Working Paper No. 05/04

The Role of the Chinese State in Long-distance Commerce

R. Bin Wong

Department of History
University of California, Irvine

May 2004

千年之求索

This paper was presented at the first GEHN Conference, Bankside, London (17-20th September 2003) funded by a Leverhulme Trust Grant: “A Millennium of Material Progress”

For more information about the participants and activities of GEHN, go to http://www.lse.ac.uk/collections/economichistory/gehn.html

Department of Economic History
London School of Economics
Houghton Street
London, WC2A 2AE

Tel: +44 (0) 20 7955 7860
Fax: +44 (0) 20 7955 7730

The Role of the Chinese State in Long-distance Commerce[*]

R. Bin Wong

The State and Commercial Development: Evidence and Arguments from the European literature

The new institutional economics offers a bold and simple argument for how states promoted commercial expansion in early modern Europe. Focused on the importance of secure property rights for reducing transaction costs, commerce expands much as an engine burns fuel more efficiently and creates more power when it is well-tuned and oiled. Reliable and defensible property rights emerge out of legal systems that specify and enforce the expectations and obligations of parties to contracts; the main contribution of government to commercial expansion is thus supplying the formal framework that reduces certain types of risks that merchants encounter in their trade activities.

Before territorial states like England elaborated legal systems to protect property rights, long-distance trade across Europe depended largely on less formal relations and organizations to promote accountability of parties to trade, to increase trust among traders and thus reduce risks. Networks of traders utilized a range of mechanisms at the individual and group level to promote compliance with contracts. In general, these merchant networks were effective when there were relatively few merchants and trade was relatively small in volume, high in value and limited in diversity of goods. Formal guarantees of property rights by states opened

[*] Thanks to my colleague Ken Pomeranz for reading a previous draft of this essay and agreeing that the plausible contrasts drawn herein do deserve future research effort. Thanks also to Jean-Laurent Rosenthal with whom collaborative work has contributed to my understanding of European practices, though for this paper he must be held blameless as he has not read it.

opportunities to participate in trade to a broader array of merchants who could expand trade with more flexible responses to market opportunities. Between the late medieval and modern eras there was a general European shift from long-distance trade through closed networks of traders to more open exchanges regulated by state-supported property rights regimes.

It is of course unwise to imagine that European long-distance trade simply moved toward a neo-classical ideal of free market exchange between a myriad of buyers and sellers whose choices were determined by laws of supply and demand as states limited themselves to the provision of the general legal frameworks within which transaction costs due to contract violations could be reduced. One of the important ways in which early modern European states became involved with long-distance trade was through their maritime expansions into other parts of the world. Sixteenth-century trade with Asia focused especially on spices, while subsequent trade with American colonies involved European manufactures, African slaves, and American crops. None of these long-distance trade relations were simple free market relations in which governments dealt only with property rights issues.

For European trade with Asia, Douglass North has drawn a sharp contrast between the Portuguese and Spanish governments that directly involved themselves in trade and exacted rents and suffered inefficiencies with the Dutch and English governments that set up chartered companies that were free of direct government interference (North 1991). This contrast on its own provides an incomplete sketch for at least two reasons. First, the success of any European efforts in trading with Asians initially depended on some combination or choice between adapting to trading customs and habits within Asia in order to gain access to desired commodities or the use of military force to establish a monopoly position over some aspect of trade;

over time Europeans would develop a broader array of strategies to force or encourage the production of crops they desired. Second, a focus solely on the varied European structures for Asian trade and their economic implications neglects the motivations for and contexts within which European policies and institutions were forged—in general terms European states shared a common interest in increasing state revenues from long-distance trade in Asia and differed in their bargaining relationships with merchants and thus their preferred strategies for exploiting commercial possibilities. When we turn to trade with the Americas, the importance of politics for defining the purposes and possibilities of commercial exchange was well understood by contemporaries; even Adam Smith, so closely associated with the idea of free trade, conceived trade with colonies to be "vent-for-surplus," the colonies providing the home country with a protected market on which to sell excess production.

