.393
Yanqua	234.167
Ponqua	440.915
Chunqua	488.770
Gnewqua	438.861
Conseequa	132.609
Total	3535.846

Source: IOR: G/12/128, 21 March 1800, p. 138.

However, because Munqua, Geowqua and Shy Kinqa were already bankrupt, the Company could not get the repayment from them for the returned tea. Taking it as a kind of debt for the three merchants, the EIC succeeded in ensuring that the eight solvent

merchants were held responsible for the repayment of the returned tea. It was settled at Consou House at the same time that the Canton Committee dealt with the fifth dividend of Shy Kinqa's debts with the Hong merchants.¹⁵⁶ The respective amount due to be paid by each of the eight solvent merchants is listed in Table 6.8.

In order to ensure that its China trade continued without interruption, especially when the quantity of tea required for home consumption increased at the beginning of the nineteenth century, the EIC continued to adopt measures to solve the Hong merchants' debt problem. For example, in 1811 five out of eight eligible Hong merchants had financial difficulties. The five merchants, i.e. Exchin, Poonequa, Manhop, Goqua and Kinqa, all applied to the Company for assistance to enable them to discharge the Imperial duties, which exceeded 220,000 taels. The Canton Committee immediately agreed to help them clear their unpaid duties; this was done primarily in order to keep them in business and to prevent the tea trade from being controlled by a few wealthier merchants.¹⁵⁷ On some occasions, in order to prevent its China trade from being dominated by a few senior Hongists, the Company also proposed to make additional purchases of tea from those merchants who were principally in debt to the Company. This happened for example at the end of season 1812/13 when the supercargoes dealing with the Hong merchants for winter contracts decided to make additional purchases of tea from six merchants who owed money to the Company.¹⁵⁸ The proportions of contract Congou tea and additional purchases for each Hong merchant are illustrated in Table 6.9. With an additional purchase of tea, the EIC then increased the division of its woollens

¹⁵⁶ IOR: G/12/128, 21 March 1800, pp. 137-8.

¹⁵⁷ IOR: G/12/176, 2 July 1811, p. 171.

from the current season's 20 shares to 21 shares for the following season. The extra share was devised to assist the junior merchants in the purchase of additional teas, as is shown in Table 6.10.

Table 6.9 The EIC's Congo tea contracts with the Hong merchants, made on 3 March, 1813

Hong Merchant	Quantity (Chests)	
	Contract Tea (A)	Additional Purchases (B)
Mowqua	30,000	
Puiqua	22,500	
Conseequa	22,500	3,500
Exchin	15,000	1,000
Manhop	15,000	2,000
Poonequa	15,000	2,000
Goqua	15,000	2,500
Kinqua	7,500	1,000
Fatqua	7,500	
Total of original contracts	150,000	
Additional purchases (B)	12,000	12,000
Total (A + B)	152,000	

Source: IOR: R/10/SC/5, 3 March 1813, p. 103.

Table 6.10 The division of the EIC's woollen imports made for the 1812/13 and 1813/14 seasons with the Hong merchants

Hong Merchant	Shares	
	1812/13	1813/14
Mowqua	4	4
Puiqua	3	3
Conseequa	3	3
Exchin	2	2
Manhop	2	2
Poonequa	2	2
Goqua	2	2
Fatqua	1	1
Kinqua	1	1
To assist in purchase of additional teas		1
Total	20	21

Sources: IOR: R/10/SC/5, January 11, 1812, p. 71; *ibid.*, March 3, 1813, p. 103.

¹⁵⁸ IOR: R/10/SC/5, 3 March 1813, p. 102.

Despite criticism from the Directors, the supercargoes continued to advance money to the junior merchants who were in financial difficulties. The reason for the Canton supercargoes' supporting those embarrassed Hong merchants was clearly indicated in their letter to the Court of Directors of 2 March 1814,

‘When it is ... considered that had we not adopted the measure we did of making advances so as to enable to the junior merchants to continue their business that the foreign trade must have ... fallen into the hands of the three senior merchants and when the loss and serious consequences to the trade which are to probable to arise from such an occurrence are adverted to ... we believe that your Honorable Court will be disposed to course with us in considering the arrangement made as the best suited to the interests of the Honorable Company.’¹⁵⁹

Thus in order to prevent its China tea trade from falling into the hands of a few senior Hong merchants who might place the Company in a disadvantageous position, the supercargoes adopted several measures to assist junior Hongists and solve their financial problems. This however does not mean that the relationship between the Company and the senior Hongists was always difficult. Instead, on several occasions, the senior Hong merchants acted as creditors to relieve the Canton Treasury's financial pressure. This occurred particularly in the nineteenth century when the Canton Treasury was ordered to send treasure to other Company's establishments. This will be discussed in the next chapter.

¹⁵⁹ IOR: R/10/SC/5, 2 March 1814, p. 95, para. 12. For a more detailed discussion of the issue, see Section 7.1.2.

CHAPTER SEVEN

THE DEVELOPMENT AND PROBLEMS DURING THE LAST YEARS OF THE EIC'S CHINA TRADE MONOPOLY

The last chapter demonstrated that during the last decades of the eighteenth century and early nineteenth century the EIC continually adopted measures to solve the Hong merchants' financial problems in order to prevent the disruption to its Canton tea trade. Clearly, the Company at times obtained favourable terms from the Hong merchants by acting as a creditor. After the turn of the nineteenth century, however, the Company had on some occasions to borrow money from a few senior and rich Hong merchants while conducting its Canton trade. This occurred because the Canton Treasury was ordered to provide other Company settlements as well as the London Headquarters with funds.

7.1 The Main Issues of the Company's China Trade, 1800-20

7.1.1 The Canton Treasury's Financial Support for the EIC's Other Settlements

As discussed earlier, the EIC's Canton Treasury succeeded in creating several financial resources, in particular from India, and thus had a clear positive balance on its accounts for most seasons after the last years of the eighteenth century. This helped the Company to expand its China tea trade without much trouble, from a financial point of view. It should, however, be noted that the surplus capital in the Canton Treasury was not only used to help liquidate the Hong merchants' debts, but was also used to support the

financing of EIC's other factories, especially the Indian Presidencies, when they were in financial difficulties. The first occasion on which the Indian Presidencies sought to use the funds of its Canton counterpart took place in 1799. In that year, when the Madras Presidency was in a financial crisis, the Governor issued an order to 'intercept' the Company's ships carrying the season's treasure from London to Canton and then redirect them to India.¹

The financial condition of the Bengal Presidency in this period was not much better because of warfare, which resulted in the failure of the expected supplies of bullion from England. Accordingly, Wellesley, the Governor-general of British India, had to write letters to the Canton Committee seeking financial assistance. In his letter to Canton from Fort William of 11 February, 1801, Wellesley pointed out the financial difficulties of the Indian Presidencies and the potential effects on the British Empire's interests on the Indian sub-continent:

'The failure of the expected supply of bullion for India has subjected the public finances to the most serious embarrassments ... and deeply affected the public credit, ... Unless early relief be afforded to the finances of India by a large supply of bullion, the public credit will suffer; the investment in India for the present year must be reduced to a low scale, and ... the most serious apprehensions that I may not be able to provide the necessary means operation against the common enemy ... By advices received from England ... the most vigorous effects now becomes indispensably necessary to secure the future safety of the British Empire in India.'²

¹ Cheong, 'Some Aspects of British Trade and Finance in Canton with Special Reference to the Role of the Anglo-Spanish Trade in the Eastern Seas 1784-1834', p. 125.

² IOR: R/10/Secret Consultation (SC)/1, 2 May 1801, pp. 40, 41 (Wellesley's letter to the Canton Select Committee, dated 11 February 1801).

In seeking assistance from the Canton Treasury, the governor-general also emphasised the contributions of the Indian Presidencies' financial resources for the EIC's China investment over the previous years. For example, the Court of Directors in their letter to the India Presidencies of 18 June 1799 indicated that they would supply India with bullion and specie amounting to five hundred thousand pounds. The government of the Bengal Presidency, which supposed it could soon receive the capital thus provided funds in advance for the Canton Committee. The money promised by the Court did not in fact reach India at the time expected, and Wellesley therefore stipulated (in the same letter to Canton as above) that

‘It was in expectation of this supply that I appropriated so large a proportion of the resources of India for the past year to furnish your Treasury with funds for the Company's investment at Canton; and I hope that the Honorable Court would have been satisfied of the great benefits which would have resulted both to their affairs in India and in China from sending a large annual consignment of bullion to Bengal, had induced me to lay the foundations of a plan which would have secured to the Treasury at Canton large annual supplies for the Company's investment at Canton on the most favorable terms,...’³

To emphasise the importance of the immediate financial assistance from Canton, Wellesley also mentioned in his letter that it would be not only for the India Presidencies alone, but ‘will render a most essential service to the affairs of the Company, and to the general interests of the British nation’.⁴ In order to make the Canton Select Committee more willing to ship treasure to India, the Governor three days later (14 February 1801) wrote another letter to Canton indicating that the remittance of bullion to India was not unconditional, but instead the Indian Presidencies would offer something in return. This

³ *Ibid.*, p. 40.

offer consisted of two major points:

‘1. In the fullest expectation that you will comply with the earnest request contained in my dispatch of the 11th instant to transmit to Bengal all the bullion which you may be able to spare, you have my sanction to draw bills on the Presidency, as well as on the Presidency of Fort St. George and Bombay, for the service of the ensuing year 1801/2 to the amount which you were authorized to draw in the last year, under the credit given to you by my letter in council of the 18th January 1800.

2. I have also the satisfaction to inform you that cargoes for Canton will be furnished from Bombay in the ensuing year 1801-2 to the amount specified in the enclosed copy of a letter from the Governor in Council of that Presidency.’⁵

For the task of conveying treasure from Canton to Bengal, the armed ship *Nonsuch* was dispatched by the Governor-General to China. But considering that it would be too risky to have the whole treasure on one ship and the *Nonsuch* might encounter trouble on her return voyage to India if she met enemy warships or pirates, Wellesley also wrote to Admiral Rainier requesting him to send one of H.M. ships to Canton to accompany the *Nonsuch* to carry silver bullion back to India. In the letter to Admiral Rainier, the Indian Presidencies’ financial difficulties and the emergent needs of capital for war was emphasised

‘The public credit in India has been essentially affected by the failure of the expected supplies of bullion from England, and unless that credit be speedily restored I entertain serious apprehensions of my ability to provide the requisite supplies for the prosecution of the important operations which we are called upon to undertake against the common enemy.’⁶

⁴ *Ibid.*, p. 41.

⁵ IOR: R/10/SC/1, 2 May 1801, pp. 44, 45 (Wellesley’s letter to the Canton Select Committee, dated on 14 February 1801).

⁶ *Ibid.*, pp. 43, 44 (Wellesley’s letter Admiral Rainier, paras. 4 & 8, dated 11 February 1801)

To persuade the Admiral to take part in the task of shipping silver back to India from China, the letter not only pointed out the financial circumstances of the Indian Presidencies, but the reason for the Canton Treasury's favourable financial condition was also set out. Moreover, the Governor-General indicated that because the Indian Presidencies had previously sent a considerable amount of treasure to China to help the Canton Committee for its China remittance, it was now fair to draw back some specie from Canton. He highlighted that

The supercargoes at China have consequently received not only the usual supplies for their Treasury from England, but also the augmented supplies from India. By the combined operation of these efforts from India, and of the measures adopted in England, for the support of the Company's investment at China, a considerable sum in specie beyond the amount required for the provision of the Company's investment remains unemployed at Canton, which the public finances in India have been materially deranged by the failure of the expected supply of bullion from England required to replace the large proportion of the resources of India appropriated to the use of the Treasury at Canton ... The aid of the bullion which has accumulated and now remains useless in the Treasury at Canton now affords the only prospect of the timely restoration of the public credit in India.'⁷

When Wellesley's letters reached the hands of Canton supercargoes, the Select Committee faced two serious problems. The first one was that the exportation of precious metals, such as silver bullion, out of China by foreign ships was prohibited by the Ch'ing government. The supercargoes observed that although money was sent away annually in specie from the port of Canton, it was generally done in small quantities or by connivance, and the very great quantity now proposed would certainly draw the attention of the Canton authorities. To deal with the issue, the East India Company originally decided to let the *Nonsuch* arrive at Whampoa under a declaration that she had a cargo of

tin and pepper.⁸ However, after consulting with senior Hong merchants, the Committee was warned that it was not a good idea because it would bring the Hoppo to measure the ships and check the cargoes, for the purpose of import duties. This would result in a delay to the departure of *Nonsuch*, or would even prevent her shipping treasure out of Canton. Also, after their consultation with the Hoppo's secretary on behalf of the EIC, Puan Khequa and Mowqua told the Committee that nothing could be done in a concealed manner. They, therefore, recommended the Company to present a plain statement of the case in an address to the Tosntoc⁹ and the Hoppo jointly. The Committee was also recommended to get permission to ship out bar silver instead of the silver coins which the Chinese officials preferred. Moreover, they suggested to the Company that 'as the measurement of the ship was not to be avoided, it would expedite business by a voluntary declaration that we were willing to pay all customary port charges'.¹⁰ Based on these suggestions from the senior Hong merchants, a petition-letter, dated on 2 May 1801, was written to the Tsontoc and Hoppo, stipulating that

We take the liberty to apprise you that we have this instant received letters from the most Noble Marquis Wellesley, Governor General of India, requiring of us for the public service an immediate supply of silver from the H. C. Treasury at Canton to the amount of 360,000 tales ... As the most Noble Governor General by his efforts and large supplies for several successive seasons has constituted so essentially to the support of the Honorable Company's trade at this port, we feel it a duty incumbent upon us to pay a ready attention to his request; more particularly as the exigencies of his government at this embarrassing period of warfare have induced him at a large expense to send a vessel for the express purpose of receiving and taking our supply in safety to Bengal.

⁷ *Ibid.*, pp. 42-44.

⁸ IOR: R/10/SC/1, 2 May 1801, p. 47.

