

**OCCASIONAL PAPERS/
REPRINTS SERIES
IN CONTEMPORARY
ASIAN STUDIES**

NUMBER 6 — 1979 (27)



**CHINA'S NATIONALIZATION
OF FOREIGN FIRMS: THE
POLITICS OF HOSTAGE
CAPITALISM, 1949-57**

Thomas N. Thompson

**School of LAW
UNIVERSITY
of
MARYLAND**

***Occasional Papers/Reprint Series
in Contemporary Asian Studies***

General Editor: Hungdah Chiu

Acting Executive Editor: David Salem

Managing Editor: Julie Fang

Editorial Advisory Board

Professor Robert A. Scalapino, University of California
at Berkeley

Professor Martin Wilbur, Columbia University

Professor Gaston J. Sigur, George Washington University

Professor Shao-chuan Leng, University of Virginia

Professor Lawrence W. Beer, University of Colorado

Professor James Hsiung, New York University

Dr. Robert Heuser, Max-Planck-Institute for Comparative Public
Law and International Law at Heidelberg

Dr. Lih-wu Han, Political Science Association of the
Republic of China

Professor K. P. Misra, Jawaharlal Nehru University, India

Professor J. S. Prybyla, The Pennsylvania State University

Professor Toshio Sawada, Sophia University, Japan

Published with the cooperation of the Maryland International Law Society.

All contributions (in English only) and communications should be sent to
Professor Hungdah Chiu, University of Maryland School of Law,
500 West Baltimore Street, Baltimore, Maryland 21201 USA.

All publications in this series reflect only the views of the authors.

While the editor accepts responsibility for the selection of materials to be
published, the individual author is responsible for statements of facts and
expressions of opinion contained therein.

Subscription is US \$10.00 for 8 issues (regardless of the price of individual
issues) in the United States and Canada and \$12.00 for overseas. Check should be
addressed to OPRSCAS and sent to Professor Hungdah Chiu.

Price for single copy of this issue: US \$2.50

**CHINA'S NATIONALIZATION OF FOREIGN
FIRMS: THE POLITICS OF HOSTAGE
CAPITALISM,
1949-57**

THOMAS N. THOMPSON*

TABLE OF CONTENTS

Introduction	1
Chapter I "Imperialism and Foreign Enterprise in China: An Overview"	3
Chapter II "The Historic Turnabout: The Politics of Hostage Capitalism"	9
Chapter III "The British China Trade Has Had It"	31
Chapter IV "Between Two Eras"	49
Chapter V "Hostage Capitalism in Perspective"	63
Index	71

*Managing Director of ANALYTICS, an independent foreign policy research organization. Dr. Thompson formerly taught at University of Oregon and currently lectures at the School of Business Administration, University of Washington

INTRODUCTION

What follows is an analysis of China's post-1949 policy of nationalizing foreign firms.¹ The method of research for this monograph was dictated by the subject matter. The only way to piece together China's nationalization policy was through access to various confidential documents of individual foreign firms and various business organizations in Hong Kong and London and through interviews of various businessmen and officials, some of whom were "interested parties" in the nationalization process. Some of these sources required non-attribution. Since China has said so little about its nationalization policy, a degree of non-attribution is the price which the author shares with the reader in order to tell the story at all, a common problem among studies of nationalization throughout the world.²

Chapter One sets out the historical context in which the nationalization policy was formulated. Foreign enterprise acted both as an agent and benefactor of imperialism in China. When imperialism was deprived of its previous power and prerogatives to directly influence the business environment in China, the profit-making ability of foreign enterprise suffered accordingly.

Chapter Two analyzes the terms of nationalization as they relate to British firms in China. After World War II and the Chinese Community victory, neither Great Britain nor British firms could play a dominant political and economic role in China. In reaction to these changed conditions, various schemes were proposed by the firms in an attempt to salvage something from the imperialist heritage. But with fixed and immovable assets built up over the years, the firms had very little flexibility. They could only hope for a *modus vivendi*, which would now be determined by the Chinese but might perhaps be acceptable to the firms as well.

