Imperialism in Transition: British Business and the Chinese Authorities, 1931–37

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According to current Chinese views, in 1949 China was liberated from three major evils: feudalism, imperialism and bureaucratic capitalism. The present article takes a closer look at the relationship between the two last mentioned. The period chosen is the early and mid 1930s, which was marked by growing tensions between the powers in East Asia, by acute economic depression and subsequent recovery, and by the gradual extension of the Nanjing Government's control over the country. On the foreigner's side, the focus will be on the British experience at a time when Great Britain's political position in the Far East was being overshadowed by Japan's thrust towards hegemony. It will be argued, the widening gap between Britain's political and economic presence in China was partly bridged by increasingly close co-operation between British business and the Chinese ruling elite.

The Legacy of the 1920s

A few months after war had broken out between Japan and China, Julian Arnold, the veteran American commercial attaché, ruminated nostalgically upon shattered opportunities. "China at the beginning of July 1937," he wrote, "presented a more glowing prospect for the future of commerce and economic advancement than at any time in its history."¹ Such a view reflected the confidence in the future prospects of the China market which prevailed among western businessmen and diplomats on the eve of Japanese aggression. The German Chamber of Commerce in Shanghai was enthusiastic about the "booming development" in China.² E. Manico Gull, the secretary of the London-based China Association, saw "no risk of painting too optimistic a picture."³ Sir Frederick Leith-Ross, the chief adviser to the Treasury, who in June 1936 had returned from a lengthy mission to the Far East, expected China to grow into "perhaps the most important market in the world for highly manufactured goods,"⁴ just as for D. G. M. Bernard of Jardine, Matheson & Co., it remained "the only great undeveloped market in the world."⁵ More specifically Sir Louis Beale, the commercial counsellor in Shanghai, linked China's emerging prosperity to Britain's future role in East Asia. "There has never been a time," he assured H.M. Ambassador, "where

we were so pre-eminent in prestige in China as we are today, and, if we adopt an enterprising policy of co-operation with China in the development of her vast potential resources, there is no reason why we should not stay permanently in the lead."⁶

The image evoked here is, of course, that of the boundless China market which has not ceased to stir western fancy since the days when Sir Henry Pottinger, the author of the Treaty of Nanking, persuaded himself that he had opened up a new world "so vast that all the mills of Lancashire could not make stocking stuff for one of its provinces."⁷ Yet the men who professed a reinvigorated optimism in the mid 1930s were by no means misguided visionaries. They were among the most experienced observers in the field.

From the British point of view, some measure of optimism could indeed be justified on the grounds of past performance. British economic interests in China had weathered the years of popular anti-imperialism from the Hong Kong-Canton general strike to the clamp-down on the mass movements in 1927. In spite of warlord anarchy and revolutionary upheaval, the 1920s had even been a period marked by "easy profits without much effort or risk."⁸ During the early 1930s the British held on to their major economic assets in China in the face of both Japanese encroachment and the acutely depressed condition of China's domestic economy. By 1936 the British Empire as a whole still headed the list of China's trading partners, even though the United States came a close second, and Japan and Germany were vigorously pushing to extend their shares of the market. Britain still led in direct investment within the borders of China proper, and she alone among the western powers maintained a widespread system of business interests comprising the entire scale of possible investment outlets from banking, import-export business and manufacturing industry to coal mining, transport, public utilities and the property market.

While the number of small trading and service establishments along the China coast, mainly in Shanghai and Hong Kong, waxed and waned, the big companies which formed the core of the British business system in China stood their ground: Jardine, Matheson & Co., Butterfield & Swire, Sassoon (E.D.) & Co., the Hong Kong and Shanghai Banking Corporation, the Chartered Bank of India, Australia and China, the Chinese Engineering and Mining Co. (the British partner in the Kailan Mining Administration), the Peking Syndicate, the British-American Tobacco Corporation, Imperial Chemical Industries, the Asiatic Petroleum Co., Unilever's China Soap Co., the International Export Co., Arnhold & Co., Dodwell & Co., the Shanghai Dockyards and the public utility companies in Shanghai (the most important of which, the Shanghai Power Co., had, however, passed into American hands in 1929). Each of them had been established in China during the era of "high imperialism" before the

1. United States Department of Commerce, Bureau of Foreign and Domestic Commerce, *Economic Review of Foreign Countries 1937* (Washington, D.C.: Government Printing Office, 1938), p. 22.

2. Deutsche Handelskammer Shanghai, *Jahresbericht und Übersicht über die Tätigkeit des Vorstandes der Deutschen Handelskammer Shanghai für das Geschäftsjahr 1937/38* (Shanghai: Deutsche Handelskammer Shanghai, 1938), p. 6.

3. *The Financial News* (London), 30 March 1937, p. 26.

4. Public Record Office London (hereafter PRO), Treasury (hereafter T) 188/134 Leith-Ross, "Notes on a meeting held at the Board of Trade on 30th October, 1936."

5. *Finance and Commerce* (Shanghai), 8 July 1936, p. 34.

6. PRO, Foreign Office (hereafter FO) 371/20965/F3975 Beale to Knatchbull-Hugessen, 6 April 1937.

7. Quoted in A. J. Sargent, *Anglo-Chinese Commerce and Diplomacy (Mainly in the Nineteenth Century)*, (Oxford: Clarendon Press, 1907), p. 106.

8. FO 371/20218/F4498 Pratt, minute, 6 August 1936.

First World War. In 1937 they were still well entrenched in the China market. No major British property was nationalized by a Chinese government up to 1949, and there was no Chinese equivalent to the expropriation of foreign business interests in Mexico and Spain. Similarly, although Chinese loans showed a sorry record of default for British lenders, still none of them was repudiated. Indeed, in 1935/36 Leith-Ross negotiated an adjustment of the outstanding railway debts that satisfied the London City and restored China's credit on the international capital markets.⁹

Thus, looking back from the heady spring of 1937, the British had reason to congratulate themselves. The business component of their informal empire in China had comfortably survived a quarter-century of political turmoil and economic dislocation. As far as the political component is concerned, that is, the official presence of Britain in China, the overall impression is once again one of fundamental continuity. The "New China" of the Kuomintang continued to be what radical nationalists called either a "hypo-colony," following Sun Yat-sen, or, following Lenin, a "semi-colonial" country.¹⁰ Most significantly, the legal privileges secured by the powers during the 19th century remained in force, with the sole exception of foreign control over customs tariffs which had been abandoned by March 1930.¹¹ British nationals were still exempt from Chinese jurisdiction – as they had been since 1842. They still had the right to uninhibited navigation in China's coastal and inland waters, protected if necessary by His Majesty's vessels on the China Station. A British subject did not require a visa to travel in China, only a passport signed by a British consul and perfunctorily countersigned by a local Chinese authority. There were no restrictions on foreign residence and trade in places enjoying the status of an open port. Missionary societies were free to proselytize wherever they wished, and had permission to rent or lease in perpetuity lands and buildings in all parts of the country. Although Britain had surrendered her concessions in Hankou and Jiujiang in early 1927, and had returned the leased territory of Weihaiwei to China in October 1930, an area which had been a liability rather than an asset, she still retained the vastly more important concession at Tianjin along with the smaller one at Canton. Even though, as Marie-Claire Bergère has pointed out, the "reconquest of Shanghai from the foreigners" started as early as 1927,¹² nevertheless the

9. Chang Kia-ngau, *China's Struggle for Railroad Development* (New York: John Day, 1943), pp. 153–72; Chao Yung Seen, *Les chemins de fer Chinois: étude historique, politique, économique et financière* (Paris: Librairie Sociale et Economique, 1939), passim; Mi Rucheng, *Diguo zhuyi yu Zhongguo teli 1847–1949* (Shanghai: Renmin chubanshe, 1980), pp. 287–90.

10. For a later comprehensive exposition of the meaning of "semi-colonialism" see Wang Yanan, *Zhongguo banfengjian banzhimindi jingji xingtai yanjiu* (Beijing: Renmin chubanshe, 1957).

11. On the diplomatic background see Edmund S. K. Fung, "Britain, Japan and Chinese tariff autonomy, 1927–1928," *Proceedings of the British Association for Japanese Studies*, Vol. 6, No. 1 (1981), pp. 23–36.

12. Marie-Claire Bergère, "The other China": Shanghai from 1919 to 1949," in Christopher Howe (ed.), *Shanghai: Revolution and Development in an Asian Metropolis* (Cambridge: Cambridge University Press, 1981), p. 16.

International Settlement continued to be ruled by a virtually autonomous Municipal Council that was dominated by the representatives of foreign and, above all, British big business.

And yet between 1927 and 1937 things changed much more visibly on the political than on the economic front. Foreign governments, with the notable exception of the Japanese, were no longer "thinking in terms of tutelage and foreign control" as one knowledgeable British diplomat put it.¹³ They were instead preparing for a gradual retreat from the more spectacular – and more vulnerable – outposts of imperialist domination. Germany, after all, had lost her privileges in 1919, and yet her trade with and in China had miraculously recovered, unimpeded by nationalist hostility. Britain switched from a policy of antagonism to one of cautious compromise with the Chinese nationalists. (The story of the Sino-British rapprochement, triggered by Sir Austen Chamberlain's famous memorandum of December 1926, need not be recounted here.¹⁴) Just as symptomatic of the change as was top-level diplomatic conciliation was the fate of the "synarchic" institutions, as John King Fairbank has termed them. The Salt Administration, which was reorganized after 1913, under stipulations in the Reorganization Loan Agreement, by the British assistant chief inspector, Sir Richard Dane, virtually collapsed in 1926.¹⁵ It was then reconstituted by the National Government without any significant foreign assistance. The British Associate Chief Inspector Frederick Hussey-Freke, a man in whom the Foreign Office did not really confide, left office in 1931. His successor was the American, Dr Frederick Albert Cleveland, who recruited the upper strata of the service from among returned students with an American background.¹⁶ By 1936 the number of Britons employed had dropped to 11,¹⁷ but the Foreign Office still felt satisfied with its ability to get its views across "in an informal way."¹⁸ As early as March 1927 Song Ziwen (T. V. Soong), then finance minister of the Wuhan Government, had secretly recognized the validity of the foreign obligations secured on the salt revenue.¹⁹ Debt service was partly resumed in 1928,²⁰ and from that time onwards the administration operated to the complete satisfaction of the British bondholders.

