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World Market & Chinese Tea Industry since the 18th Century

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ABSTRACT

Since the mid-19th century, China's tea industry rapidly collapsed from its position of international market dominance into comprehensive and irreversible decline. Shi Tao's *The World Tea Market and China's Tea Industry Since Modern Times* offers a valuable exploration of cutting-edge questions surrounding international competition, economic laws, political-business relations, and price mechanisms, drawing on new perspectives and newly discovered historical materials. Modern China's tea industry was squeezed by international competition, state politics, and economic forces from multiple directions, with Shanxi merchants the primary actors in the tea trade never managing to effectively transmit or distribute profits through the supply chain. Before the mid-19th century, Sino-foreign trade served the Qing government's border-pacification policy, and tea exchange was conducted primarily to sustain diplomatic relationships rather than for commercial gain; the disconnect between production and sales left domestic tea merchants with little bargaining power. After the mid-19th century, the adulterated tea problem in the China-US trade caused China to forfeit the opportunity to create a virtuous "price-quality" cycle driven by seller-side demand. In the Sino-Russian Kyakhta trade, by contrast, Russia leveraged China's strong demand for furs to achieve industrial upgrading. Unable to participate in the division of profits within the world market, the distribution of profits along the domestic supply chain became even more obstructed. Tea merchants held production monopolies but remained under strict government control. More critically, merchant profit margins and capital accumulation never generated positive stimulus for domestic employment, labor productivity, capital investment, or technological innovation. Instead, merchants transferred costs outside their organizations through cartel arrangements, perpetuating the poverty of the tea farmers at the bottom of the chain. Finally, from the standpoint of a relative static

analysis of the world market and China's tea industry, the ideal approach to economic history research requires both inductive reasoning grounded in historical perspective and logical abstraction from an economic perspective and the two must maintain overall consistency between logic and history.

Keywords: price paradox; modern tea industry; world market; Chinese tea

INTRODUCTION

Tea has long been one of China's most important trading commodities. Unlike necessities such as salt and iron, tea's distinctive properties and cultural value made it viable as a general consumer good in both domestic and foreign commerce. In ancient times, tea served not only as a tool for managing frontier relations internally, but also as China's key commodity for entering world markets. From the 17th century onward, Chinese tea became an irreplaceable protagonist in the global tea market.

At the same time, the Chinese government's understanding of commercial activity began to evolve after the 18th century it gradually began to cultivate, develop, and protect "commerce" as a normal social activity. Combined with increasing division of labor, the rise of towns, development of transportation, and improvements to monetary systems, the temporal and spatial boundaries of commercial trade were repeatedly broken. Merchant coalitions bound by kinship and professional ties began using commercial credit to intervene selectively in trade, seeking to influence the distribution of commercial profits and shape trading relationships.

Under the combined influence of internal and external forces, Chinese tea's international trade experienced dramatic fluctuations that had profound effects not only on China's tea and commercial industries, but on the nation's broader fortunes. The comprehensive retreat of Chinese commodities (led by tea) from world markets between the mid-19th and early 20th centuries was a severe blow to China's commercial development. While this process was traditionally attributed primarily to political disruptions including the Opium War, the profit distribution structure within and beyond the trade chain equally demands attention including the political-business relationship, price mechanisms, profit transmission, and commercial pathways. Shi Tao's *The World Tea Market and China's Tea Industry Since Modern Times*, building on new sources and methods, attempts to break free from the traditional mode of combining economic tools with historical assumptions, and instead approaches these questions from the perspective of world tea market supply and demand dynamics.

I. New Perspectives on "Border Tea" Driven by Politics, and New Historical Sources on "Adulterated Tea" Driven by Market Demand

The market is the core concept of economics the space in which buyers and sellers conduct transactions. If we take the 1662 arrival of Portuguese Princess Catherine, who brought Chinese tea to England upon her marriage, as the symbolic beginning of the world tea market, then by at least the 17th century Chinese tea had already appeared on the procurement lists of European upper classes. Over the

following two-plus centuries, Western perceptions of Chinese tea evolved through several stages: from a miraculous "Eastern herb," to an elegant luxury beverage, to an everyday drink consumed by all social classes.

As commercial exchange intensified in the modern era, any change on either the supply or demand side of Chinese tea would significantly affect its performance in international markets typically reflected through "sales volume" and "price." Examining export volumes and prices thus offers a direct and effective way to trace the fundamental trends of China's tea industry.

Traditional Chinese society's conception of "the state" was historically rather vague. From a legal standpoint, the government held absolute control over economic and market activities, and its engagement with foreign peoples was motivated primarily by the desire to control borders and maintain political stability. Its attitude toward overseas tea trade was correspondingly ambiguous. Under these circumstances, Chinese tea relied primarily on Chinese merchant groups chiefly the Shanxi merchants to conduct operations from inland production areas to export ports.

