

Business Expansion and Structural Change in Pre-War China: Liu Hongsheng and His Enterprises, 1920–1937. *By Kai Yiu Chan.* Hong Kong: Hong Kong University Press, 2006. xv + 283 pp. Index, notes, bibliography, photographs, figures, tables. Cloth, \$59.50. ISBN: 9-789-622097-643.

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The field of modern Chinese business and economic history is flourishing. Corresponding to the rapid social and economic changes taking place in contemporary China, a number of important studies have appeared during the last decade. These studies explore topics such as the relation between hierarchies and networks in business operations, the development of modern banks, the impact of the Sino-Japanese War (1937–45) on Chinese capitalism, the rise and decline of indigenous firms and modern corporations, and the formation of China's state enterprise system. Kai Yiu Chan's study of Liu Hongsheng's enterprises is a welcome addition to this growing literature. A product of careful research drawn from original Chinese and English-language sources, this monograph sheds light on the emergence of industrial capitalism in China.

Chan focuses on a group of business enterprises that were founded around 1920 by Liu Hongsheng (1888–1956), a prominent Chinese industrialist who invested in the manufacture of matches and in other industries from the 1920s through the 1940s. Chan introduces his book with an evaluation of current approaches to the study of Chinese business history, which tend to emphasize cultural explanations. While recognizing the usefulness of this approach, he points out its limits and stresses the necessity of studying organizational changes within business enterprises and looking at their larger institutional environments.

Following his introduction, Chan outlines, in two chapters, the historical and institutional background of Liu's business operations and describes Liu's business activities. Shortly after 1910, Liu began working as a comprador for British employers at the Kailuan Mining Administration, where he was in charge of distributing Kailuan coal to Chinese customers in Shanghai and the Lower Yangzi region. Through this

experience, Liu learned about Western business practices, made contacts with foreign businesspeople, and saved enough from his wages to put up the initial capital to invest in his own businesses, mainly coal distribution, wharf operations, and the manufacture of cement and matches. By the mid-1930s, his total investment amounted to nearly ten million Chinese dollars, and Liu had become the largest single shareholder of his major operations.

Liu's transition from a comprador to an entrepreneur with his own businesses is the subject of what is perhaps the book's most interesting chapter. The story of how Chinese compradors transformed themselves into owners and managers of their own businesses in the twentieth century has received little scholarly attention. Chan describes how Liu, while working for the Kailuan Mining Administration, pursued his own business interests. Eventually, the appearance of a conflict of interest prompted the Kailuan Mining Administration to move against Liu. In 1925, the firm established the Kailuan Sales Agency in order to be able to negotiate directly with its customers, but it retained Liu as a partner, essentially nullifying Liu's position as comprador.

Chan turns next, in chapter five, to issues of corporate governance with a case study of the Shanghai Portland Cement Works that Liu Hongsheng founded in 1920. Liu initially registered the firm as a joint-stock limited company, which meant that the company followed the stipulations of the 1914 Company Law by establishing a board of directors and appointing a general manager. Within two years, Liu was serving both as the chairman of the board and as the general manager, owing in part to his status as the majority shareholder. When the company became operational in 1923, Liu also became the sales manager. Under Liu, the corporate structure comprised works, accounts, sales, general affairs, and purchasing departments.

An important theme of this chapter is the conflict of interest that emerged between principal shareholders and small shareholders over the issue of dividend distribution. The former were determined to build up the company's reserves through depreciation allowance, while the latter insisted on regular distribution of "guaranteed dividends." In 1929, the Nationalist government promulgated a new Company Law, which extended the protection of small shareholders and guaranteed them more rights.

Once the new law took effect in 1931, the board had to make concessions to the small shareholders.

Chapter six presents another major case study. This one describes Liu's match-manufacturing firm and shows how Liu responded to market competition by adopting strategies of takeover and merger that ultimately led to the formation of a nationwide cartel of match production and distribution. With 120 Chinese-owned and 14 foreign-owned match-manufacturing companies, China's match market was already very competitive when Liu established his Hong Sung Match Company in 1920. Liu took over one bankrupt match company in 1924 and, with an initial capitalization of nearly two million Chinese dollars, was instrumental in bringing about the merger of Hong Sung Match Company and two other match companies to form China Match Company Limited in 1930. Liu became the principal shareholder as well as its general manager. After successfully expanding the company's scale and scope and implementing managerial reforms, such as administrative rationalization and cost accounting, in the early 1930s, Liu set out to control competition by creating the Domestic Match Industry Joint Sales Office in 1935. Eventually, and with the approval of the Nationalist government, Liu's efforts led in 1936 to the formation of the China National Match Manufacturers' Production and Sales Union, a cartel that effectively controlled competition by setting and monitoring prices and production quotas of its member companies.

Chapter seven, reflecting the critical importance of financing for Liu's enterprises, examines the China Development Bank, which Liu founded in 1931. Chan's evidence suggests that Liu established his bank primarily to capture "the lending business of his enterprises" (p. 154).

In this study, despite occasional editing errors, Chan succeeds in demonstrating how Liu created and maintained a veritable business empire in the decades leading up to outbreak of the Sino-Japanese War. His book contains much that will interest scholars of modern Chinese business and economic history.

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