Britain's formal influence also receded in the much more important

13. Sir John Pratt, *War and Politics in China* (London: Jonathan Cape, 1943), p. 201.

14. See Wm. Roger Louis, *British Strategy in the Far East 1919–1939* (Oxford: Clarendon Press, 1971), pp. 109–70; Peter Gaffney Clark, "Britain and the Chinese revolution, 1925–1927" (Ph.D. thesis, University of California, Berkeley, 1973), pp. 325 *et seq.*; Edmund S. K. Fung, "The Sino-British rapprochement, 1927–1931," *Modern Asian Studies*, Vol. 17, No. 1 (February 1983), pp. 79–105.

15. FO 371/12447/F4969 Dane, memo, 31 March 1927; FO 371/12448/F7389 Mead, memo, 13 July 1927. On the reorganization under Dane see S. A. M. Adsead, *The Modernization of the Chinese Salt Administration, 1900–1920* (Cambridge, Mass.: Harvard University Press, 1970), pp. 90–177.

16. Esson M. Gale, *Salt for the Dragon: A Personal History of China* (East Lansing: Michigan State College Press, 1953), p. 191.

17. FO 371/20234/F4212 Buxton to Leith-Ross, 21 April 1936.

18. FO 371/20274/F5485 Pratt, memo, 7 September 1936.

19. FO 371/12447/F5269 Hussey-Freke, memo, 13 April 1927. See also Li Jianchang, *Guanliao ziben yu yanye* (Beijing: Renmin chubanshe, 1963), pp. 20–21.

20. Arthur N. Young, *China's Nation-Building Effort, 1927–1937: The Financial and Economic Record* (Stanford: Hoover Institution Press, 1971), pp. 115–18.

Chinese Maritime Customs (CMC), a service which, unlike the Salt Administration, had not been infused with a foreign element at a comparatively late stage in its development, but had been built up almost from scratch by the Englishman, Sir Robert Hart. Again, the decline is visible in sheer numbers. Whereas in 1924 the CMC had employed 767 Britons, by 1935 the number had fallen to 258.²¹ The Foreign Office, lobbied by the banks and the shipping companies, insisted on the head of the service being a British subject. But when in January 1929 the Chinese finance minister appointed Mr (later Sir) Frederick Maze to the post of Inspector-General, the Foreign Office had not been consulted in advance. Throughout his term of office Maze was denounced as a traitor by the more vociferous Old China Hands in the treaty ports, while on the other hand earning Song Ziwen's praise as a "loyal servant" of the Nanjing Government.²² The more belligerent voices in the treaty ports notwithstanding, the partially re-sinicized CMC did nothing to harm those British interests directly concerned. Since there now existed a Chinese government committed to honouring the financial obligations of its predecessors, the CMC lost much of its erstwhile importance as a pillar of financial imperialism. Most significantly, the system of "custodian banks," set up in 1912 as the Chinese version of a *casse de la dette*, was formally terminated in March 1932 after a period of decline.²³ Thereafter, all customs revenue was paid directly into the government-controlled Central Bank of China, which in turn transferred to the foreign banks such funds as were required for the current servicing of loans. The CMC, therefore, no longer acted as the chosen agent of either the Foreign Office or the Hong Kong and Shanghai Banking Corporation. Its function of safeguarding the interests of foreign bondholders had been taken over by the Chinese state banking system.

The twin examples of the customs and salt services illustrate a general point: imperialism and Chinese nationalism, to use familiar labels, were by no means locked in a zero-sum game in which one party's loss is, by definition, the other's gain. The idea of a protracted Chinese roll-back of unwelcome invaders, varying in method, speed and intensity, but eventually leading to full national sovereignty,²⁴ puts a welcome emphasis on a crucial aspect of continuity in modern and contemporary Chinese history. It does not, however, adequately account for the peculiar nature of Sino-foreign relations during the Nanjing decade. The relatively

21. Chen Shuping, "Lun Zhongguo jindai haiguan xingzheng de-type tedian," *Lishi yanjiu*, No. 5 (1983), p. 74; School of Oriental and African Studies, London, Sir Frederick Maze Papers, Confidential Letters and Reports, Vol. 11, Maze to Cadogan, 23 December 1935.

22. Chinese Maritime Customs, *Two years Illustrative of the Origin, Development, and Activities of the Chinese Customs Service*, Vol. 5 (Shanghai: Inspectorate General of Customs, 1939), p. 332.

23. *Ibid.* p. 18. The system as it functioned between 1912 and 1929 is described in Stanley F. Wright, *The Collection and Disposal of the Maritime and Native Customs Revenue since the Revolution of 1911* (Shanghai: Inspectorate General of Customs, 1925), pp. 2–22. See also Albert Feuerwerker, *The Foreign Establishment in China in the Early Twentieth Century* (Ann Arbor: Center for Chinese Studies, 1976), pp. 65–66. On the changes effected in 1929 see FO 371/14695/E 678 Moss to Lampson, 5 November 1929.

24. For example, Robert E. Bedeski, *State-Building in Modern China: The Kuomintang in the Prewar Period* (Berkeley: Center for Chinese Studies 1981), pp. 97–122.

modest achievements of the Kuomintang, committed rhetorically, at least, to anti-imperialism, in reasserting China's sovereignty cannot totally be explained by reference to "external pressures,"²⁵ in other words, to an imbalance of power in favour of China's imperialist adversaries. Instead, China had traditionally found ways to deflect and absorb such pressures and to create equilibrium, however unstable under specific circumstances, in order to maintain Sino-foreign coexistence.²⁶ In the 1930s this tradition re-emerged in a modified way.

In general terms the concept of *collaboration*, as an essential ingredient of formal as well as informal imperialist influence and domination, provides a rough framework for analysing the tensions that arose wherever the expanding western powers attempted to achieve supremacy over societies at the periphery.²⁷ Essential to this concept is the idea that gunboats and expeditionary armies can bully a weak country into submission, as happened to China from the Opium Wars onwards, but that stable conditions favourable to foreign trade and investment can only be attained if some measure of support can be attracted from within the subjected polity and society. Indigenous power elites have to be found which are willing to smooth the way for foreign interests, but which also command a minimum of legitimate authority within domestic society. Puppet regimes with just enough scope to rubber-stamp the orders passed down by their imperial masters are to little avail, as the Japanese were to discover after 1937. What was required to maintain an informal empire at reasonable cost was, in Joseph Levenson's apt phrase, "a Chinese agent to facilitate a peace-time foreign remote control."²⁸ Collaboration of this kind demanded its price, since it did not rest on outright subordination but on bargained arrangements. The terms of such bargains, ever precarious, changed amid fluid domestic and international circumstances. During the Nanjing decade, it will be argued, the balance tilted slightly in favour of the Chinese side. Within the enduring framework of "semi-colonial" dependency the Chinese power elites were able to obtain a higher price for collaborative services that were more urgently desired than ever before. This also helps to explain why British business in China continued while Britain's political and military presence in East Asia was gradually whittled away.

25. *Ibid.* p. 122.

26. On the dialectics of equilibrium and destabilization see E. Zürcher, "'Western expansion and Chinese reaction': a theme reconsidered," in H. L. Wesseling (ed.), *Expansion and Reaction* (Leiden: Centre for the History of European Expansion, 1978), pp. 59–77.

27. For the theoretical foundations see Ronald E. Robinson, "Non-European foundations of European imperialism: sketch for a theory of collaboration," in Roger Owen and Bob Sutcliffe (eds.), *Studies in the Theory of Imperialism* (London: Longman, 1972), pp. 117–42; also his "Imperial theory and the question of imperialism after Empire," in Wolfgang J. Mommsen and Jürgen Osterhammel (eds.), *Imperialism and After, Continuities and Discontinuities* (forthcoming).

28. Joseph R. Levenson, *Confucian China and Its Modern Fate. A Trilogy*, Vol. 1: *The Problem of Intellectual Continuity* (Berkeley and London: University of California Press, 1958), p. 153.

Beyond the Citadels: Domestic Constraints on Market Penetration

If the British economic establishment in China had effectively been confined to Hong Kong, the International Settlement at Shanghai and the small number of concessionary areas, it would have been much easier to create an environment in which expatriate business was left to flourish. It would have been sufficient to screen these enclaves off from the surrounding host country, to provide adequate defence against incursions from without and police power to quell unrest among the native population within. Given such basic "business security," as "Shanghaiers" were fond of calling it,²⁹ everything else could be left to the free play of market forces. This was the case in the *laissez-faire* International Settlement and, tinged with a smattering of colonial benevolence, in Hong Kong. The vast majority of British firms in China had never experienced anything but a business environment which looked like the dream of 19th-century Manchester liberalism come true and where contact with Chinese authorities was non-existent or kept to a minimum. According to C. F. Remer's well-known estimates, in 1929 76.6 per cent of all British direct investments in China were located in Shanghai, 9.3 per cent in Hong Kong and 14.1 per cent in the rest of China including Manchuria.³⁰ The practical significance of these figures, however, can easily be overrated. Companies which had their headquarters in Shanghai or Hong Kong and whose capital, from an accountant's point of view, was undoubtedly concentrated there, nevertheless extended their *operations* far beyond the littoral centres.

If one envisages British interests in China not merely as a collection of static assets, but also pays attention to the actual activities of individual firms, the penetration of markets beyond areas of foreign privilege emerges less clearly as a negligible exception to the general rule than overall investment data seem to suggest. In fact, by the late 1920s most of the economically most potent and politically best-connected British companies in China were deeply entangled in indigenous commerce and politics.

A rough classification of British business interests in China³¹ may help to clarify the issue. The fundamental distinction is that between, on the one hand, those interests which operated exclusively within the big coastal centres, and on the other, those which carried penetration into the interior of China. Treaty port interests,³² physically limited as they were to territorial enclaves under *de facto* non-Chinese rule, can be divided into four types. First, there were the petty trading and service firms catering for the upper end of the market – foreigners and wealthy Chinese – within the big centres.

