

The “Umbrella Society” and the Emergence and Development of Modern Enterprises During the Self-Strengthening Movement in China

Zhang Jijiao

University of Chinese Academy of Social Sciences

Liu Shan

Zhuhai Campus of Beijing Normal University

Yang Lin

Southern Medical University

The “umbrella society” is a main feature of the Chinese social structure. The “umbrella” protection that government offers business operators is not only a major social relationship but also an important means of resource allocation in China. During the Self-Strengthening Movement, the “paternal”, “kinship” and “friendship” relationships between the government and enterprises promoted the emergence of state-owned enterprises, government-supervised commercial enterprises and commercial enterprises, respectively, as modern enterprises. Simultaneously, different resource allocations facilitated their development. However, due to the ambiguities in the umbrella services provided by the government to enterprises, the Chinese efforts to establish modern enterprises during the Self-Strengthening Movement were far from successful.

Keywords: Umbrella society, umbrella relationship, the Self-Strengthening Movement, modern enterprises, resource allocation

INTRODUCTION

Sociology and anthropology are in a similar position in that, when studying a social phenomenon or issue, it is necessary to examine the society in which this phenomenon or issue occurs. In 1992, Li Peilin proposed the theory of “social structure transformation”, referred to as the “other invisible hand”. This theory connects the state, market and society as a whole on a macro level and suggests that economic and social development, as well as the resource allocation of enterprises, be viewed from the perspective of macro social structure (Li 1992; 1994; 1995). In the framework of the theory of “social structure transformation”, Li, in 2014, further proposed that an “umbrella society” is one of the basic characteristics of the social structure in China. In the Chinese “umbrella society”, the relationship between the government and enterprises is a major part of the social structure and an important factor affecting resource allocation and promoting economic and social development.

According to the concept of the “umbrella society”, the government provides support to some enterprises, and the enterprises themselves also actively seek support from the government. Consequently,

there is a relationship of “providing shelter” and “being sheltered” that constitutes the so-called “umbrella” between the government and enterprises. Based on the structure of the “umbrella society”, these relationships can be further divided into “paternal shelter”, “kinship shelter” and “friendship shelter” (Zhang 2014).

Modern capitalist enterprises in China originated during the Self-Strengthening Movement (1861-1895) in the late Qing Dynasty. According to the commonly used classification in academia, the modern enterprises established during this period can be categorized into four types: state-operated enterprises, government-supervised commercial enterprises, joint state-private enterprises and private enterprises (Yan 2007). Of these types, joint state-private enterprises were quite few in number (Wang 1996). Thus, the modern enterprises established during this period mainly included the other three types. It is evident that the government played an important role in the establishment and development of modern enterprises in those times.

Academics have researched the relationship between the government and enterprises during the Self-Strengthening Movement, mainly by examining the institutional interactions or interpersonal relationships between them from a historical perspective (Chen 1997; Zhu 2008). This article places the modern enterprises that emerged during the Self-Strengthening Movement within the social structure of China at that time. It presents an inquiry into the nature of “umbrella” relationships between the government and enterprises and an analysis of how the “umbrella” facilitated the emergence and development of modern enterprises. Additionally, it explores the role played by this “umbrella” in the resource allocation to these enterprises, with the aim of revealing the characteristics and essence of modern Chinese enterprises, as well as their differences from modern foreign enterprises.

THE NEW SHAPE OF THE “UMBRELLA” RELATIONSHIP BETWEEN THE GOVERNMENT AND ENTERPRISES DURING THE SELF-STRENGTHENING MOVEMENT

In a certain sense, China has always been an “umbrella society” (Zhang 2016), and the “umbrella” relationship between the government and enterprises has had a long history. In imperial China, successive dynasties, to prevent rebellions, strictly monopolized the military industry, and the central government “protected” these state-monopolized military industries in a most direct manner. At the meantime, even as early as the Spring and Autumn and Warring States Periods (770BC-470BC), economic endeavors were jointly undertaken by the government and businessmen in traditional Chinese society. Since Liu Yan’s reform of the salt law in the Tang Dynasty (618-907), which involved the government in salt business operations, China began to popularize the practice of attracting investment. During the Ming (1368-1644) and Qing (1616-1911) dynasties, the scope of attracting investment was already quite extensive, and strict supervisory institutions were instituted to make the system more capable and comprehensive (Xu & Wu 2003: 442-443). In addition, the private economy had always been extensive in the traditional Chinese society, and it flourished during the Ming and Qing dynasties. Although the relationship between these economic activities and the government was not very close, business was always reliant on government support.