⁹ That was the Chinese title of the governor-general (of Kwang-tung and Kwang-si Provinces). For the title and position of high level Chinese officials in Canton who were responsible for the foreign trade and customs duties, see IOR: G/12/12, especially the last few pages of the volume.

¹⁰ IOR: R/10/SC/1, 2 May 1801, pp. 47, 48.

We have therefore to request your Excellencies will give us permission to ship treasure to the amount on the *Nonsuch*, now arrived in the river; and as soon as ... receive a stock of provisions we shall dispatch ... to Bengal. And aware that the customs of the port require that ships arriving at Whampoa should be measured to ascertain the port charge, we shall most readily submit to that expense, tho' the *Nonesuch* neither brings nor can take away a cargo.'¹¹

Just one day later, the Canton Committee was surprised and satisfied to receive a warm reply, through the Hong merchants, from the Governor-General who granted permission for the Company's petition.¹² On the next day (4 May 1801), the deputy Hoppo also came to inspect and measure the *Nonsuch* in order to ascertain and claim the port charges although it did not in fact carry any cargo.¹³

The second problem that the Canton Committee had to face concerned its financial interaction with the Indian Presidencies. The Committee's letter to the Ch'ing Canton Authorities pointed out that the Canton Treasury had prepared an amount of 360,000 taels to be shipped to India for the purpose of public credit (as indicated in the first paragraph of the letter). It was unprecedented for the Canton Treasury to ship specie to India because of the requirements of the British Indian establishment. Moreover, it should be noted that the appropriation of Company's Canton funds for the support of the Indian Presidencies' public service was against the principle, set out by the Court of Directors, that 'none of the money or resources sent out for commerce are to be diverted from that purpose [i.e. for the public service]'.¹⁴ The failure to observe the regulation later became one of the major charges made against Wellesley by his political rivals when he went

¹¹ *Ibid.*, pp. 48, 49.

¹² *Ibid.*, 3 May 1801, p. 50.

¹³ *Ibid.*, 3 & 4 May 1801, p. 50.

¹⁴ C. H. Phillips, *The East India Company 1784-1834*, p. 106.

back to England, and led to his enforced retirement.¹⁵

The notion that no Canton funds should ever be diverted for the support of the Indian Presidencies' public service was, in Cheong's word, 'to keep the commercial and private obligations in China distinct from the political and national obligations in India'.¹⁶ The Canton Committee's understanding of the regulation and attempt to find excuses for their decision to ship silver to Bengal was clearly seen in the Factory's records as well as their letter to be sent back to London stipulated that¹⁷

'Having duly considered these important circumstances ... the state of the public credit in India; his Lordship's receipt of dispatches from England so late ... rendering the most vigorous measures indispensably necessary to secure the future safety of the British Empire; and the serious apprehensions he [Wellesley] entertains in his letter to the Admiral of his ability, unless the public credit be speedily restored, to provide the necessary supplies for the prosecution of the important operations which he is called upon to undertake against the common enemy; and the earnest and impressive manner in which these weighty objects are brought forward to our view, seem to lay strong claim to such assistance as we can afford, and though by diverting the funds in the [Canton] Treasury to any purpose whatever of the Company in India is evidently in opposition to the orders of the Honorable Court, having no doubt of being able to prove that a remittance to the extent of 500,000 dollars will neither interrupt the fulfil of any existing engagements, nor endanger our finances of the ensuing season, we shall trust the Honorable Court's favorable construction of a compliance which less cogent reasons than those assigned by Noble Marquis [Wellesley] could not have extorted from us; and his Lordship is equally with ourselves possessed of the Honorable Court's prohibitory orders on the subject of remittance to Bengal, we trust it will be permitted us to infer from his opposite conduct that the exigencies in India are such as in his firm belief will justify the exercise of the discretionary powers rested in his high office ...'

¹⁵ Cheong, *Some Aspects of British Trade and Finance in Canton*, p. 132.

¹⁶ Cheong, *Some Aspects of British Trade and Finance in China*, p. 132.

¹⁷ IOR: R/10/SC/1, 2 May 1801, pp. 45, 46, & 6 May 1801, pp. 53-4.

The above indicates that there was a positive balance on the Canton Treasury's account in the period. By contrast, a series of wars and the gradual involvement in the Indian affairs had cost the EIC's Indian Government a great deal of money at the beginning of the nineteenth century. Indeed, only a few years later, the Canton Treasury was again required to ship treasure to India. The second time that the Indian Presidencies asked for the financial support from the Canton Committee occurred in season 1807/8. Soon after receiving permissions from the Hoppo and paying the customs charges, the Canton Committee dispatched ships with specie on board to India. The sum sent to India amounted to 1,620,638.147 (Spanish) dollars, to be exchanged for bills and according to the established rate of 45 dollars per 100 current Rupees, the amount was equal to 3,601,518.10s (current) Rupees.¹⁸ Similar shipments were made in the following two seasons. The Canton supercargoes on 11 January 1809 received permission from the Hoppo to ship treasure immediately to India.¹⁹ And again in November 1809, after an estimate of the stock in which there was a balance of around 3,473,000 taels in favour of the Canton Treasury, the Committee decided to remit an amount of approximately 1,500,000 taels to aid finances in India.²⁰ This left a remaining balance of around two million taels for the EIC to conduct tea contracts for the ensuing season and winter tea purchases in early 1810.

The early part of the nineteenth century saw the Canton Treasury with a stable and favourable balance on its accounts. Accordingly, the Court of Directors made the decision in 1805 to stop shipping silver bullion to China, and thus the Canton Committee

¹⁸ IOR: G/12/157, 3 November 1807, pp. 197, 198

¹⁹ See IOR: G/12/164, 11 January 1809, pp. 188-9.

could no longer depend on the specie sent from England for its tea trade. Later on, a large surplus of capital remaining in the Canton Treasury even incurred censure from the Court of Directors when the Home Treasury ran into difficulties in later years. One of the main points of criticism was that the issue of unnecessary bills totalling £600,000 had put a financial pressure on the Home Treasury.²¹ This can be seen from the Court's letter to Canton of 8 January 1808, which stated that

‘As it appears by the estimate of stock recorded on your consultation of the 4th November 1806 that ... you would at the close of that season have had a balance in the Company's favor of about two millions of tales; and as you were directed by our letter of the 27th July 1796 never to have a surplus in the Treasury at the close of the season of more than £500,000, we cannot but disapprove of your having drawn bills upon us by the ships you dispatched in January last to the amount of near £600,000 to which sum no doubt an addition will be made by the next arrival from China. This will obviously leave a balance in your hands for exceeding our prescribed limit unnecessary in itself, an useless charge therefore to the Company, and aggravated by the additional pressure which will hereby be brought upon our home finances, at a crisis when ... we have extraordinary difficulties to struggle with.’²²

Since many funds were left without being used for the purpose of purchasing tea and other Chinese articles, the Court of Directors, therefore, thought that there was no strong reason for the Canton Treasury to retain such a larger surplus.²³ Because of this instruction, the Canton Committee could continue to ship specie away, especially to the Indian Presidencies, without worrying about any legal charges in the future. Since the Canton Treasury had such a large sum of surplus funds, the Court in 1809 considered closing its Canton Exchange so that the Canton Committee would no longer be able to

²⁰ IOR: G/12/168, 17 November 1809, pp. 85-86.

²¹ IOR: R/10/Court's Letter (hereafter CL)/VII, (No. 1, 1808) 8 January 1808, para. 54.

²² *Ibid.*

²³ *Ibid.*

issue bills to be cashed in London.²⁴ After the Committee's strong protest, the Canton Exchange remained open. However, in the beginning of the 1810 season, the Canton Treasury was ordered to remit bullion to England for the first time. As the China trade became the most profitable branch of trade for the EIC, remittance of specie from Canton became more important. The Court required as much as possible,²⁵ and the money was to be used to help relieve the Company's home finances. In the following season the Canton Committee was again engaged to provide 'sufficient aid to the exigencies of the Home Treasury'.²⁶

The discussion above shows that the Canton Treasury finally altered its role in the Company's finance. For the whole of the eighteenth century, it had to depend on the shipment of capital and cargoes from Britain and India to finance the Canton trade. By the turn of the nineteenth century, however, it became a reverse flow of bullion from the Canton Factory to the Indian Presidencies, and after 1810 the Canton Committee even sent silver back to England. It should however be noted that the Canton Committee's remittances back to England at the turn of the 1810s coincided with another period of financial difficulties for the Hong merchants. This was mainly caused by a shortage of silver in the Canton market resulting from the dramatic decline of the Manila trade and the United States government's placing an embargo on the exportation of specie from America.²⁷ As a result, many of the Hong merchants were in financial difficulties, after being ordered to pay the Imperial duties. As they were unable to pay off the official

²⁴ Cheong, *Some Aspects of British Trade and Finance in Canton*, p. 176.

²⁵ IOR: G/12/172, October 12, 1810, p. 203.

²⁶ IOR: G/12/176, 2 July 1811, p. 171.

²⁷ W. E. Cheong, 'The Beginning of Credit and Finance on the China Coast: The Canton Financial Crisis of

charges, five merchants, i.e. Exchin, Poonequa, Manhop, Goqua and Kinqa, who had large debts together applied to the Committee for assistance. The total amount required by them to pay the customs charges of 1811 season exceeded 220,000 taels.²⁸ The Company agreed to help, but the Hong merchants' financial pressures were not easily relieved. Their problems became even greater after the outbreak of the Anglo-American War in 1812, which seriously affected the supply of Spanish and American silver to Canton.²⁹ Thus in 1813 seven out of ten Hong merchants' businesses were in a critical state and they had to ask for help from the Canton Committee. The Company finally delivered 328,000 taels to them to pay for the duties. The supercargoes were willing to stretch their hands to help them was because it would have cost the Company more if these embarrassed Hongs failed.³⁰ This happened again in the following season when a total of 437,480 taels in duties were.³¹

The need to aid the Home Treasury, the Indian Presidencies, and also the junior Hong merchants however put new financial pressures on the Canton Treasury. As a result, it forced the Canton Committee to borrow money from the senior Hong merchants, such as Howqua and Mowqua. Thus, the Committee in season 1813/14 borrowed about 166,000 taels from Howqua (II) and Mowqua to be used for a loan to the other Hong merchants.³² To justify this practice, the Committee in a letter to the Court argued that

1812-1815', *Business History*, Vol. XIII, No. 2 (1971), pp. 87-92.

²⁸ IOR: G/12/276, 2 July 1811, p. 171.

²⁹ Cheong, 'The Beginning of Credit and Finance on the China Coast', p. 96.

³⁰ Morse, *The Chronicles of the East India Company Trading to China*, Vol. III, p. 197. The sum was divided among the seven merchants, 40,000 taels for Conseequa, 35,000 taels for Exchin, 35,000 for Goqua, 160,000 for Manhop, 20,000 for Kinqa, and 38,000 for Fatqua.

³¹ *Ibid.*, p. 223.

³² *Ibid.*, p. 197. According to Greenberg (*British Trade and the Opening of China 1800-42*, p. 67), the Company borrowed a quarter of a million taels from Howqua in this season.

‘Although it appears strange at first view to borrow money of our merchant to lend another, do not see reason on this occasion to object the measure as without this assistance the advance required to enable the merchants to fulfill their engagement could not have been furnished from the Company’s Treasury.’³³

The Canton Committee carried on, indicating that their need to borrow money from the Chinese merchants was due to the need to ship treasure to England because at that time the senior Hong merchants were the only people in Canton who could provide money for the EIC. Thus, they added that

‘Advice to augment our remittance of bullion to your Honorable Court had left us unprovided with the funds required to enable us to make the necessary arrangements for the investment of the ensuing season. We were under the necessity therefore of having recourse to a loan and the measure which appears to extraordinary of borrowing from our merchant to lend another arises simply from this circumstance, that the Hong merchants are the only persons who are authorized to hold communication with us and consequently they are the only means by which loans can be negotiated ...Every precaution in our power was taken to ensure the advances being properly applied to the purposes intended and the merchants to whom these advances were made were charged a rate of interest sufficient to cover the loans paid to Howqua and Puiqua...’³⁴

Through these measures, the Company would be enabled ‘to make arrangements for providing the investment for the ensuing season’,³⁵ and thus the Committee believed that they had made the best arrangement for the Company’s China trade and finance. Indeed, the money borrowed from the senior merchants was used to ensure that the financially embarrassed Hongists stayed in business, and the reasons for supporting those Hong merchants in financial difficulties were indicated clearly in the same letter:

³³ IOR: R/10/SC/5, 2 March 1814, para. 5, p. 93.

³⁴ *Ibid.*, paras. 6-7, pp. 93-4.

³⁵ *Ibid.*, para. 8, p. 94.

‘When it is ... considered that had we not adopted the measure we did of making advances so as to enable to the junior merchants to continue their business that the foreign trade must have ... fallen into the hands of the three senior merchants³⁶ and when the loss and serious consequences to the trade which are to probable to arise from such an occurrence are adverted to ... we believe that your Honorable Court will be disposed to course with us in considering the arrangement made as the best suited to the interests of the Honorable Company.’³⁷

7.1.2 The Efficiency of the Advances System

The Canton supercargoes argued that the money advanced to the Hong merchants was essential because it helped to keep the Company’s tea trade going smoothly and also prevented the trade from being dominated by a few rich Hongists who might weaken the EIC’s bargaining power. In fact, when the Court criticised the Canton Treasury for issuing too many bills in the late 1800s, the Select Committee had rejected the criticism by emphasising that the surplus funds were not useless, but were used to advance funds to the Hong merchants in order to purchase tea. Indeed, they pointed out that a large benefit had been gained from the retention of surplus funds in Canton in previous years, because it had allowed the Company to make advances to the merchants on account of their contracts for tea and other commodities. For example, they argued that the practice of advancing money not only secured and stabilised the supply of tea from the tea-men and the Hong merchants, but also led to lower prices.³⁸

Although the Court of Directors did not object to the adoption of money advances to the Hong merchants, they challenged the Canton supercargoes’ argument that ‘as it is

³⁶ The three senior merchants were Howqua, Mowqua and Puan Khequa who were the wealthiest among the Hong merchants.