29. Report of the Hon. Richard Feetham, C. M. G., to the Shanghai Municipal Council, Vol. 1 (Shanghai: North China Daily News and Herald, 1931), p. 269.

30. C. F. Remer, *Foreign Investments in China* (New York: Macmillan, 1933), p. 395 (Table 13).

31. Banks are not included in the following discussion.

32. In recent literature the term *treaty port* has been used either in its strict legal sense or to denote the clusters of foreign settlement and investment in the big coastal and riverine centres. In the present article the former meaning will be preferred.

Secondly, the overwhelming majority of British import-export houses were based on one or several of the major treaty ports. On the import side, expatriate firms, *yanghang*, continued to be essential as mediators between Chinese consumers and manufacturers abroad. A manual published in 1920 for the benefit of German firms exporting to China categorically asserted that "direct co-operation between European exporters and Chinese merchants is totally out of the question."³³ The number of Chinese companies daring enough to establish direct links with manufacturers overseas increased during the following decade,³⁴ but only as late as 1933 did the British Department of Overseas Trade encourage exporters to look out for Chinese trading partners.³⁵ As a rule, the *yanghang* proved to be indispensable, although it was rarely more than an intermediary. The import of cotton piece goods is a case in point. In the 1930s, as during the 19th century, the distribution of British cotton goods was firmly in the hands of Chinese dealers who placed orders with *yanghang* in the big seaports.³⁶ The British *yanghang* had no influence whatever either in the wholesale or retail of its import; it was "really in the nature of a commission agent and not a merchant."³⁷ On the export side, too, most of the goods were channelled abroad through expatriate export houses. Tea was a fairly typical example. In the mid 1930s more than 90 per cent of Hankou's tea exports were handled by *yanghang*, the majority among them British.³⁸ In Shanghai about 70 per cent of all tea exports passed through British hands.³⁹ In contrast to Russian tea merchants in Hankou before the First World War,⁴⁰ none of the British firms bought tea leaves directly from the planters. Instead, they received the marketable product through an extended chain of Chinese middlemen.⁴¹ Al-

33. Siegfried Berliner, *Organisation und Betrieb des Import-Geschäfts in China* (Hannover: Hahnische Buchhandlung, 1920), p. 8.

34. Wang Weiqi, "Tongzhi maoyi sheng zhong zhi Shanghai jinkou shanghang gaikuang diaocha," *Dongfang zazhi*, Vol. 34, No. 13 (1 July 1937), p. 131; Chinese Maritime Customs, *Decennial Reports. Fifth Issue: 1922-1931* (Shanghai: Inspectorate General of Customs, 1933), Vol. 1, p. 527, Vol. 2, pp. 143, 155.

35. United Kingdom, Department of Overseas Trade, *Trade and Economic Conditions in China 1931-1933* (London: His Majesty's Stationery Office, 1933), p. 28.

36. H. D. Fong, *Cotton Industry and Trade in China*, Vol. 2. (Tianjin: Nankai Institute of Economics, 1931), pp. 262-71; United Kingdom, Department of Overseas Trade, *Report of the Cotton Commission* (London: His Majesty's Stationery Office, 1931), pp. 59-90; *Jiu Zhongguo de ziben zhuyi shengchan guanxi* (Beijing: Renmin chubanshe, 1977), pp. 281-84.

37. PRO, Board of Trade (hereafter BT) 60/29/1 Tientsin British Chamber of Commerce, memo "The present state of British trade in North China," 24 December 1930.

38. Zhao Lie, *Zhongguo chaye wenti* (Shanghai: Dadong shuju, 1931), pp. 159-60; Peng Yuxin, "Kang Ri Zhanzheng qian Hankou de yanghang he mainban," *Lilun zhanxian yuekan* No. 2 (1959), p. 26; Franz Sabelberg, *Tee. Wandlungen in der Erzeugung und Verwendung des Tees nach dem Weltkrieg* (Leipzig: Bibliographisches Institut, 1938), p. 128.

39. Calculated from data in *Finance and Commerce*, 19 February 1936, p. 210.

40. Boris P. Torgasheff, *China as a Tea Producer* (Shanghai: Commercial Press, 1926), pp. 11-12.

41. See Wu Juenong/Hu Haochuan, *Zhongguo chaye fuxing jihua* (Shanghai: Shangwu yinshuguan, 1935), pp. 59-60; Wu Juenong/Fan Hejun, *Zhongguo chaye wenti* (Shanghai: Shangwu yinshuguan, 1937), p. 202; Tian Sanli, "Xiang cha gaijin zhi jihua," *Guowen zhoubao*, Vol. 13, No. 17 (4 May 1936), p. 24; Robert Paul Gardella, *Fukien's tea industry and trade in Ch'ing and Republican China: the developmental consequences of a traditional*

though the tea exporters tended to be in a stronger position *vis-à-vis* their Chinese trading partners than were the importers of cotton goods, common to both cases were the mechanisms of old-style treaty port trade.

A third type of treaty port business consisted of public transport and utility companies which, by the very nature of their trade, were tied to the areas of foreign settlement and rule. The Shanghai Gas Co., the China General Omnibus Co., and the Shanghai Electric Construction Co. – reputed to run the most profitable tramway in the world – were outstanding examples.

Fourthly, ever since the Treaty of Shimonoseki in 1895 had permitted foreigners to establish factories in the treaty ports, a number of British companies had seized the opportunity to employ Chinese labour in manufacturing for an indigenous mass market and, to a lesser extent, for consumers abroad. Some of these factories were located in concessions and settlements, but others were not. Most of the British manufacturing enterprises in Hankou – the British-American Tobacco Corporation's two large cigarette-making plants and a number of smaller establishments for the processing of tong oil, eggs, seeds and other export commodities – lay outside the British concession, a fact that made giving it back to China in February 1927 tolerable to the expatriate business community. As early as 1906 BAT chose as the site for its first huge factory in Shanghai not the International Settlement, but Pudong, a part of the city governed by Chinese authorities.⁴² Thus, the fourth type of treaty port business, while still sheltered by extraterritoriality and its concomitant privileges, in part already transcended the sphere wherein those privileges could be enforced by the normal procedures of a foreign-controlled administration. It pointed the way to such foreign business as was conducted outside the citadels.

Within this second broad category, too, several types of businesses can be distinguished. The three most important ones were coal mines, shipping companies and up-country distribution networks. The location of mining enterprises is determined by the geography of natural resources which seldom coincides with the geography of trade and the geopolitics of intervention. Of the three coal mines in which British capital was invested only one fitted locationally into the patterns of treaty port commerce and imperial security. The Kailan Mining Administration (KMA) worked coalfields near Tangshan in Hebei province. The mines were linked by rail to the Beijing-Mukden (Shenyang)-Railway and had a rail connection, 136 kilometres long, to the seaport of Qinhuangdao where troops could easily be landed and sent to protect the collieries. Unlike those of the KMA, the mines of the Peking Syndicate, situated in northern Henan,

commodity export (Ph.D. thesis, University of Washington, 1976), p. 143. For similar conditions in the silk trade see Lillian M. Li, *China's Silk Trade: Traditional Industry in the Modern World, 1842–1937* (Cambridge, Mass. and London: Harvard University Press, 1981), pp. 154–62.

42. Sherman G. Cochran, *Big Business in China: Sino-Foreign Rivalry in the Cigarette Industry, 1890–1930* (Cambridge, Mass. and London: Harvard University Press, 1980), p. 16.

were “away out in the backwoods.”⁴³ While communications were adequate for commercial purposes, they were not sufficient from the point of view of defence. The only feasible way to send British troops would have been from Shanghai via Hankou, a journey of over 1,000 miles. Hence, from the very beginning of its mining activities in 1907,⁴⁴ the Peking Syndicate lay beyond the reach of direct British intervention. The prosperity of the Syndicate's business depended largely on the goodwill of the Chinese authorities on local, provincial and central levels.⁴⁵

Flying the British flag on a commercial vessel in China's coastal and inland waters automatically indicated immunity from Chinese interference. This might have been a sound guarantee against any kind of trouble, had it not been for the fact that the two big British shipping companies, Swire's China Navigation Co., and Jardine's Indo-China Steam Navigation Co., did the greater part of their business with Chinese shippers. Although the transport of bulk commodities on behalf of British clients was by no means insignificant, the mainstay of the companies' business were the orders placed by Chinese merchants. Statistical corroboration for this point is, unfortunately, somewhat sketchy. There are, however, data on the origin of cargo shipped by the China Navigation Co., the bigger of the two British lines, showing that during the years 1933 to 1936, of goods carried downriver from Hankou to Shanghai an average of 88 per cent originated with Chinese customers. This left only the remaining 12 per cent with foreign firms.⁴⁶ Among them were several German houses which had managed to regain the strong position they had occupied in Hankou before the First World War. Far from being just ancillary to foreign trade, the British shipping lines were intricately enmeshed in the fabric of China's domestic commerce. Admittedly, by linking up the seaports from Guangzhou in the south to Niuzhuang in the north, they knitted together the economic centres on the maritime fringe; and by funnelling foreign goods all along the Yangzi from Shanghai to Chongqing they assisted in penetrating the markets of innermost China. But simultaneously they offered services that were relevant only within the framework of the domestic economy. For the China Navigation Co., for example, Wuhu, a relatively obscure treaty port in Anhui, came second only to Hankou in importance on the Yangzi route.⁴⁷ No British trading interests of any significance were represented there, but the town

43. FO 371/18127/F1670 Holman to Ingram, 24 January 1934.

44. On the early history of the Peking Syndicate see Hou Chi-ming, *Foreign Investment and Economic Development in China, 1840–1937* (Cambridge, Mass.: Harvard University Press, 1965), pp. 71–73.

45. The third coal mine with British capital invested in it was the Mentougou Mining Co. It was of little significance as a part of the British informal empire in China. On its history up to 1949 see Beijing shifan daxue lishixi, *Mentougou meikuang shigao* (Beijing: Renmin chubanshe, 1958), pp. 1–9.

46. Calculated from data in the School of Oriental and African Studies (London), John Swire & Sons, Ltd., Papers (hereafter JSSP) III/2/18 John Swire & Sons to Butterfield & Swire (Shanghai), 16 April 1937.

