

Between 1760 and 1770, Chinese tea imported by the British East India Company into Britain nearly tripled from three to nine million pounds per year. Business was booming for both the British and Chinese. Yet by 1779, half of the Chinese Hong merchants licensed to trade with the British went bankrupt; they defaulted on approximately £1,000,000 in British loans. In fact, the year 1779 saw a major collapse of trust between British and Chinese merchants, resulting in a British Navy gunboat being dispatched to Canton. What does the Debts Crisis tell us about cross-cultural credit and finance in eighteenth-century Canton?

High volume commerce between the British East India Company and Chinese Hong merchants in Canton during the 1760s and 70s led both sides scrambling to finance their ends of the trade. In the end, both the British and Chinese came to rely increasingly on the financial services of British private traders. These private traders established themselves as commission merchants in Canton, and acted as agents of Company servants mainly based in India on whose behalf they lent significant sums to the East India Company and to the Hong merchants. They greased the wheels of global commerce between Britain and China.

The Debts Crisis of 1779 reveals several significant aspects of cross-cultural trade and finance in Canton. A shortage of money in China, a surplus of private British wealth (particularly in India), and a difference in interest rates in the two places, helped to draw capital from India to China. Even though it was illegal for foreigners to lend money to Chinese subject, practice was quite different; British lenders had come to expect Chinese officials and East India Company servants to help arbitrate disputes. As a result, a large bond market for Chinese debt had developed and was functioning in Canton for several decades. When both the Chinese officials and EIC servants uncharacteristically hesitated to intervene, the lenders panicked, the bond market collapsed, and trade came to a halt.