³⁷ IOR: R/10/SC/5, 2 March 1814, p. 95, para. 12.

customary to abate one tale in the price for every twelve tales advanced, a profit is at all time obtained of $8\frac{1}{3}$ per cent',³⁹ which was not very considerable. The practice of advancing money for raw silk and Nankeen cloth was not much better. The Company customarily advanced almost 100 per cent for the purchase of these commodities, but 'the benefit of paying in advance for the Nankeen cloth investment has not usually been greater than about 5 per cent.'⁴⁰ Arguing that the adoption of money advances was not a sound way of utilizing them a large surplus in the treasury, the Directors directed the Canton Committee to take every opportunity to reduce their large balance and only keep enough funds to cover unavoidable expenses.⁴¹

In spite of being criticised by the Court with regard to the efficiency of making money advances to the Hong merchants, the practice continued to be used in later years. In particular, when the demand for tea increased, money passed to the Chinese merchants in advance became essential in order to guarantee that the contract tea was delivered in time. For example, in season 1800/11 when the demand for Congou tea increased from 150,000 chests to 230,000 chests, the supercargoes argued that the only way of ensuring delivery of the required quantities of tea in the next season was by advancing large sums to the Hong merchants. As demand for tea for home consumption continued to increase in the following seasons, subsequent years saw the practice being used regularly.⁴²

³⁸ IOR: R/10/CL/VII, No. 1, 1808, 8 January 1808, para. 55.

³⁹ *Ibid.*

⁴⁰ *Ibid.*

⁴¹ *Ibid.*, para. 56.

Although the practice of advancing money to the Chinese merchants continued to be adopted in the 1810s, it should be pointed out that there were differences of opinion within the Canton Committee on the issue of making the advances to the Hong merchants who in turn passed the capital to the tea-men. The argument against the practice suggested that the contracting system with money advances not only did not work to lower the price of tea, but the price of the Company's contract teas were higher than the ordinary market rates at Canton.⁴³ As was argued by Committee members who opposed the contracting system,

‘The system of advances, by throwing a large capital into the hands of the tea merchants, had a tendency to produce a competition in the tea country which caused the demand of an enhanced price by the growers, and by a set dealers who, in some cases, are intermediate between the growers and tea merchants. The price of tea has increased considerably in the tea country; and it has been asserted that this has been partly caused by the plan of adjusting a price beforehand between the Hong merchants and tea-men at Canton, to the standard of which the price regulates itself in the tea country ...’⁴⁴

The opponents also argued that ‘the larger the capital sent into the tea country the greater would be the competition for the goods resulting either in the rise of prices, or in the deterioration of the quality to enable the manufactures to equalize the supply to the demand’.⁴⁵ Some members with different opinions, however, argued that the Company's contracting and advance system should not take the blame for the high price of tea. They pointed out that the rise of prices that took place in the early 1810s was not be

⁴² IOR: R/10/MISC/2, 17 June 1818.

⁴³ British Library, Add. MSS, 3837, J. Crawford, ‘Observations on the Tea Trade Conducted by the East India Company’, 1828, f. 129.

⁴⁴ IOR: R/10/MISC/2, 17 June 1818.

⁴⁵ *Ibid.*, 2 December 1818, para. 25.

attributable to the advance of money delivered by the EIC, but was instead caused by the sudden and great increase of the demand for tea which occurred in the period.⁴⁶ Moreover, they argued that because neither tea-men nor the Hong merchants had sufficient capital to procure the great quantity of tea required by the Company, the advances of money were necessary to keep the tea transactions going. Without the advances, the Hong merchants certainly could not afford to provide enough tea for the EIC and the Canton supercargoes declared

‘That unless the Europeans can alter the system of Hong merchants, no Hong can be opulent, or conducts its affairs to meet the exactions of government without procuring engagements for tea, ... and it is the duty of the Committee to afford that Hong assistance, if it appears desirable, to prevent its bankruptcy.’⁴⁷

The adoption of an advance system upon tea purchases, as argued by those Canton supercargoes who supported the practices, became an essential and necessary practice under the existing Ch’ing commercial system. Without the alteration of the Canton System which placed the entire Chinese maritime trade with foreigners in the hands of a small number of Hong merchants whose financial capacity was insufficient, no better measures could be used to make the EIC’s large-scale tea trade proceed smoothly and efficiently. However, it should be noted that while the efficiency of the contract and advance system upon tea purchases was being debated in the late 1810s, this period also saw Britain send an ambassador to Peking who sought to change the existing regulations of the Chinese foreign trade. This mission, led by Lord Amherst, took place in 1816.

⁴⁶ *Ibid.*, para. 30.

⁴⁷ IOR: R/10/MISC/2, 26 June 1818.

7.1.3. Lord Amherst's mission to Peking

As with the Macartney's mission in 1793, the British decision to send another embassy to the Ch'ing Imperial Court in 1816 occurred because a cluster of incidents had resulted in Anglo-Chinese relations being under strain. The first serious incidents occurred with British military actions in Macao and Nepal in the late 1800s. Firstly, fearing the French seizure of Macao would undermine its trade, British troops preemptively occupied Macao in 1808.⁴⁸ British military action at Macao caused tension between Britain and China because the Ch'ing Government declared Macao to be its territory, although foreigners had been allowed to permanently reside there for a long period, and thus the British occupation of Macao was regarded as an invasion.⁴⁹ In this period, the British authorities in India also sent an army into Nepal and the military action in Nepal and this concerned the Chinese Government because Nepal was considered as a tribute-nation.⁵⁰

Britain's occupation of Macao caused Wu xiong-guang (吳熊光), then the Governor-General of Kwang-tung and Kwang-si Provinces, to be removed from his post by the Imperial Court and he was then sent to I-li as a prison-labourer. This punishment was for his delay and weakness in dealing with the issue of the British occupation of Macao, although Wu argued that he had succeeded in making British troops retreat from Macao immediately by threatening to stop British trade in China.⁵¹ After a few months of

⁴⁸ J. B. William, *British Commercial Policy and Trade Expansion 1750-1850* (1972), p. 341.

⁴⁹ 清代外交史料 *Ch'ing-tai wai-chiao shih-liao*, 嘉慶朝 (Documents on Foreign Affairs of the Ch'ing Dynasty, The Chia-ch'ing Period), Vol. III, pp. 240-1. Although the Portuguese had been settled at Macao since the sixteenth century and had set up a administration over it, it was not until the last quarter of the nineteenth century that Macao legally belonged to Portugal.

⁵⁰ Hsü, *The Rise of Modern China*, p. 163.

⁵¹ 清代外交史料 *Ch'ing-tai wai-chiao shih-liao*, 嘉慶朝 (Documents on Foreign Affairs of the Ch'ing

occupation, Britain withdrew its troops from Macao, but the British military actions in Macao and Nepal only formed the background to tension between Britain and China. Other incidents which happened in the early 1810s intensified the tension between the two nations and threatened the Company's China trade. The first happened in 1813 when the Chinese authorities expressed disapproval of the nomination of Mr. Roberts to be a Company supercargoes in Canton.⁵² The reason for the Canton authorities objection to the appointment of Roberts was his 'having involved himself too deeply in the business affairs of one of the Hongs'.⁵³ However, the Canton Committee regarded this 'as direct interference in the management of the Company',⁵⁴ and later Roberts successfully took up his job as a supercargo.

A more serious incident occurred when British and American ships clashed in the waters off Canton. Due to the outbreak of war between the two nations, the British warship HMS *Doris* captured an American commercial ship just off the Canton coast in mid-1814. The Canton authorities then sent the Hong merchants to meet the Company's Committee to ask why this had happened, and the supercargoes reported that 'because Americans had previously plundered their commercial ships, they were hostile to them' and thus the capture of the American ships were merely an act of retaliation.⁵⁵ The Company's explanation, however, did not satisfy the Chinese Government because the British warships clearly entered Chinese territorial waters without permission, an action

Dynasty, The Chia-ch'ing Period), pp. 240-1, 260, 267-9; 王之春 Wang Chih-ch'un 國朝柔遠記 *Kuo-ch'ao jou-yuan chi* (Records of the Ruling Dynasty's Graciousness to Strangers), 卷 (Ch.) 6, ff. 22-4.

⁵² Morse, *The Chronicles of East India Company Trading to China*, Vol. III, pp. 285-6.

⁵³ G. T. Staunton, *Notes of Proceedings and Occurrences During the British Embassy to Peking in 1816* (*Britain and the China Trade 1635-1842*, Vol. X, Selected and with a new introduction by P. Tuck), 2000 (first published in 1824), p. xv.

which was certainly not allowed. Accordingly, the Canton authorities demanded that John F. Elphinstone⁵⁶ order the British warships not to enter the inner sea again. If they violated this law, not only would the ships be destroyed, but more importantly, the whole trade would be suspended. This made the Company immediately present a petition apologizing for the incident.⁵⁷

Because the affair of HMS *Doris* was seen as a threat to China, the Ch'ing authorities in January 1815 issued a decree to bring foreigners in Canton under stricter control. This edict consisted of several new regulations, which included an order preventing foreign warships entering Chinese territorial waters on any condition. According to the new regulations, the foreign warships which came to Canton as escorts could only anchor outside the inner sea and were to wait there until the commercial ships finished their business and left Canton. In order to limit any troubles and conflicts between the foreigners and the Chinese, the decree also stipulated that no native Chinese were allowed to work for the foreign companies as servants. But what caused the Company more concern was that the Chinese Emperor also agreed with the suggestion of the Canton Governor-General, Chiang Yu-t'ien, that the Hong-merchant system be re-organised, which meant the re-establishment of a Co-hong.⁵⁸

The new regulations of 1815 placing foreigners and foreign trade under stricter control forced Britain to send an embassy to Peking seeking to create a better trading

⁵⁴ *Ibid.*

⁵⁵ Fu, *A Documentary Chronicle of Sino-Western Relations*, p. 393.

⁵⁶ J. F. Elphinstone was then an EIC supercargoes in Canton and also presided over the Select Committee.

⁵⁷ Fu, *A Documentary Chronicle of Sino-Western Relations*, p. 394.

environment for British trade. Lord Amherst was chosen to lead the mission, with Sir George Thomas Staunton (then the president of the Canton Committee) accompanying him to Peking as a consultant. As with the case of Lord Macartney, before Amherst sailed for Peking, the Canton Committee provided him with details of the Company's current trading situation in China and offered proposals for changing the existing Canton System.⁵⁹ There were several proposals but one of the main objectives of the Amherst mission was to get permission from the Chinese Emperor to let Britain have diplomatic representation in Peking in order to have a channel through which negotiations would take place with the Imperial Court directly. Moreover, the British ambassador and his aides would propose the abolition of the existing Canton Hong-merchant system and seek permission to allow the British merchants to reside in other areas of China outside the Company's factory in Canton. If possible, they also aimed to make the Ch'ing authorities open other ports for trade. To sum up, the major purposes of the mission were to obtain greater security and a clear definition of the Company's trading rights in China.⁶⁰

Despite its thorough preparation, with many valuable gifts being procured, the Amherst mission, like the Macartney's embassy, failed to achieve any of its objectives.⁶¹ Lord Amherst was in fact ordered to leave Peking even without meeting with the Chinese Emperor and the gifts which the embassy brought to Peking were later returned by the

⁵⁸ For these regulations and suggestions, see Fu, *ibid.*, pp. 394-5.

⁵⁹ For the letter, see Morse, *The Chronicles of East India Company Trading to China*, Vol. III, pp.284-5.

⁶⁰ P. Tuck, *Britain and the China Trade 1635-1842*, Vol. X: Notes of Proceedings and Occurrences during the British to Peking in 1816, Introduction, p. xviii.

⁶¹ For details of the preparation and journey of Amherst's mission to Peking, see IOR: G/12/196; Morse, *The Chronicles*, Vol. III, Chapter LXXIII; & G. T. Staunton, *Notes of Proceedings and Occurrences during the British Embassy to Peking in 1816* (1824).

Ch'ing Imperial Court.⁶² The reason why the embassy had soon been sent away by the Ch'ing authorities, without being received by the emperor, remained debatable.⁶³ However, even if Amherst was to be received by the Chinese Emperor and complied with the Chinese customs, such as the ceremony of 'kowtow', Tuck argues that unless the Ch'ing Imperial Court changed its attitude towards foreign trade and foreigners, Amherst's mission would still have been in vain.⁶⁴ Indeed, before Britain finally used force to open the door of China at the turn of the 1840s, no foreigners were able to change the Canton System, through peaceful negotiations. But different from the Chinese trading system through which the Canton Hong merchants remained the only group authorised to trade with foreigners in tea until 1842,⁶⁵ the EIC at the same time had been under serious attack at home by those who opposed the Company's China monopoly. This issue will be discussed in the next section.

⁶² 清會典事例 *Ch'ing hui-tien shib-li* (Collected Statutes of the Ch'ing Dynasty with cases and precedents), 卷 (Ch.) 510 (Vol. 6, p. 907).

⁶³ On the eve of being received by the Chinese emperor, Amherst and Staunton became 'suddenly' ill and accordingly, they asked for arranging another time to meet the emperor. But this was regarded by the Peking authorities as their lack of sincerity, and thus the Imperial Court soon decided to send them back to England (清會典事例 *Ch'ing hui-tien shib-li*, 卷 (Ch.) 510 (Vol. 6, p. 907)). Amherst's and Staunton's 'suddenly' ill was said to link with their protest to the Ch'ing mandarins' requiring them to perform the ceremony of 'Kowtow' in front of the emperor, a traditional custom which they decided not to comply with. Amherst's decision not to perform the ceremony of 'Kowtow' when he was to be received by the Chinese emperor was suggested by George Staunton because this action would place Britain in the position of a tribute-nation.

⁶⁴ Tuck, *Britain and the China Trade 1635-1842*, Vol. X: Notes of Proceedings and Occurrences during the British to Peking in 1816, Introduction.