47. JSSP III/2/18 A. V. Dean, “Memorandum on British shipping interests in the Yangtze river trade,” 10 February 1937.

was the foremost shipping point for rice in the whole of China, a trade that remained entirely in the hands of Chinese merchants.⁴⁸

That here as elsewhere the British companies succeeded in getting a foothold in a purely domestic trade can hardly be explained by the assumed existence of an oligopoly made possible by the unequal advantages which foreign shipping continued to enjoy. Roughly estimated, the share of the two British lines in steamship transport in the early and mid 1930s was about one half. They had certain markets to themselves: shipping rice from Shanghai to Tianjin, cigarettes from Shanghai to Guangzhou and tobacco leaves from Hankou to Shanghai.⁴⁹ Elsewhere, mainly on the Yangzi, competition between them, the Japanese Nishin Kisen Kaisha, and a handful of Chinese companies was exceedingly tough – especially during the Depression. Only the formation of a new Yangzi Pool in June 1935 – the previous one having collapsed in 1925 – stabilized the situation.⁵⁰

Ironically, this very competitiveness of the shipping trade contributed to the vulnerability of the British companies. It made the ever-present prospect of a Chinese boycott a truly redoubtable menace, since a boycott could be sustained over a long period with rivals being only too eager to fill the gap. The companies, therefore, were anxious to avoid any impression of “creating a united Imperialist front against the Chinese lines.”⁵¹ They also normally refrained from aggressive rate-cutting, preferring a strategy aimed at the creation and preservation of a stable market parcelled out among a small number of “respectable” foreign and Chinese shipping lines. From the perspective of the British shipping companies, in the final analysis survival in the China market did not primarily depend on unequal privilege, but on making oneself economically indispensable and accepted politically. Keeping a low profile was the order of the day.

The third type of business conducted in areas often remote from foreign control was the distribution of goods through far-flung sales networks run by the manufacturers themselves. As an alternative to old-style treaty port trade, “direct distribution” as it came to be called was not readily available. It required enormous financial and organizational resources on the part of the foreign company, absence of traditional Chinese trading institutions in the market in question, and a commodity that was intended for mass consumption and could easily be transported, stored and sold in varying quantities. Hence, up-country distribution networks were only suitable for a limited number of goods. They existed mainly for oil products, cigarettes, sugar and chemicals.⁵²

48. Chinese Maritime Customs, *The Trade of China 1934*, Vol. 1 (Shanghai: Inspectorate General of Customs, 1935), p. 23.

49. JSSP III/2/16 Butterfield & Swire (Shanghai) to John Swire & Sons, 13 April 1934, and numerous references in JSSP.

50. Zhu Jianhang, *Yangzijiang hangye* (Shanghai: Shangwu yinshuguan, 1937), p. 122; FO 371/19282/E5826 Lamb, memo “Yangtze Shipping Pool Agreement,” 29 July 1935; *Finance and Commerce*, 12 June 1935, p. 662.

51. JSSP III/2/16 John Swire & Sons to Butterfield & Swire (Shanghai), 25 May 1934.

52. On the export side, there was only one *purchasing* network that connected a British manufacturer/exporter to agricultural producers in the Chinese villages. It was operated, on

Like old-style treaty port trade they did not ultimately reach down to the level of the Chinese consumer. They, too, had to rely on indigenous wholesalers and retailers and on intermediaries who, fulfilling “compradore” functions, bridged the gap between two distinct commercial cultures. Yet, the differences between direct and indirect marketing were just as important as the similarities. First, up-country distribution networks were established by big companies, most of them multi-nationals, which also manufactured the goods they sold. Asiatic Petroleum Co. (APC), a subsidiary of Royal Dutch Shell, marketed kerosene, gasoline and lubricating oils produced by its refineries in the Dutch East Indies. BAT distributed cigarettes manufactured in its factories in various Chinese cities.⁵³ Butterfield & Swire and Jardine, Matheson & Co. sold the products of their sugar refineries in Hong Kong.⁵⁴ And Imperial Chemical Industries (ICI) imported artificial fertilizers, dyes and industrial chemicals (mainly soda ash) from their British plants.⁵⁵

Secondly, although from a fairly early stage the goods were handled by Chinese employees and agents of the companies, the respective headquarters exercised some control over quantities sold and prices demanded. They were able to influence the market by regulating the supply of goods released to their Chinese agents from warehouses in many parts of the country. Agents were appointed on a commission basis and were subject to close scrutiny by travelling inspectors empowered to withdraw agencies. Thirdly, the companies were in a position to conduct centrally directed sales campaigns, unleashing – as BAT did using remarkable skill – the panoply of modern marketing techniques on the bewildered consumer: pictorial advertising, film shows, “special” price reductions, lotteries, and so forth. Thus, brand names (“chops”) were established, protected by the new Chinese trademark legislation whose adroit use was, again, a speciality of BAT.

The control exercised by the companies over their hundreds and thousands of Chinese agents was not based on any legal privilege deriving from the unequal treaties. An agent could not be forced to be loyal to the company; he was likely to remain so only as long as he considered his agency to be profitable. Although cash transactions were the general rule with direct distribution, credit, having been a fundamental feature of

a smaller scale than the major distribution networks, by the International Export Co., a firm specializing in the export of egg products from China. See Chen Zhen (ed.), *Zhongguo jindai gongye shi zilao*, diji (Beijing: Renmin chubanshe, 1961), pp. 482–83; Zhang Weiming, “Zhongguo danye yanjiu,” *Shangye yuebao*, Vol. 15, No. 5 (May 1935), p. 3; Wang Chi-tung, *Eggs Industry in China* (Tianjin and Shanghai: Hautes études/Université de l'Aurore, 1937), pp. 21–22.

53. On the APC network see BT 59/1 Beale, memo “Asiatic Petroleum Company,” 12 August 1930; Lu Guanyi, “Wo guo cheyong qiyu zhi gongji qingxing,” *Gongye zhongxin*, Vol. 5, No. 10 (October 1936), pp. 493–97; Zhao Ping, “Zhongguo shiyouye gaishu,” *Gongshang banyuekan*, Vol. 7, No. 9 (1 May 1935), pp. 28–29. On BAT see Cochran, *Big Business in China*, pp. 27–35, 130–34; Chen Zengnian, “Ying-Mei yan gongsi zai Zhongguo de xiaoshou wang,” *Xueshu yuekan*, No. 1 (1981), pp. 16–21.

54. JSSP V/6/3 (Taikoo Sugar Refinery), memo “Up-country selling organization,” 30 June 1929.

55. BT 59/1 Imperial Chemical Industries (China) Ltd., “Notes prepared by Imperial Chemical Industries Ltd., for information of the mission,” 15 September 1930.

traditional Chinese trading practice, could not be avoided entirely. Neither the consul nor the gunboat were of any avail against defaulting Chinese merchants, and the best way to solve trouble was to seek arbitration through local Chinese guilds and chambers of commerce. Suing an agent in the Chinese courts was possible but bound to be ineffective. APC, for example, sued Chinese agents in 33 cases between 1927 and 1934 for a total of 2,453,970 *yuan*. For these, 933,800 *yuan* were awarded by the courts, but only 131,400 *yuan* could actually be recovered from the debtors.⁵⁶ Similarly, when a local magistrate in some remote place chose to confiscate goods in the possession of a foreign company or to levy "arbitrary" taxes on them, the entire machinery of imperialist intervention was likely to run idle. The best one could do about such situations was to prevent them from happening.

In sum, as soon as British firms extended their operations beyond the sheltered enclaves of Hong Kong, the International Settlement at Shanghai and the few major concessionary areas, they were facing a business environment of a different kind. This was the "real" China, considerably more amorphous and difficult to control. The sources of potential trouble were infinitely more numerous, and counter-strategies had to strike a precarious balance, always attuned to specific local circumstances, between assertion of formal privilege and pragmatic adaptation to given situations. Increasingly, the big British companies in China devised such strategies of their own. Moreover, there existed a kind of inverse relationship between the degree of market penetration outside the major treaty ports and the extent to which expatriate firms could rely on direct foreign rule and British official support to safeguard their interests in China. The further they ventured beyond the few coastal sanctuaries, the less relevant the paraphernalia of pre-1914 imperialism were likely to be to them, and the more they were thrown back on their own resources. Chinese resistance constituted the main problem, and co-operation with the Chinese was a way to overcome it.

Resistance and How To Overcome It

Three types can be distinguished here: market resistance, popular resistance and official resistance.

As far as market resistance is concerned, while it is generally agreed that the China market proved extremely difficult to penetrate, the reasons for this are still far from clear.⁵⁷ Even a descriptive account of only a short period of time is highly difficult since it requires analyses of individual markets and particular regions. A few random examples may suffice to indicate what is meant by "market resistance." The sale of goods for mass consumption was influenced by the level of disposable

56. FO 371/18144/F4299 APC to Beale, 15 May 1934.

57. For broad-ranging discussions see Rhoads Murphey, *The Outsiders: The Western Experience in India and China* (Ann Arbor: University of Michigan Press, 1977), pp. 131–96; Ulrich Menzel, *Theorie und Praxis des chinesischen Entwicklungsmodells: Ein Beitrag zum Konzept autozentrierter Entwicklung* (Opladen: Westdeutscher Verlag, 1978), pp. 124–238.

income, the elasticity of demand, and the availability of substitutes. Kerosene, the chief commodity sold by the foreign oil companies was not considered a basic necessity by many households. Sales plummeted after 1930, when many consumers reverted to the cheaper, though inferior vegetable oils which had traditionally been used for lighting. When rural incomes rose again, as in 1936–37 in Hubei province, sales rapidly picked up.⁵⁸

In some sectors foreign firms encountered competition from traditional sources: on the river between Yichang and Chongqing junk traffic was largely destroyed by the advent of the steamship, but it proved remarkably resilient on the Dongting Lake route and on the lower Yangzi.⁵⁹ Between 1929 and 1935 BAT waged a battle against cottage workshops which produced cheap hand-rolled cigarettes, barely distinguishable from the company's products.⁶⁰ In other markets modern Chinese industry was a tough rival. BAT, for example, had this experience in the 1920s.⁶¹ British cotton cloth lost all but the uppermost end of the market to the Chinese cotton mills and Japanese mills in China. In the 1930s the Yongli Chemical Co., a successful specimen of "national capital" (*minzu ziben*), made considerable inroads into the market for soda ash, hitherto dominated by Imperial Chemical Industries (ICI).⁶²

Market resistance, since it flowed, as C.F. Remer explained, "from the very nature of Chinese civilisation,"⁶³ was very difficult to surmount by non-market counter-measures. Once all restrictions on foreign trade that could possibly enter diplomatic negotiation had been removed by the treaties, there was little British officials could do to help businessmen in defeating specific cases of market resistance. No clause in the treaties prohibited junk traffic, the use of vegetable oils, or the establishment of an indigenous chemical industry. Methods of neo-mercantilist trade promotion were still underdeveloped and largely frowned upon: export credit guarantees were offered on rather unattractive conditions;⁶⁴ and subsidies to British shipping in China were not given at all. Only a small number of firms, above all suppliers of railway materials, benefited from

58. Chinese Maritime Customs, *The Trade of China 1931*, Vol. 1 (Shanghai: Inspectorate General of Customs, 1932), p. 53; FO 371/20984/F2783 Hankow Intelligence Report for October 1936 to March 1937.