Chapter Three analyzes how the firms had become hostages, not only to fixed and immovable assets built up over the years, but also to the new government which was determined that the firms should repay what China's leaders no doubt believed was a historic debt to China. The firms became hostages to the Chinese

¹ For a study of the nationalization policy as it relates to Chinese capitalism, Ecklund, "Protracted Expropriation of Private Business in Communist China," *Pacific Affairs*, Fall 1963, pp. 238-49. Lucien Taire's pro-western diatribe *Shanghai Episode* (Hong Kong: Rainbow Press, 1957) has as its only merit the fact that it is one of the few studies to deal even superficially with foreign direct investment in China after 1949.

² Jessica Pernitz Einhorn, *Expropriation Politics* (Toronto: Lexington Books 1974).

government's demand that they continue to operate irrespective of losses.

Chapter Four describes the terms of closure for the large British firms. As with any liquidation, a variety of problems inevitably arose, reflecting not only the problems of normal business dealings but also problems relating to the different needs and capacities of the parties involved. In the closure process both parties had different, if somewhat overlapping, interests. China was steadfast to assure the least disruptive transition possible, both for the firms' Chinese employees and for the economy as a whole. The firms were determined to minimize their financial losses, but in a manner which would not jeopardize the firms' future trade *with* China, instead of *in* China.

The fifth and final chapter brings the essay full circle to summarize what made China's slow-motion nationalization possible. State power made legal formalities largely irrelevant. In a new position of control, the Chinese, like the English before them, employed their power in their own interests. They demanded reverse compensation whereby British firms had to send money into China to gain permission ultimately to hand over to China what the firms' directors viewed as the firms' own assets. After several years of trying to resume usual business, the firms decided to cut their losses — which the Chinese doubtless viewed as historic retribution — and to concentrate on obtaining as large a share of China's external trade as possible. Over time a mutually beneficial relationship was established, to the benefit of both the firms and China.

The subject of China's current policy toward foreign enterprise, which does permit some foreign direct investment of a highly restricted nature, is a very recent development. As such a general assessment of that policy now would be premature.

* I am grateful to many people who have helped me with this study, a number of whom have chosen to remain anonymous. I would specifically like to thank, however, Richard Pfeffer and Robert Tucker, both of Johns Hopkins.

Chapter I

IMPERIALISM AND FOREIGN ENTERPRISE IN CHINA:
AN OVERVIEW

There has been a great debate over the years about the impact of foreign investment on China's economy. There is very little debate, however, about the effectiveness with which the Chinese Communists have made that issue largely an academic one. Upon winning the Chinese Civil War in 1949, their policy of slow-motion nationalization, what I have called "hostage capitalism", signaled the end of a relatively congenial environment for foreign enterprise. A casual walk in downtown Shanghai, China's largest city and once the epitome of foreign enterprise in China, is illustrative. The custom house clock tower once intoned hourly chimes as does Big Ben in London. Yet in the new communist era of the 1950's it played the opening bars of "The East is Red." The former Hong Kong and Shanghai Bank building, with its imperial gray columns and glaring bronze lions, is now the headquarters of the Shanghai Municipal Revolutionary Committee.

That there was a foreign stranglehold on key sectors of the "modern" economy, now symbolized by the landmarks of what was once an international colony, is undeniable. Foreigners controlled certain northeastern and southwestern railroads, the principal mines and heavy industry, a part of the textile industry, the principal urban services and the major share of steam navigation. The economic effect throughout the country, however, was limited. As late as 1931, over three-quarters of all foreign capital invested in China was in Shanghai or Manchuria. And the treaty ports remained largely separate from most of the rest of the Chinese economy. "New economic activity in them did proportionately little to stimulate new economic activity elsewhere in the country," writes a distinguished student of the Chinese economy, "and its net impact was thus very much less than the total of investment output might otherwise suggest."¹

This was not for lack of effort. For more than a century, Western nations and Japan, in the persons of their various officials, troops, missionaries and businessmen, asserted and tried to enforce their right to do much as they pleased in a semi-colonized China. Foreign enterprise in particular benefited from

1. Rhoads Murphy, *The Outsiders* (Ann Arbor: University of Michigan Press, 1977), p. 126.

its special legal status under extraterritoriality, partial exemptions from Chinese taxation and diplomatic pressure. But the effect upon China was a negative one — the Chinese state was weakened, contributing to its inability to provide a leadership role in modern Chinese society.