The policies necessary to support the expansion of trade within Europe in the seventeenth and eighteenth centuries may have increasingly met the norms posed by the new institutional economics, but they were supplemented in Europe's commercial connections beyond the continent by the imposition of terms and rules depending on political power and force. The political logics motivating long-distance commerce shaped the relationships between European states and trade in ways that only sometimes coincided with the promotion of institutions that reduce transaction costs, promote greater commerce, and economic growth. How did this range of scenarios compare with the state's role in commerce in the Chinese agrarian empire? My brief remarks about Europe suggest two different comparisons we could make with China. We could compare the trade logics and state roles under maritime empire with those in China's agrarian empire or we could compare the Chinese state's impact across its

territory with European state policies affecting trade across Europe. The former comparison brings into focus the ways in which states affect trade relations between very distinct economies and ecologies. The latter considers instead the ways in which government policies can help facilitate private sector development, at the base of both Adam Smith's ideas and those of Douglass North. I'll concentrate mainly on this second comparison and make a few remarks about the first kind of comparison at the end of the paper. Before turning to comparisons, however, consider how the late imperial state's relationship to long-distance trade has been conventionally perceived in the literature.

The Chinese State and Commerce: Conventional Views and Evidence

Scholarship on the late imperial Chinese state's relationship to commerce has largely been guided by the assumption that the state's impact on markets was largely negative. Such an assumption is consistent with the full range of Western political perspectives from left to right. Marxists and other leftist leaning scholars see the late imperial state as a feudal or absolutist state oppressing common people and denying them economic opportunities or possibilities as they voraciously tax the people and trade. Neo-classically inclined as well as more aggressively conservative analysts also suspect the Chinese state to have stifled commercial expansion. Together they point to instances of extraordinary extractions by officials from rich merchants or to the Ming state's decision in the 1430s to halt large-scale maritime expeditions as the beginning of a closure to foreign trade. Scholars of varied political persuasions share at least implicitly the assumption that economic growth is basically a natural process and if it fails to occur

something must be working as obstacles to development and that something is easily labeled the political actions of officials.

These arguments begin from an assumption that they must explain some failure of commerce to develop. Yet, there is also abundant evidence that commerce, both long-distance and local, expanded across much of the empire from the sixteenth century forward. Much of the documentation for this commercial expansion in Chinese and Japanese scholarship sees the dynamics to be basically a private sector process with which the state is not much involved. Belonging to a style of analysis predating the new institutional economics, these studies don't find officials turning up very often in their relevant documentation and it thus is easy both empirically and conceptually to dismiss much role for the state.

The literature does address the state's control over salt production and trade as well as its policies regarding foreign trade. Salt production was undertaken by households registered for this kind of work who were required to sell their product at an administratively set price to merchants who had purchased licenses to buy, transport and sell the salt at markets in a particular region. Government control was largely intended to be a revenue raising mechanism. The situation regarding foreign trade was more complicated. The Qing state in the mid-eighteenth century confined foreigners seeking trade in China to the port of Canton where they had to deal with one of 13 licensed merchant groups; this number was down from some 36 licensed groups in the previous dynasty. The state's purposes were two-fold—as with the salt monopoly, to raise revenues for the central government and in addition to achieve some control over the numbers and activities of foreign merchants in the empire, fearing that foreign merchant communities could become disruptive socially. Quite separately there were periods during the Ming dynasty when the state limited the overseas

sojourns of Chinese merchants engaged in maritime trade, sometimes by imposing maximal periods of absence from their homes and at other times by labeling trade as illegal, thereby turning merchants into pirates. After the Manchus consolidated their control over the coast and no longer feared resistance, they allowed Chinese to engage in maritime trade. Moreover, they made little effort to control and tax the profits made in this trade. In other words the maritime trade by Chinese in the eighteenth century was much like domestic trade generally—it grew without much restriction imposed by the state.

For the agrarian empire's domestic trade, Chinese and Japanese scholarship pioneered in the 1950s the analysis of the major merchant networks that emerged in the fifteenth century. Merchants in the northern province of Shanxi first grew rich by accepting state contracts to transport grain to the frontier to feed troops; in return they received licenses entitling them to salt that was sold at government controlled monopoly prices which allowed tremendous profit making. Another group of merchants originating in Huizhou prefecture of the eastern Anhui province; some of them originally made their wealth in timber trade, others in tea. The success of both groups was based on their establishing networks spanning long distances and being able to move goods between distant points. By the eighteenth century these extremely successful merchant groups were joined by other regional groupings of merchants who worked a variety of markets and formed networks within which goods flowed. For instance in the empire's most commercially active region, Jiangnan, in addition to Huizhou and Shanxi/Shaanxi merchants there were merchant groups from the southern province of Guangdong, the northern provinces of Shandong and Henan, and from provinces, parts of which made up Jiangnan, Jiangsu and

Zhejiang, as well as others also located along the Yangzi River, including Jiangxi, Hubei, and Hunan.