59. Herold J. Wiens, "Riverine and coastal junks in China's commerce," *Economic Geography*, Vol. 31 (1955), pp. 254–55; Murphey, *The Outsiders*, pp. 114–15.

60. FO 371/19291/F985 Kent (BAT), memo, 20 December 1934; FO 371/20263/F583 Cadogan to Hoare, 20 December 1935; Chi Chung-rui, "Cigarette industry in China," *Chinese Economic Journal*, Vol. 16, No. 5 (May 1935), pp. 638–39.

61. Cochran, *Big Business in China*, passim.

62. Ouyang Yi, "Huabei huaxue gongchang kaoshaji," *Zhongguo jianshe*, Vol. 11, No. 6 (June 1935), pp. 44–46; Xu Yubing, "Zhongguo jiben huaxue gongye zhi xianzhuang," *Guowen zhoubao*, Vol. 12, No. 28 (22 July 1935), p. 4; Chen Zhen (ed.), *Zhongguo jindai gongye shi ziliao*, disiji, p. 512. On Yongli and other examples of successful "national capitalist" enterprises see also Thomas G. Rawski, *China's Transition to Industrialism: Producer Goods and Economic Development in the Twentieth Century* (Ann Arbor: Folkestone: University of Michigan Press/Dawson, 1980), pp. 6–24.

63. C. F. Remer, *The Foreign Trade of China* (Shanghai: Commercial Press, 1926), p. 234.

64. FO 371/19286/F114 Nixon, memo, "Credits for China," 1 January 1935.

the recycling of the British share of the Boxer Indemnity.⁶⁵ An attempt by the League of Nations, undertaken with British support, to raise rural incomes through "technical co-operation" achieved very little.⁶⁶ Leith-Ross took a hand in the Chinese currency reform of November 1935, which gave a general boost to the Chinese economy and thus indirectly to the demand for foreign goods.⁶⁷ It did not, however, specifically assist British business.

By and large, the companies were left to fend for themselves. One method consisted in undercutting the prices of Chinese competitors in order to drive them out of the market. Yet, this means was only available to the most resourceful companies such as BAT and APC and unsuited for prolonged application. It was also liable to provoke anti-foreign agitation and thus to open a Pandora's box of further trouble. Entering into co-operation with Chinese partners seemed to offer a more feasible alternative. The shipping pools, aimed at stabilizing the market, have already been mentioned. For similar reasons ICI concluded market sharing arrangements with the Yongli Chemical Co. from 1925 onwards.⁶⁸ Investing British and Chinese capital within each other's particular enterprises carried co-operation a step further. During the 19th century large amounts of Chinese capital had been invested in foreign firms, thus taking advantage of the legal privileges enjoyed by them. Several British houses like Jardine, Matheson & Co. and Arnhold & Co. continued the practice after the First World War.⁶⁹ Conversely, a number of Chinese companies were subject to foreign financial control, a method preferred by the Japanese.⁷⁰ A British case surfaced amid much publicity when in February 1935 the Shenxin Cotton Mill No. 7 was auctioned on behalf of its main creditor, the Hong Kong and Shanghai Banking Corporation.⁷¹

In contrast to capital investments of either kind, genuine Sino-foreign joint ventures (*heban qiye*) involved the establishment of a new company by the two (or more) partners. Joint ventures had to be registered under Chinese law, the foreign partner being required to abandon treaty

65. For statistical data see Chinese Government Purchasing Commission, *Annual Report for the Year 1937* (London: Chinese Government Purchasing Commission, 1938). The diplomatic background is illuminated in Wang Shuhuai, *Gengzi peikuan* (Taipei: Zhongyang yanjiuyuan jindai shi yanjiusuo, 1974), pp. 426–81.

66. Jürgen Osterhammel, "Technical Cooperation" between the League of Nations and China," *Modern Asian Studies*, Vol. 13, No. 4 (October 1979), pp. 661–80.

67. Ann Trotter, *Britain and East Asia 1933–1937* (Cambridge: Cambridge University Press, 1975), pp. 148–67; Stephen Lyon Endicott, *Diplomacy and Enterprise: British China Policy 1933–1937* (Manchester: Manchester University Press, 1975), pp. 102–149.

68. Imperial Chemical House, London, Imperial Chemical Industries Archives, J. G. Nicholson, memo "Yung Li Soda Company," 14 May 1928.

69. JSSP II/2/5 Butterfield & Swire (Shanghai) to John Swire & Sons, 22 January 1926; Chen Zhen (ed.), *Zhongguo jindai gongye shi ziliao*, diersi (Beijing: Renmin chubanshe, 1958), p. 51.

70. For an excellent case study see Tim Wright, "Sino-Japanese business in China: the Luda Company, 1921–1937," *Journal of Asian Studies*, Vol. 39, No. 4 (August 1980), pp. 711–27.

71. Richard C. Bush, Industry and politics in Kuomintang China: the Nationalist regime and lower Yangtze cotton mill owners, 1927–1937 (Ph.D. thesis, Columbia University, 1978), pp. 233–47, 257–64.

privileges. Since the 1910s the two big British coal mining companies had been involved in what might be called proto-joint ventures. In 1898 the Peking Syndicate acquired concessionary mining rights in Shanxi and Henan for a period of 60 years. In 1915 a joint marketing organization, the Fuzhong Company, was set up by the Syndicate and neighbouring Chinese coal mines.⁷² In June 1933 a genuine *hebanqiye* was established when the Peking Syndicate and the Chinese-owned Zhongyuan Company amalgamated to form the Zhongfu Company in place of Fuzhong. The British partners limited their share of the subscribed capital to 49 per cent and agreed to a Chinese majority on the board of directors.⁷³ While the Syndicate retained its mining rights under the concession of 1898, the new joint company was registered according to the Chinese Mining Law of 1930. Thus the Syndicate went a long way to base its actual operations on Chinese law.

Though differing in detail, the British position at Tangshan was basically similar to that in the Henan coalfields. The Kailan Mining Administration was formed in 1912 by the British Chinese Engineering and Mining Co. and the Chinese Lanzhou Company as a bureau in charge of managing the mines owned by the two companies.⁷⁴ In August 1934 the two partners amalgamated into a new company, again bearing the name of KMA. Like the Zhongfu Co., the new KMA was registered as a Chinese enterprise, pledging itself to pay taxes according to Chinese law, and receiving in return a mining permit that removed doubts as to the legality of the British investment in mining at Tangshan in the eyes of the Nanjing Government. The move was widely misunderstood. The British Consul-General at Tianjin deplored it as a capitulation to Chinese nationalism, while the Chinese minister of industries praised it as an instance of a successfully accomplished rights recovery.⁷⁵ In fact, it was neither. As Edward Jonah Nathan, the General Manager of the KMA, confidentially explained, the amalgamation agreement provided "effective foreign control but status approved by the Chinese Government."⁷⁶ Nothing better could have been desired.

In the case of the coal mines the step from loose co-operation to the formation of joint ventures indicated progressive "indigenization" that was undertaken not only in order to consolidate the British foothold in the market, but also with the purpose of lowering the imperial flag and thereby deflecting politically motivated hostility. Another attempt to align with vigorous Chinese competitors was made by Swires in 1931 in the field of insurance. Ever since the formation of the Canton Insurance Society in 1805 British firms had been prominent in the insurance business in China, at first dealing mainly in marine insurance, but later branch-

72. Hou Chi-ming, *Foreign Investment*, p. 72.

73. Text of the agreement in FO 371/18127/F403.

74. Hou Chi-ming, *Foreign Investment*, p. 75.

75. Xu Gengsheng, *Zhong-wai heban meitie kuangye shihua* (Shanghai: Shangwu yinshuguan, 1947), pp. 23–24; FO 371/19302/F2968 Tientsin Intelligence Report for October 1934 to March 1935.

76. Bodleian Library, Oxford, E. J. Nathan Papers, Nathan to Turner, 22 September 1934.

ing out into life and property. From the late 19th century onwards foreign insurance tried to break loose from an almost exclusive dependence on expatriate customers. Swires, who in the mid 1930s represented eight British insurance companies in China,⁷⁷ by this time received the major part of their premium sums from Chinese clients.⁷⁸ Along with the growth of modern banking, Chinese insurance business expanded rapidly, especially after 1929.⁷⁹ This led to an increasingly sharp tussle between Chinese and foreign companies for the custom of Chinese, most importantly outside the treaty ports. Anticipating future problems, Swires soon arrived at the conclusion that "the future of our own Chinese insurance business in this country will probably, to a great extent, depend on our association with Chinese companies."⁸⁰ In November 1931 Swires and the Shanghai Commercial and Savings Bank, which was headed by the politically well-connected Chen Guangfu (K. P. Chen), formed a joint venture, the China Assurance Corporation Ltd. The British side subscribed 40 per cent of the capital and consented to a Chinese majority on the board of directors.⁸¹ This meant that Swires renounced "any measure of ultimate control" in order to seize an "opportunity of collaboration with a group of first class Chinese such as may not occur again."⁸² As it turned out, Chen Guangfu kept a firm grip on the management of the new enterprise.