⁶⁵ The British efforts to abolish the Canton System were not achieved until 1842 when the Treaty of Nan-king (Nan-jing) was signed after the first Anglo-Chinese War (more commonly known as the Opium War in Chinese literature).

7.2 Monopoly versus Free Trade: A Comparison of the Tea Trade between the EIC and the Americans

For most of the years when the Chinese foreign trade was based on the Canton System, the British EIC played a dominant role in the European trade with Canton. However, despite its influential position, the EIC was criticised by many Britons for monopolising the supply of teas at home and thus keeping prices artificially high. The Company was also accused by critics of failing to create an effective demand for British products in China, the most populous nation in the world.⁶⁶ The criticism became more intensive after Indian markets were thrown open to British traders in 1813 when not only did domestic consumers benefit from being able to purchase Indian goods at more reasonable prices, but also the export of British manufactures to India began to expand.⁶⁷ Thus the effects of its monopoly upon the tea trade is worth examining in order to understand better the EIC's China trade.

In considering whether the EIC's monopoly played an effective role in the development of the tea trade, it will be helpful to consider other major foreign tea purchasers who conducted their business on the a basis of free competition in Canton. The American China trade of America is the best example. Firstly, unlike Britain and other European nations whose Asian trade was regulated by privileges, the Americans conducted their tea trade with China under a system of free competition. Secondly, despite entering the

⁶⁶ See e.g. 'Observations on the Trade with China', *Edinburgh Review*, January 1824; Crawford's *Chinese Monopoly Examined* (1830) & R. M. Martin, *The Past and Present State of the Tea Trade of England, and the Continents of Europe and America* (1832).

⁶⁷ A discussion of this issue can be seen in A. Webster, 'The Political economy of trade liberalization: the East India Company Charter Act of 1813', *Economic History Review*, 2nd series, Vol. XLIII, No. 3 (1990), pp. 404-419; & R. Davis, *The Industrial Revolution and British Overseas Trade* (1979).

China trade much later than its European counterparts,⁶⁸ the American trade with the Ch'ing Empire grew so rapidly that the US soon became the most important foreign tea purchasers at Canton after the EIC.

Table 7.1 The American Tea Trade with China, 1784-1839: the quantity of tea exported to the United States (pounds) and also the number of ships in the trade

Year	Ships (numbers)	Tea Exports To US (lbs.)	Year	Ships (numbers)	Tea Exports To US (lbs.)
1784-1785	2	880,100	1811-1812	25	3,496,880
1785-1786	1	695,000	1812-1813	8	1,436,800
1786-1787	5	1,181,860	1813-1815	9	1,469,360
1787-1788	2	750,000	1815-1816	30	7,723,200
1788-1789	4	1,188,800	1816-1817	38	9,391,680
1789-1790	14	3,093,200	1817-1818	39	9,701,040
1790-1791	3	743,100	1818-1819	47	12,035,280
1791-1792	3	1,863,200	1819-1820	43	10,519,160
1792-1793	6	1,538,400	1820-1821	15	4,973,463
1793-1794	7	1,974,130	1821-1822	26	6,636,705
1794-1795	7	1,438,270	1822-1823	35	8,208,895
1795-1796	10	2,819,600	1823-1824	28	8,919,210
1796-1797	13	3,450,400	1824-1825	36	10,178,972
1797-1798	10	3,100,400	1825-1826	28	10,072,898
1798-1799	13	5,674,000	1826-1827	24	5,868,828
1799-1800	18	5,665,067	1827-1828	27	7,689,305
1800-1801	23	4,762,866	1828-1829	22	6,595,033
1801-1802	31	5,740,734	1829-1830	23	8,584,799
1802-1803	20	2,612,436	1830-1831	21	5,177,557
1803-1804	13	2,371,600	1831-1832	30	9,894,181
1804-1805	34	7,679,120	1832-1833	41	14,637,486
1805-1806	42	9,830,480	1833-1834	43	16,267,852
1806-1807	37	9,402,160	1834-1835	36	14,403,458
1807-1808	33	5,654,480	1835-1836	43	16,347,344
1808-1809	8	1,562,320	1836-1837	42	16,942,122
1809-1810	37	9,224,880	1837-1838	29	14,411,337
1810-1811	16	2,615,520	1838-1839	18	9,296,679

Source: F. R. Dulles, *The Old China Trade* (1946), pp. 210-1; IOR: G/12/243, pp. 142-5.

⁶⁸ The Americans sent their first ships to China in 1784. For the beginning of American trade with China, see K. S. Latourette, *The History of Early Relations between the United States and China 1784-1844* (1917); T. Dennett, *Americans in Eastern Asia* (1922); F. R. Dulles, *The Old China Trade* (1930); Dulles, *China and America – The Story of Their Relations since 1784* (1946); & J. Goldstein, *Philadelphia and the China Trade 1682-1846* (1978).

The rapid development of the American trade with China can be seen from Table 7.1 which illustrates that the number of US vessels trading to Canton increased from only a few ships in the early stages to over 40 vessels in many years of the 1830s. Similarly, its rapid development can be seen from the increasing volume of the tea exports. In 1784-85 when the Americans started their Canton trade, the total volume of tea exported to the US was only around 880,000 lbs., but by 1801-02 it reached more than 5,740,000 lbs., and a figure of over 16 million pounds was achieved in the season of 1833-34.

7.2.1 The price issue

The effects of the Company's monopoly can be determined by comparing the price of teas sold at the Company's sales in England with those sold by free traders elsewhere. To make an easy comparison, we can identify a few port-cities that were important in the tea trade. In the case of America, the dramatic development of the trade was such that New York soon emerged to become the second largest tea-market outside China.⁶⁹ Accordingly, as was noted in 1824, the tea prices given in New York, 'as compared with the prices of the teas sold by the Company in London, will afford the best standard whereby to measure the effect of the Company's monopoly on prices.'⁷⁰ Moreover, since several European-Continental sea-ports, such as Hamburg, derived a considerable amount of tea indirectly from the United States,⁷¹ we shall also examine Hamburg in order to establish a comparison with prices paid to the Company in London.

⁶⁹ 'Observation on the Trade with China', *Edinburgh Review*, January 1824, p. 461. London was the largest Chinese tea market outside China in the corresponding period.

⁷⁰ *Ibid.*

⁷¹ *Ibid.* & *British Parliamentary Papers* (hereafter BPP), Reports from Select Committees, 1830, Vol. VI

Table 7.2 is based on data drawn from the *Edinburgh Review*, and shows the prices at which tea was sold to dealers in London by the Company at the first sale in 1823,⁷² and the current prices of tea in New York and Hamburg. From the table, it can be seen that the Company's sale prices exceeded those of current prices at both New York and Hamburg on almost every type of tea. The pattern is similar in other years. For example, as Table 7.3 indicates, it is clear that with the exception of Pekoe, the prices of all the EIC's teas exceeded those sold at Hamburg in the season of 1828-29. The excess of the Company's tea prices over those of Hamburg was even more striking when we take the total quantity of tea disposed of at the Company's sales into consideration. Table 7.4 shows the quantities of different descriptions of tea sold by the EIC, as well as the excess of prices at which they were sold over that of Hamburg in 1828-29. By multiplying the quantities of various sorts of tea with the excess of the price over that of Hamburg, we can produce a figure of £1,709,837, as shown in the third column. This was regarded as the total excess of price received by the Company in that year compared to the price of tea at Hamburg.⁷³ This naturally drew the criticism that because the EIC was the only supplier, it used its monopoly position to increase tea prices, and thus enjoyed an excessive profit at the expense of the public.⁷⁴

(646), p. 368.

⁷² The EIC in London had four sales of tea yearly. The first sale in each year took place in March. For the Company's conduct of tea sales in London, see H. C. Mui & L. H. Mui, *The Management of Monopoly – A Study of the English India Company's Conduct of its Tea Trade, 1784-1833* (1984).

⁷³ McCulloch, *A Dictionary, Practical, Theoretical, and Historical, of Commerce and Commercial Navigation* (1832), 'Tea section', p. 1031.

⁷⁴ *Ibid.*, p. 1030 & 'East India Company – China Question', *Edinburgh Review*, 1831, pp. 281-2.

Table 7.2 Comparative Account of the Prices of Tea at London, Hamburg and New York in 1823 (per lb.)

Type of Tea	New York Prices in 1823	Hamburg Price in 1823	Selling Price at EIC's First Sale in 1823	Excess of EIC's Prices over those of New York	Excess of EIC's Prices over those of Hamburg
Bohea	8 ½ d.	9 5/16 d. to 10 3/16 d.	2s. 5 2/10 d.	1s. 8 ¼ d.	1s. 7 ½ d.
Congou	7 ½ d.	1s. – 1s. 2d.	2s. 6 1/10 d. to 2s. 7 8/10 d.	1s. 11 ½ d.	1s. 6d.
Campoi	-----	10 7/8 d. – 1 ½ d.	3s. 5 3/10 d.	-----	2s. 5 ¾ d.
Souchong	1s. 3 ¾ d.	1s. – 1s. 4d.	4s. 4 7/10 d.	3s. 1d.	3s. 2 ½ d.
Twankay	----	1ss. 5d. – 1s. 7d.	3s. 4 6/10 d.	-----	1s. 10 ½ d.
Hyson-skin	1s. 5 1/3 d.	1s. 5 ¾ d. – 1s. 7d.	3s. 3 9/10 d.	1s. 10 ½ d.	1s. 9 ½ d.
Hyson	2s. 6 d.	2s. 2d. – 2s. 4d.	4s. 5 4/10 d.	1s. 11 ½ d.	2s. 2d ½.

Note: The prices of tea at Hamburg and New York had been converted into Sterling.

Source: 'Observations on the Trade with China – East India Company's Monopoly – Price of Tea', *Edinburgh Review*, No. LXXVIII, January, 1824, p. 462.

Table 7.3 Comparative Account of the Prices of Tea at London and Hamburg in 1828-29

Type of Tea	Company's selling price per pound in 1828-29	Prices at Hamburg, per pound in 1828,29	Excess of Company's prices over those of Hamburg	Excess of Hamburg prices over those of the Company
Bohea	1s. 6 ½ d.	8 ½ d.	10 d.	-----
Congou	2s. 4 d.	1s. 2 ½ d.	1s. 3 ½ d.	-----
Campoi	2s. 9d.	1s 2d.	1s. 7 d.	-----
Souchong	2s. 10 ¼ d.	1s. 1 ¾ d.	1s. 8 ½ d.	-----
Pekoe	3s. 9 ¼ d.	4s. 6 ¾ d.	-----	9 ½ d.
Twankay	2s. 5 1/2d.	1s. 2 ¼ d.	1s. 3 ¼ d.	-----
Hyson-skin	2s. 4d.	11 ¼ d.	1s. 4 ¾ d.	-----
Hyson	4s. 1 ¾ d.	2s. 8 d.	1s. 5 ¾ d.	-----
Gunpowder	6s. 6 ½ d.	3s. 5 ½ d.	3s. 1 d.	-----

Source: 'East India Company – China Question', *Edinburgh Review*, Vol. LII, No. CIV, January, 1831, p. 284.

Table 7.4 Quantities of Tea sold by the Company in 1828-29 and the excess of price, over that of Hamburg, received by the EIC

Sort of Tea	Quantities of Tea sold By the EIC in 1828-29 (lbs.)	Excess of Company's Price per pound, over Price at Hamburg	Excess of Prices received by the Company (£)
Bohea	3,778,012	10 d.	157,417
Congou	20,142,073	1s. 1 ½ d.	1,132,992
Campoi	284,187	1s. 7 d.	22,498
Souchong	601,739	1s. 8 ½ d.	51,398
Twankay	4,101,845	1s. 3 ¼ d.	260,638
Hyson-skin	213,933	1s. 4 ¾ d.	14,930
Hyson	1,014,923	1s. 5 ¾ d.	75,062
Gunpowder	645	3s. 1 d.	99
Total above			1,715,034
Pekoe	131,281	- 9 ½ d.	-5,197 (Deducted)
Total Excess of Price received by the Company over and above the Price similar Teas at Hamburg			1,709,837

Source: McCulloch, *A Dictionary, Practical, Theoretical, and Historical, of Commerce and Commercial Navigation* (1832), p. 1031.

While considering the sale price of tea, it is also noteworthy that the most popular types of Chinese tea that the British public consumed tended to belong to those cheaper varieties when compared to those purchased and consumed by the Americans. As noted in Chapter Two, the British began to consume more superior teas after the passage of the Commutation Act, but Congou which became the most popular Chinese tea in Britain and accounted for more than half of the total consumption, was not a luxury tea, but instead was the second cheapest sort of tea imported and sold by the EIC, as illustrated in Tables 7.2 and 7.3.⁷⁵ Moreover, although its original dominant position was overtaken by Congou, Bohea, the cheapest sort of Chinese tea, continued to remain one of the major teas purchased by the British public, and together these two kinds of teas contributed to

⁷⁵ For the price ranking of different sorts of tea sold by the EIC in auctions, see also Table 2.9 and Table 10.

nearly two-thirds of the Company tea sold in Britain.⁷⁶ In contrast, those higher-priced teas, such as varieties of Hyson tea, occupied a very high percentage of the tea purchased and consumed by the Americans. Indeed, when compared to only 2,552 chests of Bohea and 2,994 chests of Congou being purchased by the American merchants in 1822/3, the exportation of Hyson Skin amounted to 39,090 chests, together with 15,764 chests of ordinary Hyson and 24,639 chests of Young Hyson in the same season.⁷⁷

The above examples illustrate that the British public tended to pay more for lesser quality teas than did the Americans. Accordingly, because the importation of tea from China was monopolised by the EIC, it was argued that the supply of tea being controlled by the EIC had not only the effect of pushing the price up, but also of driving the British public to consume inferior varieties of tea.⁷⁸ Thus, it may be supposed that if the price of tea had been cheaper, superior sorts of teas would have been in as great a demand in Britain as they were in America. This might be the case, but the differences in consumer behaviour between the two nations should not be ignored. With Britain's long-established preference for black tea whose price was generally much less than the green tea that the Americans tended to consume,⁷⁹ the question of whether the British monopoly system of tea supply should take the blame for Britons' consuming the cheaper sorts of tea requires further study.

