CHAPTER 7

The Last Years of the Canton System, 1829–1842

As of 1829 the British EIC had become deeply concerned about the depleted number and feeble financial condition of the hong merchants. In response, it imposed a five month trade embargo from 1829 into early 1830 in an unsuccessful attempt to force reform of the Canton System. Just four years later, the EIC itself left the Canton trade, its charter terminated as the result of the legislative efforts of British private traders and manufacturing interests which saw bright promise in China. New participants poured into the trade, increasing exports and driving up prices.

The departure of the EIC meant the end of the annual fixed share tea purchase contracts it had long made with the hong merchants, and also the end of the bailout loans the EIC often made as a lender of last resort to keep its hong trading partners in business.[1] The bailout loans had always depended on future revenues the EIC contracts would generate for the hong merchants. The EIC assumed that its hong debtors would be able to repay their loans from the proceeds of its contracts, or that the EIC would be able to simply offset the debt. As the EIC closed down, there was a general realization in the marketplace that the entire Canton Guaranty System had been founded on much the same assumption. Creditors whose claims were being paid over time had assumed that the surviving hongs would be able to pay their guarantor obligations with income from stable tea contracts. As the English private trader W. S. Davidson stated in his 1830 testimony before the Select Committee of the House of Lords:

> I often selected bankrupts to deal with because I could seldom deal with the merchants on fair terms; some of them were satisfied with the certain profits on the Company's business and did not covet other business very much... They [the bankrupt hongs] gave much better prices; too often (I suspect) they gave higher prices than they could afford to in the actual state of the market.... [He had contracted with them] constantly and in large sums entrusted money to them.... I knew they [i.e., the stronger hongs] had shares in the Company's business and I felt assured they would be able to pay me, which they were.[2]

1 White, "Hong Merchants," p. 120.

2 Greenberg, *British Trade*, pp. 70–1; Basu, "Asian Merchants and Western Trade," p. 348.

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PLATE 15 *The foreign factories at Canton, ca. 1825–1835. Oil painting by an unknown Chinese artist.* (*Private collection. Photograph by courtesy of the Martyn Gregory Gallery, London.*)

With the EIC contracts terminated, such assumptions could no longer be made. Trade boomed, but under uncertain conditions as the terms of contracting and trading were being worked out on a daily basis. Credit was exceptionally tight. Domestic suppliers to the hong merchants were anxious about how they would be paid and were reluctant to extend more than modest credit. The struggle that ensued between suppliers and hong merchants brought on a number of hong failures, which occurred just as the Panic of 1837 ricocheted around the world from London through to China.

The crisis of 1836–9 exposed the Canton Guaranty System as irreparably damaged. Several hong merchants were found to be insolvent. Creditors wondered how the guild could possibly pay the enormous debts of these hongs. The surviving hongs offered no concrete reason to believe that they would be able to perform their promises to pay, and they sought long repayment terms to boot. In this crisis of confidence, foreign creditors increasingly looked to the Chinese government, which had imposed and long enforced the collective guaranty, to pay these private debts. In a February 1838 letter to Lord Palmerston, Charles Elliot, British Superintendent of Trade at Canton, stated that the Chinese government had in effect guaranteed payment of the hong