In this context, China's vigorous rejection of the treaty ports seems unsurprising; anti-imperialist sentiment was a growing reality in modern China. It was a sharp, and in my view deserved, reaction to the privileged status, the conspicuousness, and of course, the *hauteur* of the foreign presence in China. The foreign officials, troops, missionaries and businessmen were all part of the same foreign establishment. As such they shared "in the invasion of China's sovereignty which derogated the autonomy not only of an abstract policy but also, more critically, the autonomy of particular and individual Chinese who apprehended and reacted to the intruding foreign presence."²

The Goal of Nationalization

In reaction to the de facto power and influence of foreign enterprise, the Chinese Communists were committed to eliminate foreign capitalist ownership of industrial and commercial enterprise in China. Yet this goal could only be achieved after political power was won and consolidated, followed by land reforms, cooperatives for the production and distribution of goods and, eventually, collectivization and nationalization.

Political commitments do not become political realities overnight, especially in a variegated China that was both a semi-colonial and semi-feudal society. This realization was expressed in the Chinese Communists' protracted policy after taking political power: the overthrow of the forces of external imperialism and internal feudalism, not the elimination of foreign or domestic capitalism and the abolition of private property. What Mao Tse-tung termed the new democratic revolution was to establish the conditions for both a bourgeois and a socialist revolution.

As a result there was little that was specifically socialist in the policies pursued by the Chinese Communists in the early years of the People's Republic (PRC).

As a matter of moving from one revolution to the other, Mao understood the necessity of slow-motion nationalization of foreign direct investment. In 1947 he criticized as "ultra-left" the party policies of 1930 to 1934 which included the proposal by the

2. Albert Feuerwerker, *The Foreign Establishment in China in the Early Twentieth Century*, (Ann Arbor: Center for Chinese Studies, 1976), p. 111.

Provisional Soviet Government of Kiangsi Province to directly expel and confiscate foreign economic and political power.³ By contrast, Mao stressed that while it was necessary "to do away with the special privileges of imperialism in China, the revolution should distinguish between political and economic annihilation."⁴ Criticizing the shortsightedness of past thinking on nationalization, Mao stressed that it would be necessary to permit the existence of a capitalist sector in the economy for an uncertain period after the victory of revolution. As Mao spelled it out:

In the interest of the whole economy and in the present and future interest of the working class and the laboring people, we must not restrict the private capitalist economy too much or too rigidly, but must leave room for it to exist and develop within the framework of the economic policy and planning of the People's Republic.⁵

Table 1: Foreign Investments in China by Country 1902-36
(US\$ millions; percent in parentheses)

Country	1902	1914	1931	1936
Great Britain	260.3(33.0)	607.5(37.7)	1189.2(36.7)	1220.8(35.0)
Japan	1.0(0.1)	219.6(13.6)	1136.9(35.1)	1394.0(40.0)
Russia	246.5(31.3)	269.3(16.7)	273.2(8.4)	0.0
United States	19.7(2.5)	49.3(3.1)	196.8(6.1)	298.8(8.6)
France	91.1(11.6)	171.4(10.7)	192.4(5.9)	234.1(6.7)
Germany	164.3(20.9)	263.6(16.4)	87.0(2.7)	148.5(4.3)
Belgium	4.4(0.6)	22.9(1.4)	89.0(2.7)	58.4(1.7)
Netherlands	0.0	0.0	28.7(0.9)	0.0
Italy	0.0	0.0	46.4(1.4)	72.3(2.1)
Scandinavia	0.0	0.0	2.9(0.1)	0.0
Others	0.6(0.0)	6.7(0.4)	0.0	56.3(1.6)
	787.9(100.0)	1610.3(100.0)	3242.5(100.0)	3483.2(100.0)

Source: For 1902-1931, see Remer, *Foreign Investments, Op. Cit.*, p. 76, and Chi-ming Hou, *Foreign Investment and Economic Development in China 1840-1937* (Cambridge: Harvard University Press, 1964), p. 17.

3. An analysis of this criticism is in O. Edmund Clubb, *Twentieth Century China*, (New York: Columbia University Press, 1964). I have been unable to locate this criticism in its original source.