⁷⁶ See Chapter Two, in particular Tables 2.9 & 2.10.

⁷⁷ IOR: G/12/243, p. 144.

⁷⁸ McCulloch, *A Dictionary, Practical, Theoretical, and Historical, of Commerce*, p. 1032-3.

⁷⁹ The price of the green tea was generally dearer than that of the black tea because the supply of the green tea in Canton was not always as abundant as the black one. For the average price of different sorts of black tea and green tea, see Tables 2.9 and 2.10.

Table 7.5 The quantity for each sort of tea (chest) purchased and exported by the Americans from Canton for the seasons 1804-5 to 1828-9

Season	Black Tea					Green Tea					
	Bohea	Congo	Campoi	Souchong	Pekoi	Hyson Skin	Hyson	Young Hyson	Imperial & Gunpowder	Singlo	Twankay
1804-5	1,800	21,000	15,000	16,345	---	22,905	11,141	4,290	1,708	1,800	---
1805-6	605	25,000	10,000	19,165	---	37,251	16,468	11,420	2,947	---	---
1806-7	4,430	6,778	3,692	26,265	100	36,597	24,450	12,422	2,693	1,800	---
1807-8	2,875	13,709	3,276	11,079	614	21,702	10,106	4,686	1,424	310	400
1808-9	320	87	---	2,625	---	8,476	3,613	3,108	1,299	---	---
1809-10	5,510	19,819	8,377	17,545	797	35,988	19,353	5,266	1,694	962	---
1810-11	545	1,225	---	2,102	200	18,891	2,695	4,575	1,348	1,113	---
1811-12	264	1,427	984	3,302	---	23,929	3,969	7,083	1,673	1,080	---
1812-13	540	---	124	2,760	---	5,352	1,854	6,669	661	---	---
1813-15	350	4,569	---	4,992	---	3,856	467	3,910	223	---	---
1815-16	2,025	21,995	11,616	17,048	242	20,222	6,261	15,013	2,018	---	100
1816-17	1,086	17,115	8,429	24,937	892	33,401	12,107	15,119	3,305	398	807
1817-18	1,700	13,115	5,390	22,941	735	34,671	13,627	23,132	4,239	250	1,474
1818-19	749	16,382	7,032	32,007	774	44,259	18,728	22,443	3,925	701	2,841
1819-20	941	13,331	6,027	33,560	2,305	33,089	15,977	19,871	3,981	550	1,855
1820-21	852	13,311	4,825	19,539	1,054	30,978	7,567	16,246	4,190	1,447	---
1821-22	1,778	5,043	1,485	24,235	1,792	39,815	12,126	23,931	6,150	650	---
1822-23	2,552	2,994	1,660	43,407	578	39,090	15,764	24,639	5,248	---	---
1823-24	2,413	4,435	1,220	51,453	764	32,256	15,316	32,859	6,465	---	---
1824-25	6,415	5,455	971	54,308	762	62,060	17,944	41,845	7,555	---	---
1825-26	4,266	3,390	1,772	27,821	1,101	48,194	21,117	47,439	8,555	---	---
1826-27	1,345	737	923	27,666	859	30,475	9,705	27,301	6,543	---	---
1827-28	1,100	1,592	4,598	24,547	208	29,763	13,913	31,080	7,589	---	---
1828-29	901	2,728	1,235	17,227	191	18,127	11,264	26,192	4,980	---	---

Source: IOR: G/12/243, p. 144.

It is clear that the most popular black tea purchased by the Americans was Souchong, a sort of tea that was much more expensive than Bohea and Congou, as illustrated in Table 7.5. In the same way, apart from the higher-price teas such as varieties of Hyson, the Americans only took limited amounts of Singlo and Twankay (the two cheapest sorts of green tea) which were the varieties that British consumed a lot among the green tea (as indicated in Chapter Two). With Twankay being the most popular green tea consumed in Britain after the beginning of the nineteenth century, Congou, Bohea, and Twankay together accounted for around three-quarters of the total quantity of China tea sold by the EIC at home.⁸⁰ With nearly three-fourths of the so-called excess of price by the EIC belonging to Congou, Bohea and Twankay, the three cheapest sorts of Chinese tea, McCulloch was able to argue that the weight of the high profit received by the Company fell mainly on the lower classes.⁸¹

The above discussion suggests that the British system of tea supply did result in Britons' consuming more inferior sorts of tea. Nevertheless, despite arguing that the British public tended to consume cheaper sorts of tea than Americans, McCulloch pointed out that 'it must, however, be admitted that the mere comparison of the prices of tea at Hamburg (or New York) and London does not afford a fair test of the influence of the Company's monopoly, except on the supposition that the qualities of the teas sold in both places are about the same'.⁸² Indeed, although it was a fact that the British consumers had to pay more for tea, the EIC alleged that the teas supplied by the Company in the

⁸⁰ The Company stopped purchasing any tea marked as 'Singlo' after 1810s and this sort of tea became Twankay of inferior quality.

⁸¹ McCulloch, *A Dictionary*, p. 1032.

⁸² *Ibid.*, p. 1031.

British market were incomparably superior in quality to those in Europe and in the United States. The EIC servants (such as James Urmston) and its advocates argued that this was certainly the case because of the Company's mode of tea purchasing and also its powerful influence at Canton, where it had the first choice of teas from the Canton Hong merchants.⁸³ Accordingly, any examination of the extent to which the price and quality of tea consumed by the Britons was affected by the Company's monopoly necessitates an analysis of the way in which other nations' merchants conducted their Chinese tea purchases. For example, we can consider whether any dissimilarity in the tea purchasing methods or the terms of trade between the EIC and the Americans at Canton resulted in differences in the price and quality of tea.

7.2.2 The American Tea Trade at Canton

Soon after its independence from the British Empire, the United States successfully established a direct commercial link with China.⁸⁴ As was the case with all foreign traders, Canton was the only Chinese port open to the Americans for the purchase of tea. However, America's tea purchases was conducted on a free trade basis, with several

⁸³ BPP, Vol. VI, Reports from the Select Committee of the House of Lords on the Affairs of the East India Company (646), p. 448 (Minutes of Evidence by J. B. Urmston), & 'East India Company – The China Question', *Edinburgh Review* (1831), p. 286. Urmston was once the president of the Canton Select Committee.

⁸⁴ The Americans launched their direct trade with China only after the USA gained independence from Britain. This was because the merchants of British North America were not permitted, under the terms of the 1651 Navigation Act and subsequent legislation, to sail in their own ships to Asia (J. Goldstein, *Philadelphia and the China Trade 1682-1846* (1978), p. 17.) Thus the supply of Chinese tea to the British colonies in North America before American independence was conducted through an indirect way. The tea first reached England from where it was re-exported to British America. The increasing of taxes on tea in order to increase revenue later became the fuse that sparked the American War of Independence. For a discussion of the issue, see B. W. Labaree, *The Boston Tea Party* (1964).

private individuals trading at Canton simultaneously.⁸⁵ Moreover, although the Americans also adopted a contracting system to tea purchase, they generally bought more tea more in the open market.⁸⁶ Thus, in contrast to the EIC, purchase by contracts accounted for only a small proportion of American purchases, often less than ten per cent of the total.⁸⁷

Having briefly established the different patterns of purchasing teas at Canton that existed between the EIC and the Americans, it is necessary to explore whether the quality of their purchases differed. As just noted, the Company argued that teas supplied by the EIC were incomparably superior to others. Indeed, apart from the statement of Urmston, Francis Toone, another senior member of the Canton Select Committee, also declared at a hearing of the House of Lords that the quality of the teas furnished to the Americans was generally inferior to those of the EIC.⁸⁸ From the British Parliamentary Papers of 1830, we also can find support for this view from the US's own merchants trading to China. Captain Abel Coffin, for instance, suggested that the difference between the quality of the teas received by the Company and those purchased by the Americans was between five to ten per cent in favour of the teas procured by the EIC.⁸⁹ Nevertheless, it was not unanimously accepted among the American merchants that the quality of the teas they purchased was certainly inferior to those of the EIC. Interestingly, Joshua Bates, another

⁸⁵ McCulloch, *A Dictionary, Practical, Theoretical, and Historical, of Commerce*, p. 1030.

⁸⁶ BPP: 1830, Vol. VI, Reports from the Select Committee of the House of Lords on the Affairs of the East India Company (646), pp. 367, 442 (Minutes of Evidence before Committee of the House of Lords, by J. Bates & J. B. Urmston). Bates was an American merchant trading to China.

⁸⁷ *Ibid.*, p. 367.

⁸⁸ *Ibid.*, p. 363 (Evidence by F. H. Toone). Toone once held the post of the second member of the Canton Select Committee.

⁸⁹ BPP, Vol. V, First Report from the Select Committee on the Affairs of the East India Company (China Trade) (644), pp. 117-8 (Minutes of Evidence by Captain A. Coffin).

American merchant, argued that although their black teas might have been inferior to those of the Company, the green teas purchased and sold by the Americans were of equal quality, and perhaps even better.⁹⁰ With the existence of different contemporary opinions regarding the quality of tea among those who traded in Canton, we shall look more deeply at the practices of tea procurement between the EIC and the American traders.

Firstly, consideration is given to the purchase of black teas. In general, the Company found no difficulty in procuring enough black teas to complete the cargoes of their ships and this was because the supply of black tea in the Canton market was generally sufficient, and also because the Americans' demand for the black tea was limited.⁹¹ Since the EIC and the American traders did not compete for black tea,⁹² both of them could purchase sufficient black tea they wished either through contracts or on the spot. The story for the green tea was different. Because the Chinese public preferred black tea to green tea, the production of green tea in China was much more limited than the former and thus the supply of green tea at Canton was not so abundant. In consequence, when home consumption was increasing quickly, the EIC occasionally found it difficult to obtain a full supply of green teas of suitable quality.⁹³ But more importantly, the reason why the Company was unable to receive sufficient green tea for the growing home demand was because the EIC had to meet the competition of the American traders who purchased an even larger amount of green tea in Canton. In particular this occurred after 1820 when the Americans' demand for green tea developed on a very large scale. For

⁹⁰ BPP: 1830, Vol. V, p. 222 (Evidence of J. Bates).

⁹¹ *Ibid.*, Vol. VI, p. 351 (Evidence of F. H. Toone). Toone was once an EIC supercargo at Canton.

⁹² BPP, vol. V, p. 90 (Evidence before the Select Committee of the House of Commons, by Mr. Richard Milne). Milne was a British-born American merchants who traded in Asia.

instance, the total green teas consigned to Britain by the EIC in season 1823/24 (including the privilege trade) was 4,810,149 pounds when compared to 6,278,800 lbs. shipped away from Canton by the Americans.⁹⁴

When the supply of the green tea was short or the demand was large, the EIC would try to purchase more teas at the open market. However, the supercargoes on some occasions were unable to purchase the quantities of tea they wished because the Americans tended to provide better terms, including giving even higher prices.⁹⁵ Their transactions included the purchases of some tea of an inferior sort or low quality in the market at a good price, while the Company refused to procure them at the prices paid by the American.⁹⁶ This particularly occurred during the mid-1820s when the Americans received tea of poor quality, and the EIC declined to follow.⁹⁷ For example, in 1823/24 the EIC prepared to purchase some Twankay teas to meet the increasing demand at home, and because those teas were of inferior sort, the supercargoes negotiated and hoped to procure them at a lower price than the usual price of 24 taels per pecul. However, because the tea-men were unwilling to deliver these teas at a lower price and the Americans were willing to receive them under the denomination of Hyson Skin, these Twankay teas finally fell into the hands of the Americans.⁹⁸

⁹³ BPP, 1830, vol. VI, p. 359 (Evidence by F. H. Toone).

⁹⁴ IOR: R/10/CL/XXII, 20 April 1825, para. 37, f. 30.

⁹⁵ BPP, 1830, vol. VI, pp. 351, 359 (Evidence by F. H. Toone).

⁹⁶ *Ibid.*, pp. 379-80 (Evidence of J. Bates) & pp. 442, 446 (Evidence of Urmston).

⁹⁷ *Ibid.*, Vol. V, p. 363 (Evidence of Toone).

⁹⁸ IOR: R/10/CL/XXI, 9 April 1824, para. 38 & sidenote of para. 42, ff. 13, 14.

Table 7.6 The American Trade with China from the season 1804-5 to 1828-29: indicating the total value of imports and exports as well as the number and tonnage of US vessels trading to Canton in this period

Season	Vessels		Total Imports into China by US ships			Total Exports (dollars)
	Number	Tonnage	Silver from the US (dollars)	Commodities & others (dollars)	Total (dollars)	
1804-5	34	10,159	2,902,000	653,818	3,555,818	3,842,000
1805-6	42	12,480	4,176,000	1,150,358	5,326,358	5,127,000
1806-7	37	11,258	2,895,000	982,362	3,877,362	4,294,000
1807-8	33	8,805	3,032,000	908,090	3,940,090	3,476,000
1808-9	8	2,215	70,000	409,850	479,850	808,000
1809-10	37	12,512	4,723,000	1,021,600	5,744,600	5,715,000
1810-11	16	4,748	2,330,000	568,800	2,898,800	2,973,000
1811-12	25	7,406	1,876,000	1,256,810	3,132,810	2,771,000
1812-13	8	1,816	616,000	837,000	1,453,000	621,000
1813-15	9	2,854	n.a.	n.a.	451,500	572,000
1815-16	30	10,208	1,922,000	605,500	2,527,500	4,220,000
1816-17	38	13,096	4,545,000	1,064,000	5,609,000	5,703,000
1817-18	39	14,325	5,601,000	1,475,828	7,076,828	6,777,000
1818-19	47	16,377	7,369,000	2,498,208	9,867,208	9,057,107
1819-20	43	15,945	6,259,000	1,926,800	8,185,800	8,173,000
1820-21	26	8,663	2,569,500	1,465,500	4,035,000	4,088,000
1821-22	45	15,597	5,125,000	74,741	5,199,741	7,058,741
1822-23	40	14,557	6,292,840	2,046,549	8,339,389	7,523,492
1823-24	34	13,069	4,096,000	2,219,127	6,315,127	5,677,149
1824-25	43	16,262	6,524,000	n/a	n/a	8,501,119
1825-26	42	16,431	5,725,200	2,051,101	7,776,301	8,752,562
1826-27	26	9,566	1,841,168	2,402,449	4,243,617	4,373,891
1827-28	29	12,090	2,640,300	3,598,488	6,238,788	6,559,925
1828-29	n.a.	5,613	731,000	3,299,865	4,030,865	4,552,200

Source: IOR: G/12/243 (1829-30), pp. 142-3, 145.

