

FAN Xudong

Fàn Xùdōng 范旭东

1883–1945 *Industrial chemist and entrepreneur*

The founder of several businesses in Republican China (1912–1949), Fan Xudong was one of the first to raise capital and manage local markets by adopting the principles of network capitalism, including the concepts of shareholders, hierarchical management, and cartels.

Fan Xudong was born in Changsha, Hunan Province, in 1883; he was a descendant of the Song dynasty (960–1279) official Fan Zhongyin (989–1052). Fan's father died when he was six, leaving the family impoverished. Fan and his elder brother Yuanlian, along with Liang Qichao (1873–1929), a major intellectual and political leader of China, were all exiled to Japan in 1901 due to revolutionary activities. While there, with Liang's financial assistance, Fan studied applied chemistry at Kyoto University. In 1912, after the fall of the corrupt Qing dynasty, which had been in power since 1644, he returned to China and served briefly at the Currency Bureau as an assayer-inspector before being dispatched by the new Nationalist government on a European tour to study salt administration and production that might be used as models for the Chinese.

But the plan for a state-owned salt refinery never materialized because of opposition by revenue farmers and salt works, who held the hereditary privilege to produce, transport, and market salt. In July 1914, Fan founded Jiuda Salt Industries, Ltd. (renamed Jiuda Salt Refining Company in 1936 to reflect the company's diverse interests)

with the support of Liang Qichao and his associates. Despite the obstruction of Zhou Xuexi, the minister of finance, Jiuda prospered with the help of its shareholder network, breaking the revenue farmers' hold on the salt market in various trade ports in Hunan, Hubei, Anhui, and Jiangxi provinces.

Much of Jiuda's new capital, however, was diverted to the Pacific Alkali Co., which was founded in 1917 and renamed Yongli Chemical Industries in 1935 to refer to both the Tanggu plant and another plant in Nanjing. The British-based chemical company Brunner Mond, as part of the cartel led by Solvay and ICI, had long held secret the industrial process and dominated the import market of China soda ash (i.e., sodium carbonate, used in baking, laundry detergent, and industries such as glass-making). Fan, in pursuit of China's self-sufficiency, founded the Yongli Soda Plant with a capital of 400,000 yuan. A set of factory plans was purchased in the United States, although adapting to conditions in Tanggu—and solving the engineering problems encountered after constructing the production facility according to the blueprints—proved daunting. To support the new enterprise, Fan founded the Golden Sea (Huanghai) Research Institute in 1922. But despite 2 million yuan in diverted capital from Jiuda and bank loans, work at the plant stopped in 1924. Fan was forced to sign an agreement in 1925 selling half of the company to Brunner Mond in return for a capital infusion of 1.07 million yuan and technical assistance. The national boycott of British goods later that year, however, a result of British police shooting striking workers in the Shanghai International Concession, allowed both sides to nullify the agreement. Finally, the chemical engineer Hou

Debang of Yongli Chemical Industries returned from the United States with new equipment and ideas, and Yongli began regular production in 1926.

More trouble, however, awaited Fan. A price war broke out with Brunner Mond (now part of the reorganized Imperial Chemical Industries) just as warlords in north China imposed their own levies and forced the shutdown of Jiuda. An attempt by the salt refineries, on and off, from 1926 to 1934 to organize the fast-growing number of salt refineries into a national cartel also failed.

Not So Golden

While economic historians have characterized the Nanjing Decade—the ten years under the Nationalist Party rule from 1927 to 1937—as the golden age of the modern Chinese bourgeoisie, Fan's experience suggests a more complicated story. With his production facilities and social network based in north China, he had a difficult time adjusting to the new regime. In 1928, when the Nationalist government proposed the construction of a state-owned soda ash plant with a production capacity that would supply the country's needs, Fan Xudong negotiated to convert Yongli into a joint state-and-private enterprise. Nationalist politics and budget realities, however, prevented the state infusion of capital, and the company remained private by placing 2.5 million yuan in bonds to finance its expansion. By 1934, Yongli had surpassed Brunner Mond in sales in China. Similarly, the Nationalist plan for a state-owned ammonium sulfate plant in 1931 attracted a proposal from Imperial Chemical Industries and the German I. G. Farbenindustrie AG; both were leading members of the Convention Internationale de l'Azote, an international cartel controlling the world's production and sales of nitrogen-fixing chemical fertilizer. To prevent such a vital industry from being controlled by foreigners or the state, Fan mobilized his bank network to issue 15 million yuan in company bonds collateralized against the assets of Yongli Chemical Industries, Ltd. in 1935. The new plant in Nanjing came online in 1937, a testament to Fan's dedication and skill in navigating between foreign and state capitalism.

World War II, however, forced Fan and his colleagues to evacuate, leaving behind over 30 million yuan in factories and inventory. Arriving in Sichuan in 1938 with

only 400,000 yuan in capital and equipment, he vowed to begin anew with a comprehensive plan to industrialize the interior of the country, especially southwestern China, with emphasis on hydroelectric stations, transportation, and construction of plants for steel, soda ash, ammonium sulfate, coke, and synthetic gasoline. A 3 million yuan relocation subsidy from the government and a state-guaranteed 20 million yuan bank loan allowed Fan to keep his core group of engineers busy with the construction of a new soda ash plant in Jianwei, while Jiuda continued production by taking over the site of a model salt refinery at Ziliujing, Sichuan Province. Fan's relationship with the Nationalist state, however, remained tenuous. Repeatedly the Nationalist government sought to convert its relocation subsidy into Yongli company shares, thus making it the largest single shareholder. Drawing on the support of a handful of friends in government service and as a member of the National Political Council, Fan rebuffed these annexation attempts, twice calling on Generalissimo Chiang Kai-shek in person for his support.

Overseas Delegate

Chiang also valued Fan's support. In late 1944, he appointed Fan as a delegate to the International Business Conference in New York; one item on the conference agenda was how to preserve and promote private enterprise, especially in developing countries. As a staunch advocate of private enterprise in China, Fan Xudong proved a reassuring voice to U.S. officials concerned with the state-run economy that the Nationalist government espoused. Fan also took the opportunity to negotiate with the U.S. Import-Export Bank for a \$15 million line of credit to finance the importation of equipment for his ambitious postwar reconstruction plan. Returning to China in June 1945, however, Fan found out belatedly that the Nationalist government would not guarantee the loan. Technocrats and economic planners already had developed their own competing plans for U.S. aid. A frustrated Fan died after a brief illness. He was eulogized by Mao Zedong as one of the four who made major contributions to the industrialization of the country (the other three being Zhang Zhidong for heavy industry, Zhang Jian for light industry, and Lu Zuofu for shipping). Yongli and Jiuda were among the first major privately held industrial

conglomerates to undergo the socialist transformation to becoming state-owned enterprises.

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Further Reading

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A person cannot be judged by his
appearance in the same token as the sea
cannot be measured with a bucket.

人不可貌相，海水不可斗量

rén bú kě mào xiàng, hǎi shuǐ bú kě dòu liàng