Though influential experts like Beale and Sir Arthur Salter strongly recommended British participation in joint ventures as a means to free British commercial activities in China from the stigma of old-style imperialism,⁸³ few other companies followed Swires' example. No Sino-British joint ventures was formed on the scale of the Sino-American China National Aviation Co. and the Sino-German Eurasia-Luftverkehrsgesellschaft.⁸⁴ Yet, the idea of entering into some kind of partnership with Chinese capital received attention in a fair number of boardrooms, especially among the big companies with interests in the interior. In some cases, as will be argued below, the reasons were political rather than economic.

While in real life the various types of indigenous resistance to foreign

77. *Shenbao nianjian* (Shanghai: Shenbao guan, 1936), pp. 621–31.

78. Royal Insurance Co., Ltd., Chief Administration, Overseas Department, letter to the author, 17 July 1979.

79. Shen Leichun, "Woguo zhi baoxianye," *Shivebu yuekan*, Vol. 2, No. 5 (May 1937), pp. 77–95; C. P. Chow, "Insurance business in China," *Central Bank of China Bulletin*, Vol. 3, No. 4 (December 1937), pp. 281–87.

80. JSSP II/2/9 Butterfield & Swire (Shanghai) to London & Lancashire Insurance Co., Ltd., 6 June 1930.

81. JSSP II/2/10 Butterfield & Swire (Shanghai) to London & Lancashire Insurance Co., Ltd., 18 September 1931.

82. JSSP II/2/10 Mitchell, draft memo "Proposed Chinese insurance company" (?) May 1931.

83. Sir Arthur Salter, "China and the Depression," *Economist*, Supplement, 19 May 1934, p. 9; Stephen Lyon Endicott, "British financial diplomacy in China: the Leith-Ross mission, 1935–1937," *Pacific Affairs*, Vol. 46, No. 4 (winter 1973/74), p. 489.

84. William M. Leary, Jr., *The Dragon's Wings: The China National Aviation Corporation and the Development of Commercial Aviation in China* (Athens: University of Georgia Press, 1976); Bodo Wiethoff, *Luftverkehr in China 1928–1949: Materialien zu einem untauglichen Modernisierungsversuch* (Wiesbaden: Harrassowitz, 1975).

intrusion frequently overlapped, analytical clarity is served by emphasizing the distinctive features of each individual type. In contrast to market resistance which is essentially linked to economic *structures*, popular resistance refers to a mode of collective *action*. Its agents are *min*, the people (as opposed to *guan*, the members of the ruling elite in command of the power of the state),⁸⁵ who organize with the intention of assaulting or obstructing foreigners, their activities and the institutions identified with them. During the early decades of the 20th century strike and boycott were the principal forms of popular resistance.

"Mob violence," as Old China Hands preferred to call it, subsided with the suppression of mass movements in 1927. Some places remained free from popular anti-foreign disturbances throughout the Nanjing decade. Year after year the British Chamber of Commerce at Hankou expressed its delight at the desperate silence among the "coolie classes" and thanked the commander of the garrison for his "courteous handling of cases involving labour disputes."⁸⁶ Elsewhere unrest continued to simmer. It surfaced on a few occasions.⁸⁷ As a result of virulent economic depression and to a lesser degree due to the destruction caused by the Japanese attack of early 1932, industry in Shanghai slid into its worst crisis in living memory. Whereas up to late 1931 the workers in Shanghai struggled for modest improvements in their living and working conditions, from early 1932 to 1936 they were on the defensive against mass dismissals, factory closures, wage reductions, and reduced working hours. The strike against BAT in May 1933 and in June/July 1934 as well as the strike against Jardine, Matheson & Co.'s Ewo Cotton Mills from February to April 1935 were all triggered off by severe cuts in wages and employment. Whether the nationality of the employers was a crucial factor is open to question. At any rate, anti-imperialist slogans were no longer prominent among the pronouncements of the workers. None of the three large strike movements against British factories ended in total defeat of the strikers, but in each case the employers came off considerably better. Direct intervention by British official representatives was insignificant. The times were gone when, as had happened for the last time in September 1926,⁸⁸ British gunboats opened fire on the headquarters of strike organizations. Instead, managements relied on compulsory arbitration through the local Kuomintang and the Social Affairs Bureau of Greater Shanghai. The latter was allegedly under the influence of the leader of the Qing Bang, Du Yuesheng, who, according to his biographer, "could control any strike that occurred"⁸⁹ in any part of the city. Its intervention invariably sided with the employers.

The second focus of labour unrest was the KMA. There the experience

85. For the distinction between *min* and *guan* as an analytical concept see Joseph T. Chen, *The May Fourth Movement in Shanghai* (Leiden: Brill, 1971), p. 4.

86. *British Chamber of Commerce Journal* (Shanghai), Vol. 19, No. 5 (May 1934), p. 105.

87. The following brief remarks are restricted to Chinese labour activities as they were perceived by the British.

88. See Clark, "Britain and the Chinese revolution," pp. 276–307.

89. Y. C. Wang, "Tu Yueh-sheng (1888–1951): a tentative political biography," *Journal of Asian Studies*, Vol. 26, No. 3 (May 1967), p. 440.

of October 1922, when British marines in conjunction with warlord troops brutally suppressed a strike by the miners, was not to be repeated. In June 1928 a battalion was sent to Tangshan to guard the mines against the retreating forces of warlord Zhang Zongchang.⁹⁰ Thereafter, the British Government refused to commit troops to the protection of British interests in the KMA, merely allowing them to stand by in case evacuation of foreigners should be necessary. A crucial reason was that from 1933 onwards Hebei province gradually fell under the control of the Japanese and their local Chinese puppets. Military provocation of Japan had to be avoided at all costs. Since for the time being the Kuomintang continued to exercise a modest degree of authority in the Tangshan area, Nathan was in a position to exploit very skilfully a turbulent political environment. In counteracting labour unrest – the biggest instance being the strike of January to April 1934 – he successively called in the KMA's own mining police, Zhang Xueliang's semi-independent forces, troops of the Japanese-sponsored provincial government and forces commanded by the Public Safety Bureau at Tangshan where orders from Nanjing were still being obeyed. Suppression of KMA strikes was much more severe than anti-strike measures in Shanghai: miners were killed in January and March 1934.⁹¹ From early 1935 onwards the Tangshan area was firmly under the control of the Japanese, whose ready collaboration with the KMA management led to a notable "increase in the efficiency of the policing of the district."⁹² Discontent among the miners was ruthlessly put down in July 1935 and in May/June 1936.⁹³

Underlying the many differences between Shanghai and Tangshan a basic pattern is discernible. In keeping a check on unruly Chinese workers British intervention all but lost its significance. In Shanghai as well as in the North, British company managements discovered bonds of common interests with the holders of effective power, Chinese or even Japanese. Popular resistance was kept at bay by an alliance of foreign capitalists and local rulers.

Boycotts were more difficult to eliminate. The fact that gunboat intervention was liable to backfire was brought home to the British not only by Japan's experience after 1931, but also by the events at the port of Wanxian in Sichuan province. The Wanxian boycott started in reaction to the bloody shelling of the town by two British gunboats in September 1926⁹⁴ and was tightly kept up until June 1935 when Chiang Kai-shek, approached through his Australian adviser, William Henry Donald, ordered an end to it.⁹⁵ As a remnant from the days of acute Sino-British

90. FO 371/13929/F891 Lampson to Chamberlain, 29 December 1928; further documents in FO 371/13232.

91. Ma Chaojun, *Zhongguo laogong yundong shi* (Taipei: Zhongguo laogong fuli chubanshe, 1959), p. 1172; FO 371/18092/F1775 Ingram to Foreign Office, 27 March 1934; *China Weekly Review* (Shanghai), 24 March 1934, p. 123; *North China Herald* (Shanghai), 28 March 1934, p. 482.

92. FO 371/19284/F3832 Randall, minute, 13 June 1935, quoting E. J. Nathan.

93. *China Weekly Review*, 17 July 1935, p. 96; 6 June 1936, p. 22; 11 July 1936, p. 218.

94. For a detailed account see Clark, "Britain and the Chinese revolution," pp. 234–76.

95. FO 371/19307/F5493 Moss to Cadogan, 28 June 1935; FO 371/19305/F5495 Cadogan to Hoare, 9 July 1935; JSSP I/3/10 Donald to Fisher, 30 July 1935.

tension, the Wanxian boycott was atypical of the 1930s when the Japanese bore the brunt of Chinese boycotting. But occasionally minor trouble erupted, mostly sparked off by limited regional issues. BAT was boycotted in Shandong towards the end of 1933⁹⁶ and, with somewhat more damage to the company, in Zhejiang in 1934–35. The Zhejiang case is instructive in as much as the moving spirits behind it claimed to put into practice the New Life Movement, which included among its professed goals the exclusive use of "national goods" (*guohuo*). The boycott was terminated when Chiang Kai-shek personally rebuked the provincial government for misrepresenting New Life ideology.⁹⁷

In general, during the Nanjing decade popular resistance no longer posed a serious threat to British economic interests in China. Strikes and boycotts occurred on a very limited scale, compared to the mid 1920s. They were motivated by economic despair rather than by a desire to strike back at imperialism. Workers defended the precarious improvements they had gained during the 1920s. Merchants – for example, the grain dealers at Guangzhou who boycotted the China Navigation Co. from November 1933 to July 1934 – fought against being cut out of the market. The latter case was settled amicably through the mediation of the Canton Merchants' Association.⁹⁸ More often, British firms could and did count on the Chinese authorities to decide disputes in their favour.