However, at the beginning of the modern times, a new form of the umbrella relationship between the government and enterprises emerged. The First Opium War in 1840 brought about a “situation unseen in thousands of years” in China, and the country had to start facing the impact of Western powers. In 1851, the Taiping Heavenly Kingdom Uprising led by Hong Xiuquan broke out, accompanied by a continuous expansion of the territory claimed by the heavenly kingdom, and the Qing central government was on the verge of collapse. To suppress the Taiping Uprising, the central government was forced to delegate a large amount of power to local governors such as Zeng Guofan and Li Hongzhang, who put strenuous efforts to fight against the Taiping Army. These local governors had the triple responsibility of “suppressing a revolution, stopping foreign aggression, and rebuilding internal order” and realized that “the solution to the problem not only needed the restoration of a strong and effective rule at this critical juncture along the traditional lines but also the creation of a new policy” (Wright 2002:9). Consequently, these local governors launched the so-called “self-strengthening” and “wealth-seeking” endeavors, or the “Self-Strengthening

Movement”, to adopt Western technology in their power spheres. In 1861, Zeng Guofan founded the Anqing Arsenal, marking the formal beginning of the Self-Strengthening Movement, during which Zeng Guofan, Li Hongzhang, and other local governors established a number of modern state-owned military enterprises in their own regions and also a number of modern civilian enterprises in the form of government-led commercial operations, in support of a number of modern commercial civilian enterprises. Therefore, as Fei Weikai says, “a new motive emerged in the late 19th century for bureaucrats to get involved in commercial affairs” (Feuerwerker 1990:335). The Taiping Uprising in the late 19th century brought about changes in the umbrella relationship between the government and enterprises, and local bureaucratic officials of the Self-Strengthening Movement replaced the central government as the new “protectors” of the enterprises.

During the Self-Strengthening Movement, some business owners started to merge with the official class, forming a new class of so-called “gentleman merchants” who were protected by the government. The enterprises they operated also became protected by the government. The traditional Chinese society was composed of four major social classes: scholars, farmers, artisans and merchants. One of the characteristics of this society was a varying degree of anti-business policies implemented by rulers throughout history (Zhu 1994). However, before the start of the Self-Strengthening Movement, some officials in the Qing government who advocated for learning Western technology proposed a theoretical basis for promoting “business”. They believed that since China could not reject foreign goods, it could only produce more homemade products to supply both domestic and foreign markets to reduce imports. Thus, the trade imbalance would be reversed, and the increased wealth would strengthen the country (Wakeman & Liu 2007:407). Recognizing the power of business in making the nation stronger, the officials in the Self-Strengthening Movement began to lend effective support to business activities. Against this background, in the latter half of the 19th century, some of those who conducted business began to elevate their social status by attaching themselves to bureaucratic power, giving rise to two types of new merchants: “official businessmen” and “merchant landlords”. The former were government officials engaged in industrial and commercial activities including production, generally with low-rank official positions as bureaucrats during the Self-Strengthening Movement. The latter were a group of entrepreneurs who supported bilateral trade between the West and China after the Opium War and gained official titles through donations or contributions. In the Qing Dynasty, money could buy fame or official titles, with the former being a reward and the latter the sale of an office, and there was no essential difference between the two. During the Self-Strengthening Movement, the provincial governors who organized the movement set up donation offices in their provinces to obtain funds for the movement, and the amount donated for a reward was repeatedly reduced to attract more contributors. As a result, some wealthy merchant landlords became members of this class through donations (Zhang, Ma & Zhu 2000:217). Due to their familiarity with business activities, they thus gained favor and were highly utilized by the bureaucratic officials of the Self-Strengthening Movement (Xu 2010:137-138). In this way the enterprises operated by official businessmen and merchant landlords received more protection from the government during the Self-Strengthening Movement.

“UMBRELLA” RELATIONSHIPS AND THE EMERGENCE AND TYPES OF MODERN ENTERPRISES DURING THE SELF-STRENGTHENING MOVEMENT

During the Westernization Movement, the “umbrella” relationships between the government and businesses promoted the emergence of modern enterprises mainly consisting of three types: government-run enterprises, government-supervised and merchant-managed enterprises, and merchant-run enterprises.