Those who recognize the growth of commerce in the Ming Qing period have largely seen this as a private sector phenomenon in which the state doesn't' participate. . Indeed, some scholars have suggested that the late imperial state likely "under-governed." (Jones 1988: 135-36) This line of reasoning is consistent with a property rights storyline that stresses the importance of the government in ensuring the institutional context for risk reduction through minimizing transaction costs. What is missing in these arguments is much account of the principles supporting the expansion of trade in the Chinese case. If, in fact the Chinese state, by European criteria at least, under-governed, how do we explain commercial expansion. Even if the state didn't play a role akin to that attributed to European states in terms of property rights specification and defense, did the Chinese state contribute in other ways to promoting Smithian growth?

Comparing Chinese and European Patterns of Commercial Expansion

The subject of law during the Qing dynasty has been the subject of considerable research in the past decade, in large measure because archival materials became available that have allowed a re-evaluation. An earlier Japanese tradition of Chinese legal studies based on perspectives with origins more in German approaches to law than Anglo-Saxon ones was quite separate from Western studies that focused on crimes and punishments in the Qing legal code. An earlier generation of scholarship asserted that Chinese avoided the courts and settled disputes on their own, but now we see that eighteenth-century Chinese were quite litigious. Strikingly absent from these records are commercial disputes stemming from

long-distance trade. More generally, the information we currently have on merchants' use of law to adjudicate disputes almost all come from the second half of the nineteenth century and none concerns the problem of honoring contracts in long-distance trade, the topic basic to the new institutional economics's explanation of commercial expansion. There are two large problem areas here, the limited reliance on law by Chinese entrepreneurs generally and the state's contribution through law to the expansion of long-distance trade. For present purposes it is only the second and more specific issue that is of direct concern.

From the sixteenth to the early eighteenth century the standard Chinese process for long distance trade involved brokers in between the buyer and seller of goods. It was the broker who arranged for the goods at market to be stored and then sold to the merchant taking the goods elsewhere; at the other end of the trade route it was a broker who acted as middleman in the sale of the transport merchants' merchandise to shops. The broker then guaranteed the quality and price of the goods being bought and sold. In the fifteenth century, the Ming government used its own officials to act as brokers in their two capitals; others who acted as brokers outside the capitals were considered "private" (*si*). Under the early Qing government, however, a "government broker" was one who was licensed by the state and a "private" broker one who did not have a license. The number of brokers grew in the early eighteenth century as commerce expanded. The government wanted brokers to be local people of upright moral stature who could be entrusted with assuring that market exchanges proceeded smoothly and fairly. But increasingly there were complaints about brokers controlling market conditions.

First in Jiangnan and then in other commercially active parts of the empire the brokerage system was replaced when merchants sojourning from

the same area, in the same occupation or both, organized associations through which merchants bringing goods to the market made their sales. Usually these transport merchants had the native place or occupational connections that led them to use of a particular *huiguan* as an obvious choice. Some direct or indirect knowledge of the people with whom the transport merchant was trading helped to reduce the uncertainties of dealing with complete strangers. When there were disputes over the prices between transport merchants and the wholesalers, the *huiguan* mediated them. Stele inscriptions record examples of such decisions; they served as explicit reminders of practices deemed worthy of remembering and emulating (Zhang Zhongmin 1996: 248-51). How frequently these kinds of activities were carried out is not, however, clear. In fact the author of a recent Chinese book on Jiangnan commercial development in the Ming and Qing dynasties does not even discuss this mediation role in his analysis of *huiguan* (Fan Jinmin 1998: 241-76).

A likely important difference with European commercial practices may have made the use of law and courts less desirable in late imperial China. Chinese transport merchants appear in general to buy goods in one place and then sell them at another, making exchanges in each case for either money or for a bank draft redeemable at another location. They did not, in other words, have the kinds of contracts that would be more meaningful if enforced by courts. Thinking of how European commercial courts often began under merchants themselves whose authority to make judgments became delegated from governments, there doesn't seem to be any parallel or even broadly similar relationship and process in late imperial China. From my reading of the relevant literatures to date I have yet to find any examples of *huiguan* regulations regarding the settlement of contract disputes that depend on the extension of credit between buyer and seller. Nor have

cases of this kind in official courts regarding long-distance commerce been turned up.