Such collaboration did not come forth as a matter of course. It had to be negotiated and could not always be obtained at a cheap price. As the 1930s wore on, British businessmen and officials in China became increasingly concerned about *official* resistance. Resistance which was conducted by members of the ruling elite using instruments at the disposal of the state had had a long tradition from Commissioner Lin Zexu, via the various rights recovery movements of late Qing times, to attempts at treaty abrogation and treaty revision during the 1920s. In the 1930s the Guomindang's anti-imperialism was a far cry from what it had been between 1923 and 1927.⁹⁹ Even the diplomacy of moderate treaty revision was suspended in the wake of the Manchurian crisis. But if the Nanjing Government¹⁰⁰ was, as its enemies alleged, a traitorous client regime, it was an ambiguous one. A new factor entered the scene: the

96. FO 371/18082/F3206 Tsinan Intelligence Report for October 1933 to March 1934.

97. FO 371/19321/F6420 Chiang Kai-shek to Zhejiang Provincial Government, 11 June 1935 (translation). On the relationship between the New Life Movement and the narcotics question see Jürgen Domes, *Vertragte Revolution. Die Politik der Kuomintang in China, 1923–1937* (Berlin: de Gruyter, 1969), pp. 555–57.

98. JSSP III/2/16 Butterfield & Swire (Shanghai) to Butterfield & Swire (Hong Kong), 24 July 1934.

99. See Patrick Cavendish, "Anti-imperialism in the Kuomintang, 1923–8," in Jerome Ch'en and Nicholas Tarling (eds.), *Studies in the Social History of China and South-East Asia* (Cambridge: Cambridge University Press, 1970), pp. 23–56; Xu Yijun, "Shilun Guangzhou Wuhan shiqi guomin zhengfu de fan di waijiao celüe," *Jindai shi yanjiu*, No. 3 (1982), 31–48.

100. During the early 1930s the Provincial Government in Guangzhou introduced policies of resistance against the foreign oil and sugar companies. See Jürgen Osterhammel, *Britischer Imperialismus im Fernen Osten: Strukturen der Durchdringung und einheimischer Widerstand auf dem chinesischen Markt 1932–1937* (Bochum: Brockmeyer, 1983), pp. 321–36. The following remarks are limited to the National Government.

determination of some of the regime's leading figures to build up, in pursuit of their own economic interests, a "bureaucratic capitalist" sector within the national economy.

In British eyes, this was both a promise and a threat. It was a promise insofar as the ambitious blueprints for state-sponsored industrialization and infrastructural development held out the prospect of a huge demand for capital goods: railway materials, steel mills, power stations, port installations, and so forth. It was a threat because it foreboded an end to the halcyon days of untrammelled free trade in the China market: Chinese "bureaucratic capitalism" marched under the banner of a state-controlled economy (*tongzhi jingji*) and of economic nationalism.

In 1934 Sir Frederick Whyte, a former adviser to the Chinese Government, wrote a detailed analysis of the overall situation in China. He concluded that "whereas in 1926 foreign lives and property were in constant danger from revolutionary mobs, and could in the last resort be protected by force, in 1934 the attack is delivered by laws and regulations designed to promote Chinese enterprise at the expense of foreign interests, to which force is no answer."¹⁰¹ Pratt at the Foreign Office and Cadogan at the Beijing legation concurred. Leith-Ross rated the Chinese menace even higher than the Japanese threat. "It is not the Japanese," he warned in February 1937, "but the Chinese who will oust us from our privileges here."¹⁰² The apprehensions of the official mind were shared by the China traders. Warren Swire, for one, in a letter to the editor of *The Times*, conjured up the picture of a war on two fronts: "on the one hand the progressive absorption by the Japanese of China, and on the other the attrition of British treaty rights by the Chinese Government."¹⁰³ The grievances against the Chinese Government were set out in detail by a committee of big business interests that was chaired by Sir Harry MacGowan, the chairman of ICI.¹⁰⁴

Although in the long run Leith-Ross' prediction turned out to be perfectly accurate, around 1935 British anxieties could hardly be based on any serious harm done to British interests by effective "treaty attrition of British treaty rights by the Chinese Government."¹⁰⁵ The warning shots that had been fired by the Chinese. They conveyed the message that foreign business operating within the environment of "up-country" China was vulnerable to attacks which did not infringe upon any treaty right. The most spectacular case was that of a French company, the International Savings Society (ISS). Since 1912 it had been running a savings bank, holding (in 1934) deposits from 130,000 Chinese clients totalling 66 million *yuan*.¹⁰⁶ As a company registered under French law the ISS undoubtedly enjoyed the privileges of extraterritoriality.

But its entire success hinged on its activities beyond the treaty ports and more specifically on a network of Chinese agents who solicited savings from broad sections of the Chinese public. The position of ISS in China, in other words, was predicated upon the toleration of the Chinese authorities.

Tolerance had run out by 1934, and a two-pronged attack on the ISS began, personified on the one hand by Professor Ma Yinchu, the eminent economist and member of the Legislative Yuan, on the other by the notorious Kong Xiangxi (H. H. Kung), minister of finance and one of the big bureaucratic capitalists. At the Second National Finance Conference in May 1934 Ma Yinchu mounted a furious attack on the ISS, denouncing it as a kind of imperialist vampire sucking Chinese wealth into foreign pockets.¹⁰⁷ These accusations were taken up by the Chinese press and led to the harassment of ISS agents in many parts of the country. In July 1935 Minister Kong struck at the most vulnerable point. A new Law on Savings Societies made it an offence for savings societies to offer lottery prizes to their customers, which was exactly what the ISS did and what contributed to its popularity. Simultaneously, an addition to the Criminal Code threatened anyone who sold lottery tickets with imprisonment.¹⁰⁸ The ISS thereby was forced to cast off its Chinese "business getting organization" and to retreat to the shelter of the big treaty ports, incurring heavy losses. Its up-country business was later taken over by a subsidiary of the Central Bank of China, the newly established Central Trust of China, in which Kong himself held a controlling interest.¹⁰⁹ Thus the funds of Chinese savers were channelled from a foreign institution into the banking empire of the Kong family.

The coup hit a company that could no longer rely on effective protection by its home government. France having become, by 1935, a minor treaty power without much leverage to defend her interests in China. But it was seen as establishing a dangerous precedent. It demonstrated that the Chinese Government could, if it so wished, expel a foreign firm from interior markets by clamping down on its Chinese agents. And it showed, even more disturbingly, that this could be done without violating the treaties.

Foreign insurance companies found themselves in a similar position and under a similar threat. They, too, depended largely on their Chinese customers from all over the country. On 5 July 1935 a Law on Insurance Business was promulgated, the author of which was Ma Yinchu. Article 20 restricted the business of foreign insurance companies to the treaty ports and banned insurance companies run by Chinese.¹¹⁰ After close scrutiny of the treaties, the Foreign Office and the American Embassy

101. FO 371/18048/F6507 Whyte, memo "The Far East after four years," n.d. [1934].

102. T 188/162 Leith-Ross, memo, 22 February 1937.

103. JSSP 1/3/10 Swire to Dawson, 16 December 1935.

104. FO 371/18101/F4469 McGowan *et al.* "Report to the President of the Board of Trade," 18 July 1934.

105. Frank M. Tamagna, *Banking and Finance in China* (New York: Institute of Pacific Relations, 1942), p. 119; J[ean] F[rédér]ic, "Philosophie de la coopération sino-étrangère," *Bulletin commercial de l'Extrême-Orient*, 1936, p. 108.

106. *China Weekly Review*, 22 September 1934, p. 141.

107. *Central Bank of China Bulletin*, No. 2 (September 1935), pp. 111-13; *North China Herald*, 3 July 1935, p. 17; *Finance and Commerce*, 15 April 1936, p. 423.

108. J. L., "Philosophie de la coopération," p. 111; FO 371/19338/F8036 Howe to Hoare, 4 November 1935, T 188/127 Rogers, memo "The Central Trust of China," 17 March 1936; Gu Seng, *Kong Xiangxi yu Zhongguo caizheng* (Taipei: Boxue chubanshe, 1979), pp. 92-98.

109. Text in *Guomin zhengfu gongbao*, No. 1786, 6 July 1935, pp. 9-22.

were compelled to admit that even a very liberal interpretation of treaty clauses would not warrant a formal protest.¹¹⁰ Once again, skilful Chinese lawyers had beaten the powers at their own game. This time, however, the law was not enforced.

Indeed, more often than not the policies which caused so much alarm in foreign business circles were never implemented during the Nanjing decade. When in 1935 E. M. Gull, speaking on behalf of the China Association, presented Song Ziwen with a list of complaints, Song advised him "not to take any notice of his country's laws: they were there, true, but they didn't, I could take from him, mean what they say."¹¹¹ It is doubtful, however, whether Song himself meant what he said. His statement may have reflected the government's tactics to leave the foreigners wondering about its real intentions. By promulgating laws (such as the "discriminatory" Law for the Promotion of Industry of 20 April 1934),¹¹² by announcing plans (e.g. to exclude foreigners from the pilotage service in Chinese inland navigation)¹¹³ and by spreading rumours (about an impending tobacco monopoly),¹¹⁴ the Nationalist authorities waged a war of nerves against British businessmen who had reason to worry about their government's diminishing capability to protect their interests through direct intervention. The intention was not to push the foreigners out of the China market. On the contrary, while it waved the stick of economic nationalism, the Nanjing Government at the same time offered the carrot of joint Sino-foreign efforts aimed at the development of the country's resources. Moreover, it offered security from popular resistance which the mechanisms of imperialist intervention were no longer able to provide. In turn it demanded some, at least token, recognition of China's national sovereignty and a greater share of business for itself. The shadowy threat of an increasingly assertive nationalism served to push up the price that could be extracted from the foreign beneficiaries of indigenous collaboration.

The greater the extent to which British firms were embedded in the Chinese economy outside the treaty ports, the more likely they were to strike bargains with the Chinese ruling elite. And the more they themselves had to offer to the Chinese, the better the terms which they could negotiate. BAT marked an extreme case. It was the biggest capitalist organization on Chinese territory and the one British company which, along with the American Standard Vacuum Oil Co., in some way or other penetrated almost the whole interior of China. BAT was a power unto itself, relying on its home governments – the British or the American, according to circumstances – only as a kind of safety net for the unlikely event that the company's private diplomacy should fail. BAT had never cared very much for treaty privileges, if advantages could be secured without them. Very early on, it paid Chinese taxes which

technically it was not obliged to pay.¹¹⁵ It was prepared to put up with them as long as its Chinese competitors had to shoulder the same tax burden. In January 1928 BAT recognized in principle the financial sovereignty of the National Government and professed its willingness to go along with further tax increases. During subsequent years the consolidated tax on rolled tobacco rose almost year by year. It came to be the third largest source of income for the Nanjing Government. In 1935, out of a total of 85.8 million *yuan* revenue collected from the rolled tobacco tax, 52.4 million *yuan* (=61.1 per cent) was contributed by BAT which was by now the biggest single taxpayer in the country.¹¹⁶ Thus, BAT carried considerable weight as one of the major financial props of the Nanjing Government.