“Paternal Shelter”: The Government and Enterprises and the Emergence of Government-Run Enterprises

During the Self-Strengthening Movement, local governors of the Qing government played the role of a new “protector” for enterprises. Under their leadership, a number of modern government-run enterprises were operated in China, which adopted large-scale production with machines and employed labor. They gradually and partially implemented cost accounting and were organized for production in a manner similar

to Western machine factories. They also engaged in the production of other goods to some extent, making them distinct from the old government-owned workshops and more like modern capitalist enterprises (Hu 2004:199).

In fact, it was the umbrella relationship between the government and enterprises that promoted the emergence of government-run modern enterprises. Taking the Jiangnan Manufacturing Bureau as an example, in 1865, Li Hongzhang, the governor-general of two provinces, purchased the American-owned Qiji Iron Works in Shanghai. He also integrated two artillery bureaus previously managed by the officials of the Self-Strengthening Movement, Ding Richang and Han Dianjia, and added more than 100 machines purchased from the United States, forming the “Jiangnan Manufacturing Bureau Arsenal”, which was originally planned for shipbuilding but, at its inception, in order to tackle the Taiping Rebellion, Li Hongzhang ordered the production of firearms “to meet emergency needs”. By the eve of the First Sino-Japanese War in 1894, the Jiangnan Manufacturing Bureau Arsenal owned a large shipyard and more than ten military factories with over 2,000 workers, becoming the largest comprehensive military enterprise of the Qing government (Hu 1983). So, it can be said that the Jiangnan Manufacturing Bureau Arsenal was established by Li Hongzhang and a group of officials of the Self-Strengthening Movement whom he led and was their direct industrial base. The relationship between the officials and the Arsenal reflected a “fatherly” protection of the umbrella structure.

“Kinship Shelter”: Government and Enterprises and the Emergence of Government-Supervised and Merchant-Managed Enterprises

Shortly after the initiation of the Self-Strengthening Movement, a group of capitalist-style state-run enterprises were established by the officials associated with the movement. These enterprises covered various sectors, such as textiles, mining, metallurgy, shipping, railways and telecommunications. The “government-supervised and merchant-managed” business model referred to the establishment of civilian enterprises under government supervision using merchant capital. In practice, “officials” here mainly referred to Li Hongzhang and others from the Self-Strengthening Movement and their subordinates, while “merchants” to the purveyors of “government-supervised and merchant-managed” business, including comprador-type gentry merchants. According to Li Hongzhang’s definition of state-supervised and merchant-managed enterprises in 1872, government officials had the decision-making power and personnel rights over these enterprises, “overseeing their general outlines and examining their profits and flaws”. Merchants were responsible for the management and operational risks of the enterprises: “all profits and losses shall be the merchants’, with no involvement from the officials” (Li 1966:33). In 1875, Shen Bozhen, governor of Liangjiang, stipulated new regulations for state-supervised and merchant-managed enterprises, stating that “the officials and merchants are integrated in that the merchants obtain certain benefits and the officials also take certain interests” (Gu & Dai 2008:289). This changed the principle of “no involvement from officials” in distributing enterprise profits.

The umbrella relationship between the government and businesses promoted the establishment of state-supervised and merchant-managed modern enterprises. The China Merchants Steamship Navigation Company was the first state–merchant enterprise arising from the Self-Strengthening Movement. At that time, Chinese shipping interests were controlled by foreign merchants. Li Hongzhang responded swiftly, stating in a letter to his colleagues, “Since I cannot prohibit Chinese merchants from using foreign ships, why should I prohibit them from purchasing ships for their own?” (Gu & Dai 2008:477). Capital-owning comprador-type gentry merchants familiar with the Self-Strengthening Movement became a focus of attention for Li Hongzhang and other leading officials. These “gentry merchants” harbored thoughts of sharing the benefits “with foreign merchants” (Liu & Zhao 2011:418) and were willing to cooperate with the officials of the Self-Strengthening Movement. Against this backdrop, Zhu Qiang, a comprador-type gentry merchant serving as a member of the Zhejiang Maritime Affairs Commission in 1872, established the China Merchants Steamship Navigation Company directly instructed by Li Hongzhang, while its “duty was only a step toward the actual establishment of the enterprise, which was carried out by lower-ranking officials and shareholder representatives in name only” (Feuerwerker 1990:31). The China Merchants Steamship Navigation Company was managed by comprador-type gentry merchants and businessmen, such

as Zhu Qiang, Tang Tingshu, Xu Run and Sheng Xuanhuai. Their relationship with Li Hongzhang can be described as an official “patronage” as they were “protected” by Li, exhibiting a “kinship-style” private protective umbrella.