4. Mao Tse-tung, "The Present Situation and our Tasks," *Selected Works, Vol. IV*, (Peking: Foreign Language Press, 1969), p. 167.

5. *Ibid.*

This balanced and cautious policy made good sense. As the Chinese Communists decisively shifted their attention to urban areas, with their war-related problems of administrative decay and structural dislocation, China's new leaders had neither the experience nor the training necessary to cope with the demands of an urban, industrial economy. Initially much of the economy had to be run using existing, conventional methods, often with the assistance of incumbent, non-Communist personnel, including the foreigners who had come to dominate China's urban economy.⁶

The Chinese Communists intended to direct as fast as possible the transition to a state-owned and state-controlled economy. As part of the transformation process, Mao wrote, "we must learn to do economic work from all who know how, no matter who they are. We must esteem them as teachers, learning from them respectfully and conscientiously."⁷

A central aspect of this effort was the Chinese Communist-directed policy of nationalizing foreign capitalist enterprise. Over a period of seven years, from 1949 to 1957, the PRC redefined and, except for Sino-Soviet Joint Ventures, ended foreign direct investment in China. By regulating the conditions for the sale of labor and by completely undercutting a congenial profit-making environment, the Chinese placed many foreign firms in the "no-win" position of applying for permission to cease operations in China and to agree to an assets against liabilities formula in assessing the value of foreign enterprise, all of which made compensation for foreign losses a practical impossibility.

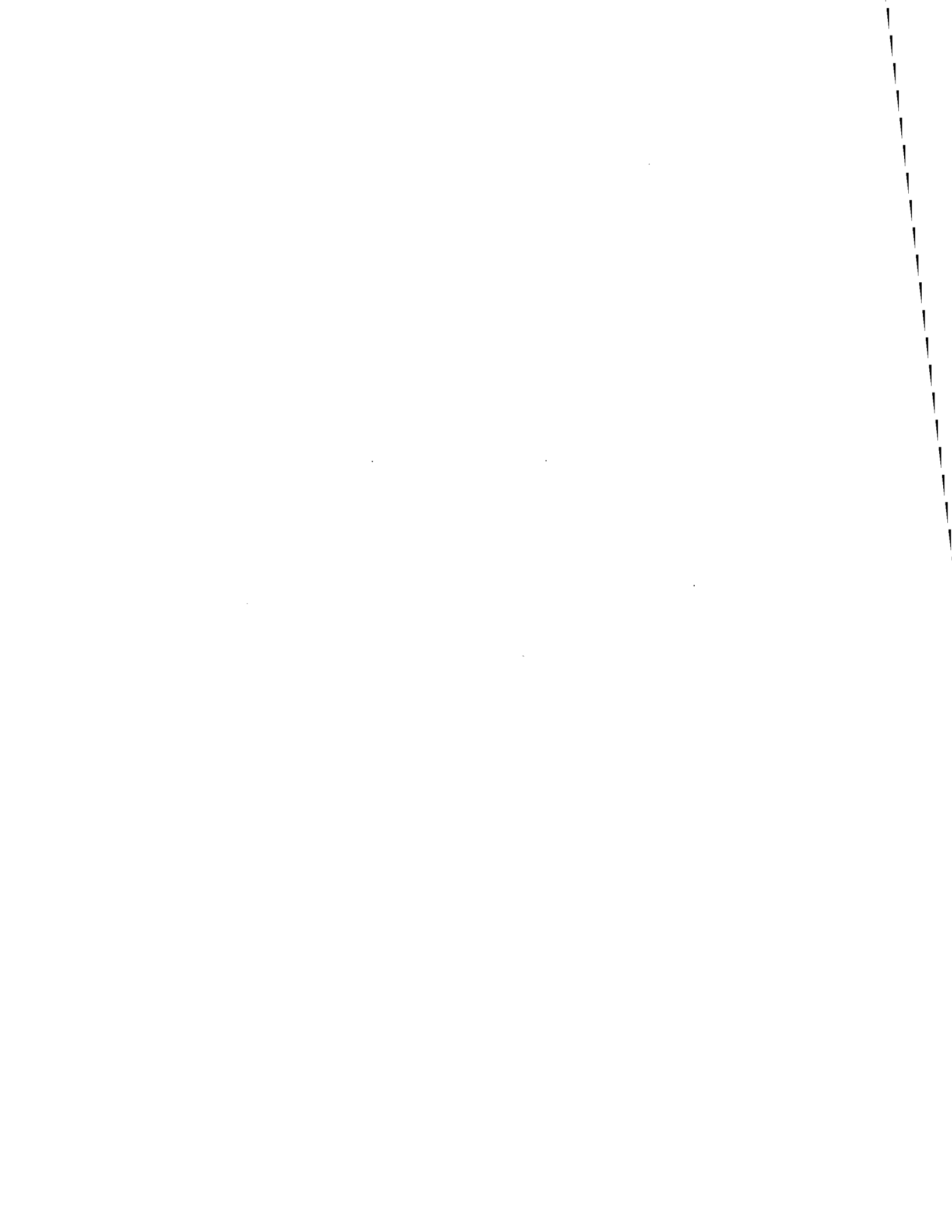
Hostage capitalism as a nationalization policy involved almost exclusively British firms. The largest foreign interest in China until 1931, when the Japanese seized Manchuria and began to invest heavily there, was that of Great Britain, both in absolute amounts of investment and in relative share (see table). Like the investment by other countries, British investment consisted primarily of direct investment, although loans to the Chinese government were significant as well. The foreign investment of other countries in China was not of the scope and scale of British investment. As one authority on foreign investments in China in the 1930's has observed, "the outstanding fact about the import and export trade is the existence of a relatively small number of