This apparent contrast between Chinese merchants traveling with their goods and European merchants often entrusting their goods to others and waiting for payment until some separate and future sale took place deserves careful scrutiny and future research.well beyond what can be summarized in this brief paper. There are clear advantages to Chinese methods since they avoid the need for contract enforcement that is taken to be crucial in European cases. But there are presumably costs to this practice too. Certainly there must be opportunity costs for merchants accompanying their goods over long distances. Part of the answer lies I suspect in the way that Chinese long distance trade, at least for the most common commodity, grain, was broken into distinct stages with transactions performed at each so that the same merchants were not accompanying a single shipment over its entire journey. Since so much of the agrarian empire's domestic long-distance trade was made up of grain and cotton textiles and not of more precious goods with far higher values per volume or weight, the amount of capital tied up by a merchant may have been far less than that required in long-distance European trade. Larger amounts of capital tied up over long distances would make the development of contract mechanisms more likely.

Compared to European long distance trade, there appears to be less enforcement of contracts by the state through courts, as well as limited amounts of merchant group adjudication as well. This could in part be explained by a smaller amount of capital being needed for long-distance trade in China because the amount of high value per unit volume goods were fewer. But the question of how the capital for long-distance trade was amassed remains even if not as salient as in European scenarios where

contracts ensured future payment for present exchange of goods, with an implicit if not explicit an interest charge for the use of capital over the length of the contract. In fact examples of similar practices can be found in the Ming and Qing dynasties (Liu 2000: 292-95). We also know that transport merchants could deal with the seasonal nature of their capital needs by taking loans from pawnshops (Liu 2000: 305). For the pawnshops, the government set maximum legal rates of interest, but these were in fact quite high--20% month. The reason for setting interest rate ceilings was because poorer people in need of seasonal loans often used these pawnshops for consumption credit. The high rates likely reflected a default rate among the poor that made the interest rates particularly high.[1] Merchants certainly had cheaper credit options; by no later than the early nineteenth century so-called "native banks" (*piaohao*) made loans at 4-7% per month and at annual rates of 10% (Zhang Zhongmin 1996: 127). Scattered data assembled to date have led one scholar to assert that over the course of the Qing dynasty interest rates tended to converge and to drop (Liu 2000: 207). What is missing in studies of long-distance trade and of merchant capital, as well as in the legal history literature is evidence of officials being involved in enforcing long-distance trade contracts or credit operations for such trade. Moreover, the *huiguan* or "guild" literature has been equally silent.

It could of course be that we'll discover new sources shedding light on the use of contracts for long-distance trade and their enforcement. For the moment it seems we should consider the possibility that while institutions like pawnshops could give merchants credit, much of the smaller amounts of credit used in Chinese long-distance trade was raised informally among

[1] While I've yet to find discussions of default rates on pawnshop loans, the part of the granary system that made loans expected defaults; officials recognized a need to increase resources put into the granary reserves to keep them solvent (Will and Wong 1991: 57-72).

relatives and friends and that it was expectations and mediations within those networks that led to agreed upon practices. Here I would like to distinguish between the size of the network from which merchants borrowed money and the network within which they actually transacted business. We might think that loans between close kin or friends would be a reason we don't see contracts and disputes over commercial transactions. But in fact there are numerous legal cases involving loans that have survived. These virtually all concern land transactions or loans for consumption. The cases involving loans that have been discussed to date do not include those financing long-distance trade. It seems possible and even likely that the loans for long-distance trade took place on a frequent enough basis between groups of agents that the desire to do future business with the same people encouraged individuals routinely to meet their obligations; failure to do so would plausibly lead to other people in the network no longer lending or borrowing capital from the offending party. The numbers of people involved in these credit operations were likely few. Far larger was the number of the people who transacted business via a *huiguan* which had the advantage of extending kinship and friendship networks over a larger spatial scale through which connections between any two people buying and selling might involve one with another individual not personally known but with whom one shared some contacts in common.