“Friendship Shelter”: Government and Enterprises and the Emergence of Merchant-Run Enterprises

In the later period of the Self-Strengthening Movement, as “China’s social and economic structure increasingly displayed more elements of a commodity economy, the influence of the law of value on economic operation became more apparent” (Li 2008:31). With the support of officials of the Self-Strengthening Movement, a group of fully private capitalist modern enterprises came into being in China, operating in sectors such as silk reeling, textile production, rice milling and flour production. Although these enterprises did not have direct ties to the government, their establishment was mainly driven by the umbrella relationship between the government and businesses.

The Huaxin Cotton Mill was the first privately owned modern cotton-spinning enterprise in modern China and was started first with the mill owned by businessman Tang Zizhuang. In 1888, after inviting Gong Zhaoyuan, an official businessman serving as the Shanghai Inspector, to become a joint shareholder of Huaxin, Gong submitted a proposal to Li Hongzhang for setting up an official business joint venture, i.e. Huaxin Textile Bureau. In 1882, Li Hongzhang established the state-run and merchant-supervised enterprise Shanghai Machine Weaving Bureau, granting the bureau a monopoly right for 10 years, while restricting the establishment of private yarn mills. Huaxin Textile Factory was given such generous conditions with state approval largely because its founder, Gong Zhaoyuan, was Li Hongzhang’s fellow townsman and subordinate to the latter’s advantage. In 1890, Nie Jijun, the new Shanghai Governor, took charge of organizing the establishment of the Huaxin Textile Factory. In 1891, Huaxin Textile Factory officially started production, and by 1897, it had repaid all official loans and transformed itself into a fully commercial enterprise. Later, Nie Jijun bought all the shares of the factory and allowed his son to manage it, changing the name to Hengfeng Textile Factory (Shanghai Institute of Economics & Shanghai Academy of Social Sciences 1958:1-6). The case of Huaxin Textile Factory demonstrates that local governors such as Li Hongzhang did not directly participate in the establishment of modern commercial enterprises while enabling these businesses to avoid formal government supervision or control. Such enterprises, however, actively sought “protection” from the government in their establishment, though this kind of relationship usually manifested itself as a “friendship” between the government and official merchants (or “mercantile gentry”) in that an umbrella of private protection was offered by the former.

THE ROLE OF THE UMBRELLA RELATIONSHIP IN THE RESOURCE ALLOCATION TO MODERN ENTERPRISES DURING THE SELF-STRENGTHENING MOVEMENT

In fact, the umbrella relationship, as an important part of the social structure, also served as an important means of resource allocation. In an umbrella society, the government’s allocation of resources to enterprises is not equal: enterprises with “paternal” protection would receive the most resources, followed by those with “kinship” protection, and those with “friendship” protection receive the least. From the perspective of supply-side economics, the total amount of economic activity is determined by three basic factors: the total amount of labor, capital and efficiency (Wu & Li 2016:8). We hereby explore how the government allocated resources to those state-operated enterprises, government-supervised commercial enterprises and wholly commercial enterprises from the perspective of supply-side factors using examples of the Jiangnan Arsenal, the China Merchants Steamship Navigation Company and Huaxin Textile Factory.

Government’s Allocation of Resources to Government-Run Enterprises

As a state-operated enterprise, all higher personnel at the Jiangnan Arsenal were appointed by the Qing government’s self-strengthening bureaucrats. The highest leader was the inspector, whose office was concurrently assigned by the governors of the two Jiang provinces (later including the Governor-General of Zhili). The actual responsibility was held by the general office, whose head was concurrently assumed

by the Shanghai Governor. There were also officials of different ranks, such as assistants, counselors, commissioners, committee members and officers. At the beginning of the establishment of the Jiangnan Arsenal, soldiers from Zeng Guofan's Xiang Army and Li Hongzhang's Huai Army were recruited as labor. Later, most of the additional workers were recruited from foreign-owned factories (Xu & Xu 2003:358, 383). In addition, the startup and development funds of the Jiangnan Arsenal were also allocated by the Qing government, including the following:

1. The startup capital, mostly from the military expenditures of the Qing government;
2. Additional construction costs, allocated from national tax revenue;
3. Regular expenses, initially allocated from the military pay to Li Hongzhang's Huai Army, with a monthly amount of approximately 10,000 taels, which later mainly relied on the customs duties allocated by the Qing government, with the main source being two-fifths of the customs duties collected by Jiangnan Customs (Duo 1983). The Qing government not only allocated talents and funds to the Jiangnan Arsenal but even distributed the products manufactured by it. The main products were military weapons and ships, most of which were allocated and distributed to various military units by the Qing government without pricing (Yan 1989:667). From the above observations, all the "resources" of the Jiangnan Arsenal were allocated by the Qing government. With such strong support, it naturally developed into the largest state-operated military enterprise in China at that time.