Indeed, in later years the EIC supercargoes in Canton faced tough competition from the Americans who were more eager to purchase green tea. What more striking is that the American merchants not only procured teas on the spot, but, if necessary, they even went to negotiate with the Hong merchants in order to procure some of those green teas being prepared for delivery to the EIC's ships. Because these teas had been packed and

marked, the Hong merchants put new printed papers over the marks and sold them to the Americans.⁹⁹ On these occasions, the US merchants certainly paid a good price so as to enable the Hong merchants to pay back the advanced money and interest to the Company. In fact, apart from paying a higher price, what made the Chinese merchants more willing to trade with the Americans was their method of payment. Unlike the EIC which tended to use the British and Indian goods as a part of tea payments, the Americans purchased tea mostly in ready-money, i.e. Spanish dollars, which the Hong merchants naturally preferred. Indeed, the system of barter never entered into their transactions.¹⁰⁰ Table 7.6 shows that the majority of US imports into China was in silver dollars, indicating that the conduct of American tea trade with China was largely based on the use of treasure shipped from the New World, as the EIC had done in the earlier period.¹⁰¹ For those Hongists who were in financial difficulties, the ready money was more useful than British woollens and enabled them to pay the duties and debts immediately.

When the supercargoes failed to receive some green teas as planned, the Directors on the letter of 9 April 1824 expressed their 'surprise and disappointment' at the supercargoes' not having purchased enough Twankay tea for the season. Indeed, as they noted that 'the demand for the market amounted to 2,800,000 pounds more than your [the Canton Committee's] usual contract could possibly supply.'¹⁰² A demand for a large quantity of green tea was also the case in the next season when the Court wrote 'we cannot too strongly press upon you [Canton supercargoes] the necessity of procuring enlarged

⁹⁹ Phipps, *A Practical Treatise on the China and Eastern Trade*, p. 310.

¹⁰⁰ BPP, 1830, Vol. VI, p. 361 (Evidence of Toone), & Vol. V, pp. 89, 127 (Evidence of Captain Coffin).

¹⁰¹ It was not until the late 1820s that the total import of commodities into China by the Americans exceeded silver importation in value.

supplies of green teas, if they are to be found in the market.’¹⁰³ While hoping that the Canton supercargoes could purchase a larger quantity of green teas to meet home demand, the Court however did not ignore its concern over the quality of tea. The Directors later stipulated that

‘The statement in your Diary of season 1823/24 shows the abundant quantity of green teas which are obtained by the Americans, and at ... prices at which they purchased thence some of the tea shipped by the Americans under the name of Hyson Skin, may not merit that description, ... we have nevertheless very great doubt as to the bulk of it being unfit for our market’.¹⁰⁴

The Canton Committee’s refusal to pay high prices for teas of low quality was certainly linked with its strict quality-control on tea. Indeed, perhaps because the supercargoes inspected the contract green teas carefully and also declined to take any tea of inferior-quality, the green tea such as Twankay shipped back to Britain from China in season 1823/24 was found in general to be of very good quality. This can be seen in the same letter as above when the Court gratefully wrote that ‘The Twankay Teas of this season are evidently superior to the importation of many previous seasons, there being among them many chops of the “brightest, curled, and speckled leaf kind” and an unusually large proportion of fair “but middling Twankay”’.¹⁰⁵ In contrast, many green teas of inferior sort were not only purchased by the American, but they were even accepted and marked as other superior sorts (as noted, the Americans purchased some Twankay teas and marked them as Hyson Skin). Accordingly, this helped to strengthen the Company

¹⁰² IOR: R/10/CL/XXI, 9 April 1824, para. 38, f. 13.

¹⁰³ IOR: R/10/CL/XXII, 20 April 1825, para. 48, f. 32a.

¹⁰⁴ *Ibid.*, para. 36, ff. 29-30.

¹⁰⁵ *Ibid.*, para. 39, f. 30.

servants' argument that the Company teas were superior to those obtained by other western traders such as the Americans.

In fact, the British Government once collected samples of tea from different regions in order to compare the quality of Company teas with those provided by other traders. In order to establish whether the quality of teas sold at home by the EIC was better or worse than those of other nations, the British Government, in 1829, sent orders to its consuls abroad directing them to purchase different sorts of tea on the spot. The samples of tea purchased abroad in 1828-29 were then shipped back to Britain and were immediately 'submitted to the inspection of the most skillful tea-brokers of London who were requested to fix the prices which they supposed they would bring at the Company's sales'.¹⁰⁶ Because the inspectors did not know where the tea came from, it was supposed that the prices of these sample-teas were fixed without any discrimination when compared to those provided by the EIC.¹⁰⁷ Accordingly, the evidence provided by these samples of tea can be used to examine whether the teas sold in the London market were really superior, in point of quality, to those provided by others, as the Company alleged.

As shown in Table 7.7, it is clear to see that for those black teas, such Bohea, Congou and Souchong, the prices of samples bought at Hamburg were cheaper than those at the Company's sales. The result, thus, indicated that the quality of those black-sorts of tea provided by the EIC for the British public was clearly superior to those in Continental

¹⁰⁶ "East India Company – China Question", *Edinburgh Review*, Vol. LII (January, 1831), p. 286.

¹⁰⁷ *Ibid.*, (pp.286-7) 'The brokers knew nothing of the prices paid by the Board of Control for the teas, neither did they know whence they came, or for what object they were called upon to decide as to their qualities.'; McCulloch, *A Dictionary, Practical, Theoretical*, p. 1032.

Europe. This applies to Bates' argument that the Company's black teas were better than those provided by other merchants. If the presumption that the EIC's method of tea procurement resulted in higher-quality black teas consumed at home is evident, it is also necessary to consider whether the argument can be applied to green teas.

Table 7.7 Comparative Account of the prices of tea at the Company's sales in 1828-29 and those of samples bought at Hamburg as fixed by the brokers

Sort of Tea	Prices per pound at the Company's sales in 1828-29	Prices of Samples bought at Hamburg as fixed by the brokers
Black Tea:		
Bohea	1s. 6 ½ d.	1s. 4 ½ d.
Congou	2s. 4d.	2s. 3 ¾ d.
Campoi	2s. 9 d.	2. 0 ¾ d.
Souchong	2s. 10 ¼ d.	2s. 1 ¾ d.
Pekoe	3s. 9 ¼ d.	6s. 8 d.
Green Tea:		
Twankay	2s. 5 ½ d.	2s. 8 d.
Hyson-skin	2s. 4 d.	2s. 2 ½ d.
Hyson	4s. 1 ¾ d.	4s. 3 d.
Gunpowder	6s. 6 ½ d.	5s. 6 d.

Source: 'East India Company – China Question', *Edinburgh Review*, Vol. LII, No. CIV, January 1831, p. 287.

As just noted, the Americans occasionally gave higher prices for teas of low quality, but the EIC did not follow it and it was, thus, argued that the green tea shipped by the Americans was generally not as good as that purchased by the Company. Nevertheless, when we return to Table 7.7, it is clear that some green teas, such as Hyson Twankay, bought from Hamburg was clearly superior in quality. There is no doubt that the Americans offered attractive terms to the Hong merchants from whom they could receive a considerable portion of high-quality Hyson tea, a sort of tea which the American and European markets demanded in large quantities. But the tea inspection also shows that

Twankay, which the British demanded much more than the Americans, bought from Hamburg was superior in quality than in London. Thus, this appears to challenge the Company's own claim that the tea consumed at home was incomparably superior to that of other nations because of its efficient system of purchases and quality control.

To deal with this issue, we should consider whether any different characteristics existed between the black tea and the green tea. As noted in Chapter Five, the EIC would, if necessary, go to the open market and purchase old teas at cheaper prices and then ship them home in the following trading season. It should be emphasised, however, that this mode of tea purchase seldom applied to green tea. The main reason for that was that black tea could be kept for few years without difficulty, while green tea would quickly lose its flavour when it became old.¹⁰⁸ In this case, consideration can be given to whether the green teas in the Company's 1828-29 sales were described as inferior to those sold in Hamburg because of their age.

After procuring teas and placing them on board, the EIC's ships left Canton and sailed back to England via the Indian Ocean and the Atlantic Ocean. It might take around six months for ships to reach London. This also applied to the tea trade conducted by other European traders and the Americans. But, consideration should also be given to the effect of Britain's own commercial policies at home. In particular, assessments of the influence of the Commutation Act tend to look at the positive impacts for Britain, pointing out that tea imports from China increased dramatically, while the tea-smuggling

¹⁰⁸ *BPP*, 1830, vol. VI, p. 359 (Evidence of Toone).

business from the Continental Europe was destroyed.¹⁰⁹ The rapid increase of the tea consumption in Britain after 1784 was without doubt attributed to the elimination of the high customs duty on tea. However, it should be noted that the 1784 Act not only lowered the tea duty, but also imposed several regulations on the tea trade. For example, as noted in Chapter Five, it was established that there should be four sales of tea every year by the EIC in London, while the Act also required the Company to keep tea to the volume of a whole year's consumption in their warehouse.¹¹⁰

These regulations were imposed to ensure a regular supply of tea to the domestic market, but these regulations caused the British public to consume older tea than consumers in other countries. For example, by stipulating that the EIC should hold four sales of tea every year, tea unsold at London's auction would have to wait for another three months for the next sale. In addition, because the Act required the Company to keep a year's supply of tea in the warehouses, the teas which finally reached the consumers in Britain were already two years old or two years older than when they were first procured by the Company at Canton.¹¹¹ For instance, in the quarterly sale of March 1830, Crawford noted that 'the greater part of the teas, amounting in all to 7,800,000 lbs., were imported in 1828, and must, therefore, have been about two years old before reaching the

¹⁰⁹ For example, Cole, *Trends in Eighteenth-Century Smuggling*; Mui, *Smuggling and the British Tea Trade before 1784*; *The Commutation Act and the Tea Trade in Britain in 1784-1793*; *idem.*, *William Pitt and the Enforcement of the Commutation Act, 1784-1788* (1961); Pritchard, *The Crucial Years of Anglo-Chinese Relations, 1750-1800* (1929).

¹¹⁰ Act of 24 Geo. III, cap. 28.

¹¹¹ It usually took about half a year for tea to reach Britain from Canton. Also, according to the source from the Parliament Papers (BPP, 1830, vol. V, First Report from the Select Committee on the Affairs of the East India Company (644)), the shortest time of any tea sold by the Company which had been in stored was 14 months.

consumers.’¹¹² Furthermore, because other nations, such as the United States, did not have any similar obligation imposed on their tea trade, ‘the American consumers, who enjoyed a free trade with China, may drink tea in six months from its arrival from Canton.’¹¹³ It appeared therefore that the American public or consumers in Europe could enjoy tea at least one year younger than that of Britons. This also applies to Bates’ argument that the green teas provided by the Americans appeared to be better than in England as they had rather more flavour.¹¹⁴ Crawford, a free-trade advocate, thus argued forcefully that it would be a miracle, then, under these circumstances, if the Company’s teas were better than other teas.¹¹⁵

The above discussion suggests that with a strict quality-control procedure imposed on the tea trade, those teas purchased by the EIC, in particular through contracts, were generally superior to those by others. However, because the British system of tea importation was monopolised by one supplier – the East India Company – the British public was obliged to pay more for its tea than American and European consumers. It also caused the public to consume older teas than Americans and other Europeans, and some degree of fault for this lay with Britain’s own legislature for establishing the regulations set out in the Commutation Act. This had a largely negative effect upon the Company’s monopoly and its effective quality control system in the tea trade. The Company’s powerful bargaining power in tea purchases which let the supercargoes always have the first choice of tea was also under threat after the Americans emerged to be large tea purchasers at Canton. In

¹¹² Crawford, *Chinese Monopoly Examined* (1830), p. 83.

¹¹³ *Ibid.*

¹¹⁴ BPP, 1830, Vol. V, p. 222 (Evidence of J. Bates before the Select Committee of the House of Commons).

¹¹⁵ *Ibid.*

fact, by the 1820s, the dual-monopoly structure of the Anglo-Chinese trade was facing a challenge from both the British and Chinese side. The issues of the final years of Company's China monopoly will be discussed in the next section.

7.3 The Final Years of the EIC's China Trade Monopoly

The previous section indicates that after the 1820s the EIC at Canton faced increasing competition on the tea export trade from American traders. In fact, this period also saw the Hong merchants' monopoly over the Chinese foreign trade under threat. As with the British private traders who succeeded in developing a profitable country trade, some Canton local merchants also found a way to trade with foreigners. Those local merchants without Hong membership who got involved in the foreign trade were known to the EIC and other foreign traders as the 'outside merchants'.¹¹⁶

Those so-called outside merchants were mainly local shop-owners or shopkeepers. Initially, those shopkeepers who had opportunities to do business with foreigners were often friends or relatives of the Hong merchants or had close business links with them. By acting as middlemen and delivering goods to foreigners, the Hong merchants received a commission from the local merchants.¹¹⁷ Gradually, the local shopkeepers also became involved in the tea trade because of the possibility to make good profits, and again the Hong merchants acting as brokers. This particularly applied to those poorer Hongists

¹¹⁶ IOR: G/12/258 (Canton Agency Consultations), 14 March 1834, pp. 159-161; & BPP, 1830, Vol. VI, p. 352 (Evidence by F. H. Toone before the Committee of Lords).