In sum, it seems that long-distance trade expanded between the sixteenth and eighteenth centuries in the Chinese empire without the same kinds of institutions associated with European commercial expansions. The state, in particular, played rather little role in ensuring the property rights involved in long-distance trade. Yet despite this long-distance commerce grew. It seems most likely that Chinese trade expanded because different kinds of networks based on native place and kinship provided ways for

people to reduce the uncertainty of doing trade by increasing the trust parties could expect in exchange relations. Transaction costs for commercial expansion were effectively lowered without state specification and defense of property rights. But even if this is true, it doesn't mean the Chinese state didn't play a considerable role in making possible the Smithian growth China experienced over the sixteenth through eighteenth centuries.

We can appreciate the Chinese state's contributions by considering other factors recently examined for European cases by Larry Epstein in his book *Freedom and Growth*. In his introductory review of various explanations of early modern European economic growth, Epstein notes the difficulties involved with measuring transaction costs and identifying those political arrangements that in principle will be more efficient economically than others. In particular he notes the economic problems that obtain under conditions of fragmented sovereignty, when in particular various groups can defend their "freedoms" against their governments. These abilities often lead to jurisdictional fragmentations that obstruct the growth of markets. Thus, the weakness of corporate freedoms in England may well have been a key enabling factor for subsequent market growth in that country. Epstein considers economic growth to be Smithian and innovation to come from selecting practices from an existing repertoire. He identifies state predation and coordination failures to be main reasons that the costs of trade are raised.

Epstein's analysis effectively evaluates European political institutions and economic practices at the same time as it suggests ways in which Chinese similarities and differences can be identified. Economic growth in late imperial China resulted from the same general principles of specialized production for markets that are basic to European expansion. Regarding innovation, the Chinese state played a considerable role in the eighteenth

century in disseminating information about best technologies from the more developed parts of the empire to the technologically less advanced. It is the third factor, the state's role as predator and the related role of fragmented sovereignty in obstructing commercial growth that is worth comparing with the Chinese situation for our theme of "states and market formation".

Epstein stresses the importance of the negative economic consequences attending jurisdictional fragmentation. There are higher costs of fiscal extraction and higher barriers to trade, including tariffs. Market failures are more common, especially due to prisoners' dilemmas. The problem to be explained in Europe is how to increase state sovereignty so that it can provide public goods necessary to facilitate market expansion. When the sovereign cannot stop those below him from setting up formal and informal barriers to trade, when elites can defend privileges that stymie the entry of others into markets, Smithian principles of economic growth face constraints.

Viewing the Chinese agrarian empire with an eye for the challenges that late medieval and early modern European states had to overcome in order for economic growth to become more widespread, it is difficult not to be struck by the absence of some of the basic problems that Epstein has analyzed. From the European sovereign's perspective, these are the challenges of centralizing authority; from our vantage point as analysts of political change these are themes basic to the creation of territorial states and a European state system. In economic terms, these are difficulties that the Chinese empire first solved in the third century BCE and elaborated upon the set of strategies for securing centralized rule—a rule that covered not merely a large country like France but the equivalent of several Frances. In other words the Ming and Qing imperial states supplied peace and security over far vaster spaces than any European state could sensibly

imagine let alone achieve. Dynastic transitions disrupted trade networks and much else, but warfare was a less pervasive fact of life for Chinese than Europeans between 1500 and 1800. The scale of peaceful domestic space secured by Chinese imperial rulers meant that the key public good required to promote commerce over long distances was provided by the state. During the eighteenth century, the central government also intervened in specific situations when lower level officials blocked trade in grain. Those officials, anxious to protect supplies in their areas against potential shortfalls were instructed by higher-level authorities to allow grain to flow freely according to supply and demand conditions. More generally, the Chinese state's approach to promoting trade across its agrarian empire differed from European notions of "law and order" since the Chinese state did not use law and courts to specify and defend property rights. But the use of different institutional mechanisms doesn't mean the economic effects of particular practices cannot be comparable. Indeed, it would seem the Chinese mix of state and private mechanisms to deal with uncertainty and promote property rights in trade produced a larger amount of long-distance trade across the agrarian empire than was likely to have taken place across Europe in the three centuries preceding 1800.