Government Allocation of Resources to Government-Supervised and Merchant-Managed Enterprises

Although China Merchants Steamship Navigation Company, a government-supervised commercial enterprise, emphasized its "commercial" nature, most of its resources were also allocated by the government. Its establishment was "directly under the command of Li Hongzhang, and everything must be carried out according to his will" (Hu 2014:67). including the hiring of talents. In 1883 when Li Hongzhang, in approving the "personnel regulations" of China Merchants Steamship Navigation Company, explicitly stated: "Assign one senior official, who will diligently supervise and manage personnel and finances"; "Three or four associate officials shall be responsible for observing the business situation and make recommendations fairly". The employees of the general office (or supervising office), coordinating office (as well as assisting office) and others within the China Merchants Steamship Navigation Company were all trusted aides selected by Li Hongzhang, and they were considered managers at various levels. This case demonstrated that the officials of the Self-Strengthening Movement directly allocated decision-making power, supervisory power, and the appointment and dismissal power of senior managers, which are rights equivalent to those of directors and supervisors in modern enterprises. Furthermore, in terms of funding, the China Merchants Steamship Navigation Company initially used a deposit of 200,000 taels from the Zhejiang Training and Financing Bureau, which were allocated by Li Hongzhang, who at the time served as the Governor-General of Zhili and the Beiyang Minister. When the company "initially struggled for survival", Li Hongzhang "borrowed" an additional 500,000 taels of official funds for the bureau's treasury (Compilation Committee of Transportation History of the Ministry of Railways 1931:156, 269, 302). By 1879, the company had accumulated a total of approximately 1.9 million taels in "borrowed" official funds (Shenbao 1880). Last, the company enjoyed privileges and "resources" that other enterprises found difficult or impossible to obtain. To support the development of the company, the Qing government provided a series of preferential treatments, including tax reductions, tax exemptions, interest rate relief, and business privileges. From its inception, the China Merchants Steamship Navigation Company enjoyed the privilege of an exemption from 20% import tax on goods transported via the Grand Canal from Shanghai to Tianjin. In 1881, the Qing government issued a decree stating, "Regarding the transportation of tea by the China Merchants Bureau, only half the regular tax will be collected, and no additional taxes will be imposed for goods transported from Han to Jin." (Institute of Modern History, Chinese Academy of Sciences. 1961:49) Li Hongzhang also made a request of the Qing government to allow the China Merchants Steamship Navigation Company to postpone its repayment of interest on its official loans (Gu & Dai 2008:146-147). Additionally, Li requested exclusive business privileges, stating that "from now on, for all official goods

transported along the rivers and coasts, if they need be shipped by steamships, they must be handled by the Bureau's ships according to regulations" (Gu & Dai 2008:499). Although the China Merchants Steamship Navigation Company was not a state-run enterprise, no effort was spared to allocate resources to it due to its importance as part of an industry developed by the Qing officials of the Self-Strengthening Movement.

Government Allocation of Resources to Merchant-Run Enterprises

In contrast to state-run and state-supervised enterprises, commercial enterprises received relatively fewer resources from the government. The Huaxin Cotton Mill, originally named Huaxin Jacquard Mill, had the businessman Tang Zizhuang as its owner. To obtain government support in terms of talents, Tang Zizhuang invited Gong Zhaoyuan, the Shanghai Inspector, to become a shareholder in the mill. In the early stages of setting up the Huaxin Cotton Mill, Gong actively sought financial support from the Shanghai Treasury, stating, "All preparatory funds are advanced by the Shanghai Treasury Huitong Official Silver Shop", with a total capital of 450,000 taels divided into 4,500 shares, each worth 100 taels, and an official interest rate of 8% (Shanghai Institute of Economics & Shanghai Academy of Social Sciences 1958:2). From this, we can see that commercial enterprises also actively sought government support in terms of talent and funding.