¹¹⁷ BPP, 1830, Vol. V, p. 117 (Minutes of Evidence by A. Coffin before the Select Committee on the Affairs

whose lack of capital meant they were unable to conduct tea transactions on their own account.¹¹⁸ But, accompanied by the rapid development of the opium trade in the nineteenth century, the relationship between the Hong merchants and those outside merchants began to change.

Because many of those outside merchants were also involved in the illicit drug trade and thus created a direct commercial link with the private traders, they later on often dealt directly with foreign traders for the delivery of tea without it passing through the hands of the Hong merchants. Of course, this sort of transaction was prohibited by Chinese law, but many 'outside merchants' (both Chinese and foreigners) were still willing to take the risk because it could considerably reduce costs particularly allowing the avoidance of heavy customs duties and port charges.¹¹⁹ Indeed, many foreigners such as the Americans after the 1820s not only conducted their business with the Hong merchants, but they also dealt with the outside merchants for procurement of tea whenever they found it for their interest.¹²⁰ Unlike the Americans, however, the Company never purchased teas other than through the Hong merchants.¹²¹ In fact, the EIC's supercargoes were the only foreigners trading in China who never directly dealt with those outside merchants for tea.¹²² The reason why the EIC did not want to deal with the outside merchants for the delivery of tea was partly because of the Company's established tea purchase system. Based on the contracting and advance system from which the

of the East India Company).

¹¹⁸ BPP, 1830, Vol. VI, p. 352 (Evidence by F. H. Toone).

¹¹⁹ IOR: G/12/276, 26 November 1829, p. 421.

¹²⁰ BPP, 1830, Vol. VI, pp. 352, 367, 450 (Evidence by Toone, Urmston, and Bates).

¹²¹ This was based on the statement of Toone (see BPP, 1830, Vol. VI, p. 351).

¹²² 'East India Company – China Question', *Edinburgh Review*, 1831, p. 294.

requirement of each sort of tea could be arranged and the quality of tea could be guaranteed, the Canton supercargoes argued that the teas delivered by the outside merchants were 'certainly not so good as the best of those furnished by the senior [Hong] merchants'.¹²³ But the key factor behind their decision was that because many outside merchants were linked to the illicit opium trade, the Americans and other private traders sold opium to these Chinese merchants and in return, they could purchase tea, silk products and other products. As the tea trade was the leading and most profitable branch in its commercial activities, the EIC chose to avoid the illicit trade, thinking that it would damage its China trade if the Canton authorities found it dealing with the outside merchants who were also involved in the opium trade.

With the rise of the outside merchants, the Hong merchants' monopolistic position in the Canton foreign trade was weakening. In the same way, by the third decade of the nineteenth century the rapid growth of the private trade was much beyond the EIC's control, and yet the Company was increasing its dependence on it for financing its tea trade. Indeed, by the turn of 1830 when around 20 Company vessels were trading to Canton, there were no less than 50 country ships visiting the port each year.¹²⁴ Some of the private traders even made a profit from developing a pattern of indirect Anglo-Chinese trade via India or Singapore.¹²⁵

¹²³ BPP, 1830, Vol. VI, p. 353 (Evidence of Toone).

¹²⁴ IOR: G/12/244, 19 January 1831, pp. 202-3.

¹²⁵ For the development of the private trade with China in the nineteenth century, see Greenberg, *British Trade and the Opening of China 1800-42*.

When the private traders expanded their exportation of British manufactures to India and other Asian areas, domestic textile manufacturers who were dissatisfied with the EIC's export trade to China also outmaneuvered the Company's monopoly by shipping their goods on American vessels to Canton.¹²⁶ The introduction of British manufactures into China by the Americans thus intensified the challenge to the Company's monopoly in the Anglo-Chinese trade.¹²⁷ With the creation of this new pattern of Anglo-Chinese trade, the American traders were able to supplant silver with bills of exchange issued by several American banking houses in England to be sold to other private traders at Canton.¹²⁸ Then, with the proceeds from the sale of the bills, they could purchase tea and silk. In turn, the capital was used by the Chinese merchants to buy opium. Thus, accompanied by the expansion of the opium trade, this new pattern of trade and financial dealings enabled the Americans to greatly reduce the amount of treasure being shipped to Canton from the late 1820s, as illustrated in Table 7.6. The American traders' selling of bills negotiable on London also provided the private traders with an alternative method of money remittance back to England without the need to purchase the Company's bills.¹²⁹

With these new developments, the EIC's vital role in the Anglo-Chinese commercial and financial relations was fading. Accordingly, the Committee believed that something had to be done to guarantee the Company's interest in the China trade. Thus when several Hong merchants in season 1829 again faced financial embarrassment because of the

¹²⁶ Stelle, 'American Trade in Opium to China, 1821-39', p. 67.

¹²⁷ Morse, *The Chronicles of East India Company's Trading to China*, Vol. VI, pp. 4-5.

¹²⁸ BPP, 1830, Vol. VI, p. 370 (Evidence by J. Bates before the Committee of Lords).

¹²⁹ For a discussion of the new pattern of private traders' money remittance back to England and the Anglo-Chinese trade by the Americans and, see Cheong, 'The Beginnings of Credit Finance on the China Coast'; Downs, 'American Merchants and the China Opium Trade, 1800-180'; and Stelle, 'American Trade in Opium to China, 1821-29'.

increasing exactions from the Canton authorities,¹³⁰ the Canton Committee soon decided to suspend the Company's business as a protest to the Ch'ing government in order to force a change in the Chinese foreign trade regulations. The reason for using the stoppage of trade as a threat to require the Canton authorities to make a change in the existing commercial system was understandable. Since the foreign trade created a considerable fortune for the Chinese mandarins through the collection of customs charges and extortion, the suspension of the tea trade conducted by the EIC, the largest foreign trading body in Canton, meant that the revenue for the Chinese government and officials would be greatly reduced. In this case, the supercargoes believed that the Company could stand at an advantageous position while negotiating with the Canton government.¹³¹

Due to some Hongists' becoming bankrupt and the number of the Hong merchants in business reducing, which would affect its tea trade, the Select Committee in late November 1829 sent a letter with several proposals to the Canton Viceroy.¹³² These proposals included recruiting a great number of the Hong merchants, the more the better. And it was proposed that these new merchants were to join with the existing old Hongists to pay off the official duties as well as the bankrupted merchants' debts. But after the old bankrupt debts were liquidated, each merchant was not to be responsible for any other debts except for his own debts and thus no Hongists would be required to pay more than

¹³⁰ For the Hong merchants' debt problem in the late 1820s and 1830s, see Chen, *The Insolvency of the Chinese Hong Merchants 1760-1842*; & Inglis, R. H., *The Chinese Security Merchants in China: and their debts* (1838).

¹³¹ IOR: G/12/12, Year 1829, pp. 553-7; J. Matheson, *The Present Position and Prospects of the British Trade with China* (1836), p. 105.

¹³² That is the Governor-General of Kwang-tung and Kwang-si Provinces.

they deserved. Taking the government's heavy charges and exactions as the reason for several Hongists' insolvency and the growth of the illicit trade, the Company also proposed that the system of securing foreign ships be removed, with the port charges being reduced and regulated according to the size of the ship.¹³³ If the viceroy was not prepared to accede to these proposals, he was to allow the Company to trade freely and to deal with any merchant who the supercargoes pleased. This was used to be as a condition for the EIC to restore its China trade.¹³⁴ The Company's decision to suspend its trade in Canton in order to seek a change to the existing China commercial system was undoubtedly risky. The Viceroy in Canton did not deal with the Company's proposals immediately, perhaps because he thought that the supercargoes would soon give up the suspension and resume the trade. Indeed, the Canton authorities believed that they had a more advantageous position over the EIC because when the trading season was drawing to a close, the Company would find not much time to load cargoes needed for shipment back to Britain.¹³⁵

In fact, when the EIC suspended the trade and prepared to negotiate with the Chinese authorities for changes to the trading system, the American traders who saw a good opportunity to make themselves the sole principal purchasers of tea in Canton entered into a combination. Their combinations aimed to procure teas on better terms, which included making purchases of teas at prices much lower than those in the preceding seasons. Negotiations that carried on between the Americans and the Hong merchants last for some months, but in the end, instead of believing that they would ultimately

¹³³ For details of these proposals, see IOR: G/12/276, 26 November 1829, pp. 419-421.

¹³⁴ *Ibid.*, p. 418.

purchase teas upon their own terms, the American traders failed to achieve what they expected. The American traders' failure was much to do with the counter-reaction of Howqua, then the head Hong merchant. Through the powerful influence and abundant capital of Howqua who managed to keep tea and uphold the price, the American merchants' plan of bringing down the price of tea was not only in vain, but they were finally compelled to purchase tea at a rate higher than that of former seasons. Indeed, for many teas, they had to pay three taels more, with some types of teas being even paid up to eight taels higher than previous purchases.¹³⁶

The deadlock between the EIC and the Canton authorities came to an end in February 1830 when the Viceroy, by an Imperial sanction, made a reduction of about 170*l.* in the port charges of each foreign ship trading at Canton after which the Committee decided to resume the trade despite the fact that most of the other proposals were rejected.¹³⁷ The Canton authorities also recruited some new merchants to be Hongists in early 1830 and brought the total number up to ten.¹³⁸ The Company soon contacted the new group of Hong merchants. After realising that the means of the new Hongists were comparatively small, the supercargoes immediately decided to provide them with financial support and also engaged to receive all the tea that they could tender for the Company. This was to prevent the tea trade from again being controlled by a few wealthy merchants such as Howqua's and Puan Khequa's Hongists. After the re-distribution of shares of woollens, and

¹³⁵ D. Eyles, 'The Abolition of the East India Company's Monopoly, 1833', p. 119.

¹³⁶ IOR: G/12/276, 11 January 1830, p. 673; BPP, 1831, Vol. VI, Reports from Committees, Appendix to the Report on the Affairs of the East India Company, II: Papers relating to China (320), p. pp. 73-4.

¹³⁷ Eyles, 'The Abolition of the East India Company's Monopoly', pp. 125-6; Matheson, *The Present Position and Prospects of the British Trade with China*, pp. 105-6. 170*l.* is equal to 0.17 tael.

¹³⁸ IOR: G/12/277, 12 April 1830, pp. 2-3. In August another edict was issued stipulating some new trade regulations (see IOR: G/12/244, 10 August 1830, p. 138).

arrangement of the quantity of tea to be provided by each Hongist according to their finance circumstances, the winter contracts of tea were finally made in early April 1830 to be delivered in the next season.¹³⁹ But in order to guarantee a good quality of tea supplied by the new group of Hong merchants, the Canton Committee adopted another method of quality control, which was to fix the new tea contract with the usual purchase price of the last couple of seasons. Accordingly, the Company required that each variety had to be of a quality not lower than that usually purchased at a specified price, illustrated as below.¹⁴⁰

Congou	at 25 taels per pecul.
Souchong & Campoi	at 26 taels per pecul.
Hyson	at 50 taels.
Hyson Skins	at 27 taels.
Bohea	at 16 taels.

The Hong merchants were informed that ‘no tea of quality inferior to that specified as the lowest limit of each sort will be considered of contract quality, although it may be subsequently received at a reduced price as the market tea’.¹⁴¹ But as Twankay tea was frequently in short supply because of American competition, from which resulted in a deterioration in quality, the Committee noted that any contract for Twankay tea that was tendered of a character below the value of 26 taels per pecul would be rejected. Unlike other teas, the Committee made clear that the contract Twankay tea below the value of the specified price ‘will not be received at any price’ and the tea-men who provided contract tea for the Hong merchants ‘must not expected that it will be taken at a lower

¹³⁹ *Ibid.*, p. 3.

¹⁴⁰ *Ibid.*, p. 7.

price'.¹⁴²

It should be mentioned that while negotiating with the Canton authorities, the supercargoes also sought to stop the country trade, which was also intended heavily to pressurise the Chinese government into changing the trading system. Many private traders undoubtedly supported any attempt to have better trading conditions for foreigners at Canton. But even so, those country traders did not join the EIC's suspension of trade because a large portion of their trade had been conducted outside the Canton System. The Company's inability to stop the country trade thus shows 'the growing weakness and difficulty of the Company's position at Canton'.¹⁴³ At home, it was also unable to defend itself when the British Parliament decided to remove the Company's monopoly in the China trade with effect from season 1833/34.¹⁴⁴

The Hong merchants became uneasy about the oncoming abolition of the EIC's monopoly because they had become so dependent on business with the Company who also acted as a creditor to solve their financial difficulties. The news that the Company's China trade monopoly would soon come to an end also drew the attention of the Chinese government. In order to prevent any trouble in the future, the Canton authorities asked for a chief representative to be sent to play the Select Committee's role for the general management of the British trade with China and also to take charge of any incidents if

¹⁴¹ *Ibid.*, p. 6.

¹⁴² *Ibid.*, pp. 6-8.

¹⁴³ Eyles, 'The Abolition of the EIC's Monopoly', p. 126.

¹⁴⁴ For a full and detailed study of the domestic background to the end of the Company's monopoly, see Eyles, 'The Abolition of the EIC's Monopoly, 1833'.

they occurred.¹⁴⁵ Of course, no trading chiefs were appointed because the China trade was open to all British merchants, but the British government sized the opportunity and decided to send an ambassador to negotiate with the Ch'ing authorities for a favourable trading environment. Accordingly, Lord Napier was sent to Canton in 1834, followed by Charles Elliot in 1836.¹⁴⁶ However, both the Napier and Elliot missions again failed to change the Canton System. Thus, a few years later, the Company finally decided to withdraw itself entirely from the Canton trade. The end of the EIC's monopoly and later the withdrawal of the Company's China trade brought Anglo-Chinese commercial relations into an entirely new phase.