One important reason that the Chinese state between 1500 and 1800 could promote trade over the entire empire is that it did not in general rely much on commercial revenues. Unlike European states that were constantly negotiating with commercial elites to raise new taxes, the Chinese state taxed commerce lightly. It could afford to do so for several reasons. First, it had developed the bureaucratic capacity to tap agriculture for taxes; between the sixteenth and eighteenth centuries these taxes which had been collected in kind and in labor service were commuted to silver, a process made possible by and reinforcing participation of common peasants in

market exchange. Second, it expected local elites to shoulder the costs of some infrastructural and welfare projects such as repairing roads and temples or building granaries and schools; merchants along with wealthy landlords supported these activities and thus were in a sense “taxed” without the logic or nomenclature being employed. Third, it could keep taxes light in poor areas by transferring resources from wealthier areas that could more easily bear higher tax burdens; in spatial terms the empire engaged in what we might consider progressive taxation. Finally, the central state had its own reasons to keep commercial revenues limited; it already had procedures in place to direct and track the flows of revenues from agriculture, but adding commercial revenues of any sort added new items to be monitored. One possible problem of increasing commercial revenues would be their collection and retention by lower level officials who could, in a worst case scenario from the center’s point of view, have some resource base separate from what the center kept track of. On the other hand, allowing county officials to secure revenues from taxation of resident merchants mitigated the problems of underfunded local government. Aware of both advantages and dangers to taxing local commerce within its larger fiscal structures, the center deliberately kept lower level officials constrained in terms of decision making over fiscal resources and kept the amounts they could amass and retain limited as well. The central government, in other words, counted in its calculations reasons to limit commercial taxation. In contrast, European governments had reasons to increase all kinds of commercial taxation to enhance their ability to rule.

Another important contrast flows from the heavier taxation of commerce in Europe than in China. Sovereigns in Europe had to negotiate with merchants (and with their nobles and clergy in various ways as well). Commercial elites were usually able to bargain for the defense of their

privileges, referred to as “liberties”, in exchange for agreeing to various fiscal obligations. This led to problems of what Epstein calls “fragmented sovereignty” that simply did not occur in China because there were no equivalent relationships between ruler and merchants, in part because the fiscal demands put on Chinese merchants were generally lower and more episodic than the chronically rising demands successful sovereigns put upon their commercial elites. Of course, the capacity of elites to negotiate with sovereigns was also basic to the elaboration of ideas and institutions that provided the possibilities for the articulation of principles of representation and policies of democratic participation in the nineteenth and twentieth centuries. The English managed to get the best of both the political and economic worlds by having liberties adhere to the individual and not the corporate group. On the continent, however, having powerful elites who could defend on a corporate basis their privileges often put constraints on Smithian dynamics of commercial expansion that did not exist in the Chinese empire.

The achievement of conditions favoring the development of long-distance commerce that exceed those typical of Europe in this period suggest that the Chinese state’s contribution to commercial expansion may well have been more positive on balance than what European states could achieve. Here’s another indication of this possibility. One striking difference between China and Europe is that the wealthiest Chinese merchants emerge out of relatively poor parts of the empire; they form networks that work well outside their local areas in order to make their wealth at the same time as they retain close connections to their home bases through land investment and retirement. Wealthy European merchants, whether in Italian city states or later in the Dutch Republic and England, all build upon the broader economic strengths of their home countries. Were the European

situation more like the Chinese, we would see powerful merchant groups leave Prussia or the Balkans and establish long-distance trading networks through both Western and Eastern Europe.

The contrast matters because it suggests yet another way in which the Chinese state could promote long-distance trade that was unavailable to European states.[2] The fact that merchants from poor parts of the agrarian empire could develop long distance trade means that they did not have to depend on their local or regional governments to provide them with advantages over others. Chinese merchants didn't need strong urban political authorities backing them in order to prosper. This meant that access to opportunities to develop long-distance trade were therefore more widely available to people in both rich and poor areas in China than they were in Europe. This then made the widespread development of long-distance trade easier.

A final set of contrasts between the Chinese state's political economy of foreign trade and European maritime empire begins with a partial parallel. The movement of merchants from poorer parts of the agrarian empire to richer areas where they could make money in trade seems at least somewhat similar to the Portuguese merchants who go the South and Southeast Asia in order to create long-distance trade. In both cases the trade is initiated by people who are from relatively poor areas who discover ways to make money they could not find in their native locales. Of course, much else differed in these two cases. For present purposes the most important contrast concerns the relationships of the states to these commercial operations. When we consider what the Europeans who built merchant empires in Asia were up to in this period, we see the movement

[2] I thank my colleague Ken Pomeranz for a conversation in which this point emerged.