From the 17th century to the 1940s, domestic tea trade routes ran mainly in two directions: the northern overland route through Zhangjiakou and Kyakhta to Russia, and the southern maritime route from Fujian, Jiangsu, Anhui, and Zhejiang through customs ports at Guangzhou and Xiamen to Southeast Asia, Western Europe, and the Americas. As Shi Tao reveals, from the perspective of border trade management, the Sino-Russian Kyakhta trade more closely resembled modern bilateral free trade featuring something akin to bilateral trade agreements, no tariffs, and a high degree of freedom whereas the southern Guangzhou customs system used agencies such as the Thirteen Hongs to exert official control over merchant transactions. These differing market environments make the northern trade route particularly instructive for understanding how free-market supply and demand dynamics developed.

A key distinction emerges when we recognize that Chinese foreign trade served a purpose of frontier management (*jimi*) rather than commercial profit maximization in the modern sense. This political imperative suppressed Chinese merchants' ability to negotiate and expand. As Shi Tao aptly notes, the term "foreign exchange" (*duiwai jiaoyi*) is more accurate than "international trade" (*guójì màoyì*) to describe these activities: in the former framework, the primary goal is political stability, not commercial gain, which inherently constrained merchants' agency.

Regarding adulterated tea, Shi Tao draws on rich primary sources notably the writings of Gideon Nye, an American merchant active in the Guangzhou tea trade from the 1820s through the 1850s, whose accounts were published in *The Merchant* magazine under the title *Tea and the Tea Trade*. Shi Tao found these records to closely align with historian Kenneth Scott Latourette's data on China-US tea trade volumes. Based on this evidence, Shi Tao estimates that adulterated tea had "a pervasive and stable market in the United States" despite the relative invisibility of its circulation. When Chinese tea held a supply monopoly, the risk of selling adulterated goods under conditions of low consumer discernment and lax regulation was far lower than the

potential return. Declining reputation for quality did not truly reduce sales volumes; if anything, it further incentivized innovation in the techniques of adulteration in Chinese tea-producing regions, to the point that fake tea was for a long time the absolute dominant product in the American market, at times exceeding 95% of total volume. This hollow prosperity collapsed in the latter half of the 19th century as tea from India, Sri Lanka, and Japan began to emerge as competitors; by the early 20th century, Chinese tea's share of US imports had fallen below 10%.

Shi Tao also draws on the 1895 London publication by Austrian diplomat A. De Rosthorn, *On the Tea Cultivation in Western Szechuan and the Tea Trade with Tibet via Tachienlu*, which documents the long-distance trade, management, and taxation of border tea on the Sichuan-Tibet southern route. This work provided Shi Tao with rich data on the Sichuan-Tibet trade, revealing that southern border tea was in chronic short supply despite relatively crude production and transport methods a situation that directly fuelled the push to introduce Indian tea into Tibet, ultimately breaking Sichuan tea's monopoly position.

II. The Root Causes of Chinese Tea's Decline: Endogenous Economic Factors

Between the 17th and 18th centuries, tea gradually became China's leading export commodity, and Chinese tea enjoyed unprecedented international prosperity, at times monopolizing the global market entirely. From the mid-19th century to the first half of the 20th century, the rise of Indian tea drove Chinese tea through three stages: from monopolistic competition to oligopolistic competition, to sharp trade decline.

(1) The Decisive Role of Economic Factors

From a market-endogenous perspective, three core factors shape international tea trade: demand, willingness to buy, and purchasing power. China's foreign trade demand, beyond political considerations, derived primarily from comparative advantages arising from different industrial structures. Buyers' willingness depended on consumer preferences and economic capacity, while purchasing power was substantially shaped by transaction costs influenced by the international environment.

First, differences in industrial structure determined the economic framework of tea trade

The Kyakhta trade illustrates this clearly: tea and furs served as the primary exports of China and Russia respectively. Rising sales growth induced Russia to pursue technological innovation in its textile industry, achieving a structural shift from raw material exports (furs) to manufactured goods exports (woolens and cotton textiles). Xinjiang, as a raw material supplier, simultaneously developed specialized cotton cultivation. This divergence in productive structures was the enduring engine of Sino-Russian tea trade and the economic rationale behind Russia's commercial expansion into China's interior.

Second, international market preferences determined the direction of trade development

As tea spread across Western countries and became a functional beverage

substituting for alcohol and coffee, international demand grew and quality preferences diversified. Russia preferred dark tea (*heicha*), Britain favored black tea, and Americans preferred green tea. This forced corresponding shifts in Chinese tea export composition. Over time, as Western understanding of tea quality deepened and tax policies evolved, the preferences of Russia, Britain, and the US shifted respectively toward ordinary-quality brick tea, high-quality teas, and coarse, low-quality teas.