¹⁴⁵ 王之春 Wang Chih-ch'un 國朝柔遠記 *Kuo-ch'ao jou-yuan chi* (Records of the Ruling Dynasty's Graciousness to Strangers), (卷) Ch. 8, ff. 8-9; G. Melancon, 'Peaceful Intentions: the First British Trade Commission in China, 1833-35', *Historical Research* (The Bulletin of the Institute of Historical Research), Vol. LXXII, No. 180 (February 2000), P. 40.

¹⁴⁶ For details of the Napier and Elliot missions, see W. C. Costin, *Great Britain and China 1833-1860* (1968); & G. Greham, *The China Station – War and Diplomacy 1830-1860* (1978).

CHAPTER EIGHT

CONCLUSION

While, it was insignificant in the earlier period, trade with the Chinese Ch'ing Empire emerged as one of the most important elements in the EIC's commercial activities by the second half of the eighteenth century; this dramatic change was largely stimulated by the rapid spread of tea drinking in Britain. Although the tea trade grew quickly, trade with China after 1760 was in effect trade with Canton. With only a handful of Chinese merchants with whom foreigners could do business, the EIC's China trade between 1760-1833 can be largely described as the Company's Canton tea trade with the Hong merchants. Thus, how to deal with these Chinese merchants became one of the Company's chief priorities.

Because the financial capacity of the majority of the Canton Hongists was limited, and also because of competition from other Europeans, the EIC conducted its tea procurement mainly through contracts, with money being advanced to the Hong merchants, who in turn passed it to the tea-men responsible for going into the producing regions to purchase tea. In order to make tea purchases more efficient, the Company later developed a system of winter contracts, that is, the supercargoes signed contracts with the Hong merchants at the end of the season for tea to be delivered in the ensuing season. But tea would be still purchased on the open market to supplement those purchases made through contracts which constituted approximately two-thirds or three-fourths of the total quantity of tea procured by the EIC in each season. In particular, some surplus teas might also be

purchased, mostly at a much cheaper price, at the end of the season after all Company ships left Canton to be loaded in the next season. This mix of different methods of tea procurement served to ensure that enough tea was obtained in Canton to meet the demand in the British market.

The EIC's records indicated that the tea shipped back to England was sufficient, in most seasons, to meet home demand. Thus the Company not only adopted efficient methods of procurement, but importantly was able to accurately estimate the quantity of tea required. This became more important after the late 1780s when a much larger amount of tea was demanded at home, as a result of the passage of the Commutation Act in October 1784. The Act, which reduced the duty on tea from more than 100 per cent to 12.5 per cent, effectively made large-scale tea smuggling into Britain from Continental Europe unprofitable, and in turn, increased the sale of Company tea in Britain. Furthermore, the EIC's dominance of the tea trade led to the Company's domination of the foreign trade at Canton among the Europeans. Additionally, the reduction of tea prices resulting from the Commutation Act brought a change in consumer behaviour as the British public began to purchase more superior sorts of tea.

Accompanying the dramatic expansion of the EIC's tea trade in the late 1780s, however, was a clear deterioration of the quality of teas that were shipped back to England. This caused serious questions to be asked about the methods and process of tea inspection conducted by the supercargoes in Canton. With many chests of poor-quality tea or false packing being found in the seasons after 1785/6, the Company decided to send a

professional tea inspector to Canton in order to help the supercargoes conduct tea examinations more skillfully and efficiently. Accordingly, Charles Arthur was sent to Canton in 1790 after which the quality of tea imported to London was found to be much improved. From that point there was always a tea-inspection expert in Canton to help the Select Committee examine tea. But perhaps the most striking contribution of Arthur and his successors to the Company's tea quality-control system was that the quality grading of tea was introduced.

The grading system provided the supercargoes with clearer and more scientific method of fixing and adjusting the price of tea. Thus, the Court of Directors, at the turn of the 1810s, expressed their hope that all contract teas procured at Canton had to be at, or above, the "but middling" standard defined by tea inspectors. My research, however indicates that the Canton supercargoes did not always observe the instruction that the whole of the contract teas should meet the criteria of "but middling quality", because the restriction made it difficult to obtain sufficient tea for the home market. Thus, the Select Committee supercargoes would purchase those teas of quality slightly lower than 'but middling' standard. These teas were not accepted unconditionally, but instead the supercargoes would decide whether the chests of tea could be accepted immediately, have their prices adjusted before loading, or be left to be purchased as winter teas at a cheaper price. The final step of quality control was that the teas found to be unacceptable would be returned to Canton, even though they had already arrived in London and those Chinese merchants who provided these teas would be held responsible.

Since the number of chests of tea found unacceptable and returned to Canton from London was small for most seasons after the 1790s, it would appear that the Company's quality control on tea was generally successful. Indeed, with many adjustments and several different measures used in the period between 1760 and 1833, the EIC succeeded in developing an efficient system of tea purchase and struck a good balance between organising an adequate supply for British consumption and conducting a strict but flexible quality-control procedure. Thus, with the adoption of flexible and strict tea-purchasing and quality-control systems, the EIC's servants were sufficiently confident to assert that the quality of Company's tea obtained in Canton was superior to those procured by other western merchants. However, it should be highlighted that since the Commutation Act required that the EIC should have at least one year's supply of tea in store, British consumers were being supplied with teas that were much older than those supplied to the Americans and Europeans, a factor that had a negative effect on quality.

While developing a more efficient tea-purchasing system at Canton, the EIC was also struggling to obtain enough funds to finance its tea trade, without having to resort to shipping a large amount of silver bullion from Britain. Since the Company was unable to create other sources of funds for the China remittance in the early period, the pattern of the EIC's financing of its tea trade prior to 1760 can be simply regarded as 'bullion for tea'. The Company's continuing shipment of a large amount of precious metals out of Britain to pay for its Oriental trades however incurred serious concern and criticism at home. Thus, the late eighteenth century witnessed that the East India Company made efforts to create different and more resources to finance the expanding tea trade with

China. In order to provide a clear picture of the development of the Company's funding system of its tea investment, this thesis presented a percentage breakdown of the funds derived from each flow, decade by decade, to illustrate the relative importance of different source in the total Canton Treasury's receipts. Such an analysis has not been undertaken previously.

Clearly, the relative importance of silver bullion sent from England reduced remarkably in the 1760s and 1770s, and by contrast, the EIC's importation of merchandise goods increased considerably in the period. The capital realised from the sale of the Company's merchandise import into China grew to account for over three-fifths of the total Canton Treasury's receipts in the period 1762-1771. This development, to some extent, was achieved through the supercargoes' adoption of the trucking system in exchange such as British produce for tea. In this case, the Canton System which confined foreigners' tea procurement to a few Hong merchants was not completely negative for the EIC. Instead, the dual-monopoly framework of Anglo-Chinese trade pattern enabled the Company more easily to distribute commodities, such as woollens, brought from Europe into suitable proportions to be taken by these Hongists, and this, in turn, increased the sale of British merchandise goods to China.

Another important factor which changed the Company's funding system of its China trade following the 1760s was the EIC's acquisition of the territorial and financial administration of Bengal and the surrounding areas. This led to the Indian Presidencies being ordered to use their financial resources to support the Canton trade. However, in

order to relieve the Indian Presidencies' financial difficulties and also to continue to use the Indian resources to support the China trade, the Company later made an adjustment of its payment system at Canton. At the end of the 1760s the Court of Directors authorised the Canton Treasury to issue interest-bearing bills, payable in London, to the private traders who conducted trade between India and China. As a result, the Company's Indian governments switched from giving the Canton Council direct financial support into stimulating the growth of commercial agriculture, such as cotton production, which in turn was sold to the country traders who delivered the goods to Canton. This measure made bills of exchange, certificates and bonds emerge as the most important source of funds in the Company's China trade in the 1770s, accounting for more than half of the total capital paid into the Canton Treasury. Its importance became more crucial during the first half of the 1780s when no bullion was sent to China from Europe by the Company because of military conflicts between Britain and other western nations.

The second half of the 1780s again saw a dramatic change in the EIC's funding of its China trade. The sudden increase of tea consumption at home resulting from the passage of the Commutation Act forced the Company in 1786-90 to once again ship a huge amount of bullion to China. In contrast with the 1770s, the bullion importation from Europe increased, so that it accounted for approximately one-third of the total funds paid into the Canton Treasury in the late 1780s. The rapid expansion of the Company's tea purchases at Canton also enlarged the British merchandise trade imbalance with China. At the same time, the period saw some incidents in Canton which caused tension between British traders and the Chinese government. Simultaneously the over-production of

home manufactured goods made the Company a target of those who accused it of failing to sell more British commodities to China. These new developments eventually made the British government decide to send an official mission to Peking seeking to change the existing Canton system through direct contact with the Ch'ing Imperial Court.

Unfortunately, the Cathcart mission did not reach China, while the Macartney embassy later failed to achieve any of its major objectives. The later years, however, saw the EIC succeed in creating its own ways of financing its continuously increasing tea trade, as in these years very little or no silver bullion needed to be sent to Canton. One very important source of funds for the Company's China trade which appeared from the 1790s was the capital realised from the sale of British merchandise goods. Indeed, this was the largest source of funds for the EIC's tea investment after the 1790s, and it alone constituted 45 per cent and 60 per cent of the total Canton Treasury's receipts in the periods of 1792/1801 and 1802/1811 respectively. In spite of a decline in its overall importance between 1812 and 1833, the sale of British goods remained the leading single source of funds in the Company's financing of its China tea trade. Without doubt, the British domination of the European tea trade at Canton after the late 1780s helped the Company increase its bargaining power with the Hong merchants, and, thus, made its trucking system involving the import of woollens in exchange for tea more effective.

In order to fill the gap of its merchandise trade imbalance with China, the Company also made efforts to create other financial resources in Asia. This included selling Indian goods, such as cottons, to the Philippines and in turn the silver dollars received from the

trade were paid into the Canton Treasury for investment in tea and silk. The production and sale of Indian cotton clearly provided the Company with a valuable financial resource to pay for its China trade. But the Indian commodity which brought in most funds in the nineteenth century was opium. Unlike Indian cotton and sandalwood which could be imported into China legally, the opium import trade was strictly prohibited by the Chinese authorities. To prevent its tea trade from being badly affected, the Company itself, after few unsatisfactory attempts, gave up the shipment of opium to Canton. The EIC, however, turned a blind eye to the private traders' smuggling of opium into China, a risky but highly profitable trade. In fact, this conduct was largely stimulated by the Company's practice of issuing bills to the country traders who paid surplus capital obtained from the sale of opium and other Indian goods into the Canton Treasury. Having a monopoly over the production and distribution of opium in the Bengal Presidencies, and later on an effective control of Malwa opium, the Company apparently played a vital role in the development of the Sino-Indian opium trade, although it escaped the burden of delivering the article itself to the Chinese market. With a large amount of capital being received into the Canton Treasury through the issuing of bills of exchange to private traders who smuggled drug into China, the opium trade apparently contributed substantially to the EIC's financing of its tea payments.

The importance of the sale of Indian opium to China however should not be over-estimated. With more than 60 per cent of the total Canton Treasury's receipts in most seasons after the late 1780s being realised from the Company's sale of British and Indian produce in China, the relative importance and 'crucial' position of the opium trade in the

financing of the EIC's Canton investment appeared to be over-emphasised by some historians. However, it should be indicated that when combining the capital obtained through the issuing of bills to the country traders who conducted the Indian-Chinese trade and the fund realised from the Company's delivery of Indian goods to the Hong merchants, the Indian financial resources together constituted more than half of the total receipts paid into the Canton Treasury in 1812-1833. This means that Indian funds played a more crucial role than that of the British manufactures in the financing of the EIC's China trade in the later years. From this perspective, the increase of British political and economic dominion of the Indian sub-continent went hand in hand with the expansion of the EIC's tea trade with China.

The Company's successful creation of several different financial resources not only enabled the tea trade to continue and expand without interruption, but in later years also enabled the Canton Treasury to financially support the Indian Presidencies, and even its London's headquarters. As a result, the early nineteenth century saw a reverse flow of silver to India and England from China through the business of the East India Company. Importantly, a sound financial structure enabled the Company to provide a considerable amount of capital to help the financially-embarrassed Hong merchants. Indeed, the fragile financial condition of many of the Hong merchants made financial assistance from the Company essential particularly for those who suffered the heavy burden of paying the official charges and extortions. Financial superiority over the Hong merchants thus enabled the Company to gain an advantage while dealing with the latter. But the supercargoes' assistance to junior Hongists from time to time not only helped to increase

the EIC's bargaining power, but in effect became necessary because it prevented them from becoming insolvent, which would result in the supply of tea being controlled by few rich senior merchants. As a consequence, the East India Company and the Hong merchants became dependent on each other.

This interdependence was particularly noticeable after the 1813 when the EIC's Indian trade privilege ended. Indeed, after the Indian trade was opened for other British merchants, the private traders soon developed an indirect private trade between Britain and China via India. At the same time, the rapid growth of American trade with China also brought a challenge to the EIC's dominance of the tea trade at Canton. The American traders even purchased manufactured goods in Britain and in turn shipped them to China for sale. As a result, the Company's trade monopoly advantage between Britain and China diminished. In particular, by buying and selling non-EIC bills and bonds at Canton, the private traders could easily ship remittance back to Britain without the need to purchase the Company's bills of exchange. The result was that, on the one hand, the EIC still had to depend on the surplus capital of the private trade to finance its increasing tea trade, but on the other hand, the private traders needed no longer to depend on the Company's Canton Treasury.

The last years before the removal of the EIC's China monopoly also saw the country traders and American traders dealing with some Chinese 'outside merchants', a group of Canton shop-keepers who took the opportunity to become involved in the foreign trade. The dual-monopoly pattern of Anglo-Chinese trade was, thus, under threat and this paved

the way for the next phase of the Anglo-Chinese trade, a trade without the Company monopoly on the British side after 1833/34, and, a few years later, without the Hong-merchant monopoly on the Chinese side. Indeed, after the EIC withdrew from the China trade, Anglo-Chinese commercial relations entered into an entirely new phase. However, the Company's successful management of its tea trade over the years played a vital role in strengthening European-Asian commercial links in the early modern period and paved the way to a closer economic interaction between the West and the East in the following period.

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