overseas of merchants tied to their governments in a variety of ways but all sharing the hope of creating some sort of monopoly conditions that would allow them to reap great profits from some particular commodities. There is no equivalent in the Chinese empire. Indeed, in Southeast Asia where Chinese and European merchants actually meet and share markets beginning in the sixteenth century, the organization of the spice trade back to Europe and to China are quite different. In contrast to the variations upon the European chartered company, Chinese merchants were organized in ways for maritime trade that resembled the ways in which other Chinese merchants did business within the agrarian empire. We see the same contrast of Chinese merchants traveling with their goods and European merchants signing contracts for goods they do not accompany. Within the Chinese case the state's lack of rent-seeking control and light to non-existent taxation applied to much of both domestic and foreign trade. In other words broadly the same set of institutional possibilities existed for Chinese merchants in domestic and foreign trade. These were different than the range of institutional arrangements for European merchants engaged in commerce across Europe and across the seas, the latter being situations in which governments not only reduced transaction costs but also sought to create fiscally favorable conditions that could hamper open and free trade. The Chinese state, in contrast, did little to impede either domestic or foreign trade—this similarity is not appreciated by specialists and hence by others who depend on what experts produce since those best able to see the similarity have been trained to think that Chinese foreign trade was heavily regulated; this was far more true for Europeans trading with China than it was for ethnic Chinese doing trade between Southeast Asia and the China coast.

In sum, the Chinese state's policies toward long-distance trade, both domestic and foreign, promoted Smithian growth in ways that exceeded contemporary European practices. The ways in which this was achieved and the reasons for following chosen policies differed in the two parts of the world. Some of the impacts of state policies on economic growth were unintended, the results instead of political concerns that were quite different at the two ends of Eurasia. The Chinese state supported private commerce throughout its agrarian empire and allowed private maritime trade with Southeast Asia most of the time, and when it declared such trade illegal, its limited enforcement capacities could not severely restrict exchange. We can consider the different agendas and achievements of states in China and Europe to lead to parallel or similar economic effects within the universe of pre-industrial production possibilities. Successful Chinese and European states before 1800 both promoted Smithian growth, intentionally and otherwise. The differences of political economy at the two ends of Eurasia remain significant, especially for later transformations. Within the realm of the pre-industrial world and recognizing similar impacts of successful states on Smithian growth, however different their motivations or intentions, it seems likely that the Chinese state did at least as much to promote private sector commercial growth as European states did.

Bibliography

Fan Jinmin. 1998. *Ming Qing Jiangnan shangye de fazhan* (The development of Ming Qing Jiangnan commerce). Nanjing University Press.

Jone, Eric. 1988. *Growth Recurring*. Oxford University Press.

Liu Qiuken. 2000. *Ming Qing gaoli daiziben* (Usurious loan capital in the Ming Qing period). Shehui kexue chubanshe.

North, Douglass. 1991. " Institutions, Transaction Costs, and the Rise of Merchant Empires," in James Tracy, ed., *The Political economy of merchant empires*. Cambridge University Press.

Will Pierre-Etienne and R. Bin Wong. 1991. *Nourish the People: the State Civilian Granary System in China, 1650-1850*. Center for Chinese Studies, University of Michigan.

Zhang Zhongmin. 1996. *Qian jindai Zhongguo shehui de shangren ziben yu shehui zai shengchan* (Merchant capital in pre-modern Chinese society and social reproduction). Shanghai shehui kexueyuan chubanshe.

LONDON SCHOOL OF ECONOMICS
DEPARTMENT OF ECONOMIC HISTORY

WORKING PAPERS OF THE GLOBAL ECONOMIC HISTORY NETWORK (GEHN)

For further copies of this, and to see other titles in the department's group of working paper series, visit our website at:
http://www.lse.ac.uk/collections/economichistory/

01/04: State-Building, The Original Push For Institutional Changes in Modern China, 1840-1950
Kent Deng

02/04: The State and The Industrious Revolution in Tokugawa Japan
Kaoru Sugihara

03/04: Markets With, Without, and In Spite of States: West Africa in the Pre-colonial Nineteenth Century
Gareth Austin

04/04: The World Coffee Market in the Eighteenth and Nineteenth Centuries, from Colonial to National Regimes
Steven Topik

05/04: The Role of the Chinese State in Long-distance Commerce
R. Bin Wong