The government reciprocated not only by allowing BAT what had been denied to the politically feeble International Savings Society: freedom of operation outside the treaty ports. It also granted tax concessions of two kinds: first, BAT was allowed considerable tax discounts in return for huge advance payments – something that surpassed the financial resources of even the biggest Chinese cigarette manufacturers.¹¹⁷ Secondly, a revised tax table of March 1932 shifted the burden in favour of the manufacturers of high-value cigarettes and to the detriment of producers of cigarettes of a low value, thereby giving a tax advantage to BAT, whose products were mainly in the upper range.¹¹⁸ Such a form of collaboration was regarded as unpatriotic, to say the least, by the affected Chinese entrepreneurs and by advocates of Chinese nationalism in general. On the other hand, it appeared unorthodox to staunch defenders of British treaty rights. The arrangements concluded between BAT and the Chinese authorities did not rest upon any provisions in the unequal treaties, nor were they brought about by official British intervention. They resulted from the economic power of a multi-national corporation.

Other British companies increasingly came to realize what BAT had known for almost three decades: their position in China would depend more and more on compromises with the Chinese ruling elites. No one was more flamboyant an advocate of a policy of accommodation and co-operation than C. R. Woodroffe, a director of the Peking Syndicate who was dispatched to China after the implementation of the 1933 amalgamation agreement had run into difficulties caused by local Chinese groups in conjunction with the Henan Provincial Government. Woodroffe secured the assistance of Chiang Kai-shek himself in subduing

115. See Cochran, *Big Business in China*, pp. 42–45, 126–29.

116. Zhongguo kexueyuan, Shanghai jingji yanjiusuo/Shanghai shehui kexueyuan jingji yanjiusuo, *Nanyang xiongdigongsi shiliao* (Shanghai: Renmin chubanshe, 1958), p. 408.

117. Zhongguo kexueyuan, ..., *Nanyang xiongdigongsi*, p. 420; Chen Han-seng, *Industrial Capital and the Chinese Peasants: A Study of the Livelihood of Chinese Tobacco Cultivators* (Shanghai: Kelly and Walsh, 1939), p. 41.

118. Y. C. Wang, "Free enterprise in China: the case of a cigarette concern, 1905–1953," *Pacific Historical Review*, Vol. 29, No. 4 (November 1960), p. 404; Zhu Xie, *Zhongguo zhusui wenti* (Shanghai: Shangwu yinshuguan, 1936), pp. 486–502; Wang Xi, "Cong Ying-Mei yan gongsi kan diguozhuyi de jingji qinlue," *Lishi yanjiu*, No. 4 (1976), pp. 80–81; Zhang Zhongli, "Jiu Zhongguo waizi qiye fazhan de tedian: guanyu Ying-Mei yan gongsi ziben de jilei he chao'e lirun," *Shehui kexue*, No. 6 (1980), p. 54.

110. FO 371/20997/F3530 Pratt, minute, 9 July 1937.

111. FO 371/19307/F4445 Gull, "Interim Reports. IV. Shanghai," 24 May 1935.

112. Text in *Guomin zhengfu gongbao*, No. 1417, 21 April 1934, pp. 1–2.

113. FO 371/18074/F421 Hillman to Chamber of Commerce Committee, Shanghai, 28 November 1933.

114. FO 371/20263/F4177 Cowan to Eden, 27 May 1936.

what was a curious mixture of popular and official resistance. During the months following December 1934 the well-known geologist Dr Weng Wenhao, as a personal emissary of the Generalissimo, carried out a "surgical operation," as Woodroffe called it: suppression of miners' unions, wage cuts, dismissal of a large number of workers, and closure of competing "native pits" (*tuyao*).¹¹⁹ Woodroffe for his part was prepared to retreat even further from the current management of the mines than the 1933 agreement had envisaged. The British partners should retain their capital investment, but limit their operational involvement to the backstage activities of British financial "advisers." In the long run, the Zhongfu Company should be transformed into "a national industry with British capital involved therein."¹²⁰ By 1937 this transformation was well under way.

Elsewhere negotiations were in progress which pointed in the same direction. Jardines sought to be associated with the "Soong millions" and also to take "some of the Chiang Kai-shek money" into partnership.¹²¹ Swires offered Song Ziwen a share of 30 per cent in the China Navigation Co. and even contemplated a gradual withdrawal to a minority position in the company.¹²² "For purposes of policy,"¹²³ ICI and the German I. G. Farben group proposed the establishment of a nitrogen factory in which the Ministry of Industry would hold 51 per cent of the capital. By 1937 none of these projects had advanced beyond the planning stage; some of them were even temporarily set back. But the general thrust was obvious: the British companies began to realize that the institutional framework of Victorian imperialism no longer suited the requirements of doing business in China's interior. Trouble-shooting, often in the literal sense of naval and military intervention had ceased to be a viable option. The treaties afforded no protection to Chinese employees, agents and clients of the companies. If they were not very helpful in overcoming many kinds of market resistance, they were also full of loopholes which the Chinese were skilful in exploiting. Alternatives were required. Indigenous collaboration in various guises had always been a supplementary source of support for foreign interests in China. In the early and mid 1930s it assumed an unprecedented importance.

Conclusion

China is unique among the countries of Asia, Africa and Latin America in that it became the target of each of the imperialist great powers: Great

119. FO 371/19291/F1000 Woodroffe, "Narrative of events which have occurred in connection with the Chung Fu Joint Mining Administration between 8th May 1934 and 28th December 1934," 29 December 1934; Xu Gengsheng, *Zhong-wai heban meitie kuangye shihua*, pp. 145–53.

120. FO 371/19291/F1000 Woodroffe, "Narrative . . ." (p. 36).

121. FO 371/19287/F1623 Cadogan to Vansittart, 21 February 1935. See also Endicott, *Diplomacy and Enterprise*, p. 42.

122. FO 371/19330/F6968 Mitchell, "Minute of interview with T. V. Soong," 14 October 1935; FO 371/20997/F3851 Knatchbull-Hugessen to Orde, 10 May 1937.

123. ICI Archives, Sampson, "Preliminary report on nitrogen fixation in China," 16 November 1932.

Britain, France, Russia, Germany, the United States and Japan. Each power was attracted to the East Asian mainland for different reasons and each represented a characteristic mode of expansion, ranging from America's peaceful penetration by trade and investment to Japan's large-scale territorial conquest. Diplomatic historians have assiduously chronicled the activities of the individual powers as well as conflict and co-operation between them. Unfortunately, China rarely enters their scenarios other than as the chequer-board on which the "Great Game" was played out. Economic historians of modern China, for their part, have mainly been preoccupied with analysing the impact of world market forces on the Chinese economy in broad and aggregate terms, paying little attention either to the political circumstances of economic encroachment or to differences between individual national imperialisms.

The present case study suggests an approach which combines political with economic factors. In reviewing British imperialism in China during its penultimate stage, it proceeds from three observations. First, British interests in China were primarily economic, China, with the exception of Hong Kong, being no part of Britain's formal empire and therefore not subject to consideration in terms of imperial security. Secondly, those economic interests were not exclusively subordinated to the requirements of direct trade between the United Kingdom and China. Instead, a substantial number of British companies in China used Chinese human and material resources and offered goods and services to indigenous customers. Thus, they were embedded in the Chinese domestic economy rather than being mere "bridgeheads" of international capital. Thirdly, during the early and mid 1930s Britain was neither politically nor economically an expansionist power in the Far East. Yet, while her political position weakened in the face of Japanese aggrandizement and Chinese nationalism, she managed to maintain a vast system of business interests in China that surpassed that of any other western power.

The chief purpose of the British politico-military establishment in China was to protect trade and investment against Chinese obstruction. It consisted of two major components: on the one hand, of the treaty system and the foreign-controlled institutions which derived from it, and on the other hand, of military/naval and diplomatic/consular agencies standing by for immediate intervention. It consisted, in other words, of legal privileges and of instruments for their actual enforcement. Of the principal forms of Chinese obstruction, one – market resistance – proved largely immune to non-market interference. The remaining two – popular and official resistance – were open to active counter-measures whose efficacy, however, depended, first, on the conditions that prevailed in China, and secondly, on the extent to which British firms conducted business in the country's interior. As a rule, foreign interests were the more vulnerable and the harder to protect, the further they were located away from the coastal strongholds.

Popular and official resistance often occurred together, but it was also possible for foreigners to exploit class and power divisions within

Chinese society, joining forces with indigenous elites against anti-imperialist mass movements. Such collaboration recommended itself in situations where outright intervention – typically taking the form of gunboat action or “punitive” deployment of infantry – was likely to be expensive, diplomatically dangerous, or, as in the case of Chinese boycotts, ineffectual. A further precondition for effective collaboration was the availability of indigenous elites who were in actual control of the country or at least part of it, and who were also rooted in Chinese society, thereby being able to exercise some sort of legitimate authority. Hence the fundamental dilemma of collaboration: for a collaborative regime to be useful as an agent susceptible to “remote control,” but basically drawing upon its own sources and means of power, it had to be strong. This very strength, however, in the case of the Kuomintang boosted by a nationalist ideology, improved its bargaining position vis-à-vis foreign partners.

The leading exponents of the Nanjing Government were not just frustrated patriots, nor were they merely “running dogs” on the imperialists’ leash. They were anxious to enlist the assistance of the western powers (the Leith-Ross mission and the German military mission being outstanding examples) and to secure foreign capital, but on terms approximating equality to an unprecedented degree. Many British firms in China were inclined to take up the offer, and those among them that saw their future not in hovering on the fringes of the China market, but in thoroughly penetrating it, were ready to foresake their time-honoured treaty privileges and to abandon the appearances of haughty imperialism. When war broke out between China and Japan in the summer of 1937, it cut short a process of transition that might have led to a stable alliance between foreign business and a fully sovereign Chinese state.