CONCLUSION

The emergence and development of modern enterprises in China had their own characteristics and connotations. During the Self-Strengthening Movement, the practice of establishing modern enterprises was initiated in China. Research indicates that during this period of the "umbrella society" in China, whether enterprises were state-owned, jointly run, or privately run, their emergence was largely driven by the umbrella offered by the government. At the same time, the government, through various forms of umbrella protection such as "paternal protection", "kinship protection" and "friendship protection", allocated resources of different magnitude to these enterprises, promoting their development.

However, the umbrella offered by the government to enterprises during the Self-Strengthening Movement was also a double-edged sword. While the government promoted the birth of state-owned enterprises, its complete control over them contradicted with the principles of a market economy, ultimately hindering their healthy development. Jointly run enterprises, such as the China Merchants Steamship Navigation Company studied as a case in this article, were always controlled by the bureaucratic faction of the Self-Strengthening Movement. "Even though private individuals invested in these enterprises, they had no real decision-making power" (Rong 1954:278), and "the word of the general manager was always the final say" (Nie 1983:1079). After the expansion of government power within the China Merchants Steamship Navigation Company, its nature gradually transformed. In 1885, the operation and management of the company, as well as all its business affairs, were transferred from businessmen to the bureaucratic faction of the Self-Strengthening Movement, and its "privately run" nature became nonexistent. Furthermore, compared to privately run enterprises that were fortunate enough to receive government protection, other privately run enterprises lacking such protection faced numerous obstacles in their establishment and development. In 1873, the first privately run modern machine silk factory in China, i.e. the Nanhai County Jichanglong Silk Factory, founded by the patriotic Chinese diasporic entrepreneur Chen Qiyuan, faced repeated obstruction from the local government, which stated, "Machines for manufacturing silk in coastal provinces can only be set up by government institutions. Private individuals cannot privately purchase them." Later, the local government even ordered the factory to shut down on the grounds that "it had not been officially registered" and stated that "it would never be allowed to reopen" (Sun 1962:964). Additionally, it is worth noting that the government allocation of resources to enterprises often came with demands of those enterprises. "Service to the government" was one such demand, which took many different forms. For example, in 1878, during a drought in Shanxi and Henan provinces, the Qing government ordered the China Merchants Steamship Navigation Company to provide "relief rice", which may be considered understandable (Shenbao 1878). However, in 1894, during Empress Dowager Cixi's birthday celebration, the China Merchants Steamship Navigation Company was required to offer over

55,000 taels of silver as a “service” to the empress. In addition to these service demands, the government would sometimes arbitrarily use the company’s funds, which unavoidably depleted the company’s resources. In 1883, Li Hongzhang ordered the China Merchants Steamship Navigation Company to lend 250,000 taels of silver to the Korean government (Chen 2013:430-431, 448), depriving the company of a significant portion of its liquid assets and severely weakening its ability to cope with the Shanghai financial panic that year. Therefore, as Wang Jingyu noted in his study of jointly run enterprises, the function of the “government-supervised and merchant-managed enterprise” policy was more vampiric in effect than a life-saving transfusion. The misalignment of the policy of “government supervision of privately run enterprises” cannot be denied (Wang 2007:228).

From the above observations, we can say that the umbrella relationship between the government and enterprises in China has both positive effects and potential negative impacts. During the Self-Strengthening Movement, contradictions between the government and enterprises arose intermittently, due to the lack of clarity in this relationship. In reality, this also indicates that, although Chinese merchants made efforts to establish modern enterprises in these initial stages, they had yet to endure hardships to achieve real success.

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Zhang Jijiao (张继焦), born in 1966 in Haikou, Hainan Province, is a professor at the Institute of Ethnology and Anthropology, Chinese Academy of Social Sciences. He is also deputy chair at the Commission on Enterprise Anthropology of IUAES. His research fields include urban anthropology and enterprise anthropology. His e-mail: zhjijiao@126.com. Liu Shan (刘珊), born in 2002 in Heyuan, Guangdong Province, is currently a sophomore undergraduate at the Zhuhai Campus of Beijing Normal University. Her research interest is in English teaching and linguistics. Her e-mail: 202111079139@mail.bnu.edu.cn. Yang Lin (杨林), born in 1988 in Zhan Jiang, Guangdong Province, is a lecturer at the School of Marxism, Southern Medical University. His research fields include modern Chinese history and enterprise anthropology. E-mail: 1125102190@qq.com.

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