Third, the balance of international power and trade policy adjustments shaped how transactions were conducted

China's domestic tea trade centered on the licensed monopoly (*yǐn'àn zhuānmài*) system, a logic that extended into foreign trade: tea exchange was conducted primarily to maintain relationships rather than to generate commercial profit. Once the tea was delivered, the exchange relationship was deemed complete, creating a separation between supply and sales. China was gradually reduced to a raw material supplier in the global tea market, while sales profits were distributed by foreign traders.

(2) Obstruction of Profit Distribution Along the Tea Industry Chain

In the international tea supply chain, supply and sales were entirely independent functions. Until the early 19th century, China remained the sole tea supplier. Sales were handled by Russian, British, and American merchants at ports such as Kyakhta and Guangzhou. Once Chinese merchants sold their tea, they exited the profit cycle entirely. Foreign merchants, by contrast, could adjust their positions in accordance with global supply-demand gaps to extract far larger returns.

The structure of the domestic production chain also impeded profit transmission. Tea merchants, though holding production monopolies, were subject to strict government control. Shanxi merchants, for example, could not source tea from nearby regions like Shaanxi or Shandong due to regulatory restrictions, and instead had to travel thousands of miles to Fujian and Huguang and then another nine thousand *li* to Kyakhta to sell. Even so, they could still extract over 70% surplus profit by controlling supply quantities, even with low transport efficiency and complex logistics.

As specialization deepened and supply chains extended, cartel arrangements among merchant associations generated internal transaction costs that were inevitably transferred outward. The resulting system compressed the social capital available for productive investment especially technological innovation reducing producers' returns to below subsistence levels in some cases. Productive technological innovation was almost entirely crowded out by non-productive commercial innovation. Labor productivity and output growth became dependent solely on increasing land and labor inputs. The expansion of arable land, pursued through what Shi Tao terms the "military occupation → commercial circulation → economic development" model, became the only available growth mechanism.

Meanwhile, the rapid expansion of commercial activity in the Qing dynasty accelerated the rise of social operating costs and resource dissipation, leaving

insufficient industrial capital for the economy, with productive investment correspondingly reduced.

III. Strengths and Limitations of Relative Static Analysis: Bridging Economic and Historical Research

Although economics and history both belong to the social sciences, their research paradigms have long been substantially incompatible. Even within economic history, the channels of disciplinary dialogue remain limited.

Shi Tao identifies two main criticisms that historian's level at economic methodology. The first concerns quantification: the sophisticated analytical tools of economics have led to the predominance of data-driven approaches in economic history. While statistical methods offer an objective means of describing historical facts, the attempt to equate mathematical relationships with data or to demand that economic history follow the same path from qualitative to quantitative analysis as theoretical economics can distance economic theory from historical inquiry. As Shi Tao notes, once mathematical formalism is privileged, economic theory may lose both its predictive power and its capacity to adequately describe historical reality.

The second concerns the explanatory power of economic theory. Because economic models are built around the "rational actor" a construct that does not necessarily correspond to real human behavior they can explain why individuals make strategic choices, but not why those choices had to be made at all. Economic history thus functions primarily as an analytical discipline, offering "explanatory power" (*jiěshì lì*) rather than genuine "understanding" (*lǐjiě lì*).

The reviewer argues that the ideal approach to economic history research requires both: inductive reasoning grounded in historical perspective, and logical abstraction drawn from economic analysis. The two must be held together to maintain overall consistency between logic and history what the Chinese tradition describes as "arguments emerging from historical evidence" (*lùn cóng shǐ chū*). *The World Tea Market and China's Tea Industry Since Modern Times* represents a commendable attempt at this synthesis, particularly in its examination of how Qing-era tea trade intersected with China's international relations, commercial development, and the dynamics of political-economic governance.

CONCLUSION

The foreign trade in tea stands as a microcosm of China's modern economic development. The transformation of this "Eastern leaf" from a coveted commodity to a marginal presence in international markets was intimately connected to China's economic structure and industrial development. In Qing foreign trade, "using tea to manage foreigners" (*yǐ chá zhì yí*) was a powerful instrument for maintaining frontier relations and demonstrating economic and political strength. For over two centuries, China protected its supply monopoly — but Chinese merchants never achieved a commanding position in the world tea market due to their exclusion from the overseas sales stage.

When the monopoly eventually collapsed, the consequences for China's tea industry were nearly fatal: pricing power and export quality fell sharply, export volumes and export revenues moved in opposite directions, and no node along the profit distribution chain provided positive incentive to enhance Chinese tea's competitiveness. The result was comprehensive decline.

The World Tea Market and China's Tea Industry Since Modern Times offers, through the lens of the international tea trade, a coherent and well-grounded account of the rise and fall of Sino-foreign tea commerce, the transformation of the global tea market, and the delayed modernization of China — and in doing so provides an excellent demonstration of what economic analysis can contribute to historical understanding.

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