6. See Christopher Howe, *Employment and Economic Growth in Urban China, 1949-1957*, (Cambridge: University Press, 1971), p. 21.

7. Mao Tse-tung, "On the People's Democratic Dictatorship," (June, 1949), in *Selected Works, Vol. IV, Op. Cit.*, p. 423.

great firms who control most of the capital invested.”⁸ Among the best examples are the British firms Jardine Matheson and Company, whose origins antedated the Opium War, and Butterfield and Swire which commenced business in Shanghai in 1867, the British-American Tobacco Company and the Hongkong and Shanghai Bank. These firms have long been synonymous with foreign enterprise in China. Of course there were other firms as well.

8. C.F. Remer, *Foreign Investment in China*, (New York: MacMillan Company, 1933), p. 92.



Chapter II

THE HISTORIC TURNABOUT: THE POLITICS OF
HOSTAGE CAPITALISMA. Foreign Enterprise in a
Revolutionary Era

B. Revolutionary Realities

The rise of the Chinese Communists in 1949 to a position of uncompromised control in all matters of Chinese life was an historic turnabout in the interplay between foreign enterprise and revolutionary nationalism in China. In part, because of the speed of the Communist takeover, British businessmen initially saw in the events of spring 1949 only unrelated and divergent events. Without fully appreciating the dramatic change which had taken place, they failed to realize that they were no longer a determining force in promoting and protecting the previous era's profitmaking environment.

The pre-Communist era in China proved an inadequate guide for British businessmen in a new era of revolutionary nationalism. Because of the general decline of Britain's worldwide influence after World War II and the rise to power of the Chinese Communists, British businessmen in China could only remain passive until the conditions under which foreign capitalism would be allowed to operate by the People's Government were made clear. Many British firms hoped for some *modus vivendi* which would allow continued profit-making within China. This was not possible because of China's domestic policies for economic development which did not include a longterm role for foreign direct investment. In addition, the profit-making limitations directly related to the Korean War and the UN embargo on China, which Britain agreed to observe, dampened British anticipation of continued profits.

A. *Foreign Enterprise in a Revolutionary Era*

When the Chinese Communists gained control of China's major coastal cities, British firms were virtually defenseless and there was no easy withdrawal. With only nominal opposition from demoralized Nationalist Chinese armies in the spring of 1949, the major cities of the Yangste Valley came under Chinese Commu-

nist control in quick succession: Nanking (April 23), Hangchow (May 3), Wuhan (May 17), and finally Shanghai (May 27) and other coastal areas. As the communist forces advanced, British business interests expectedly attempted to protect their investments which the British Chamber of Commerce estimated to be worth £1,000,000,000 in Shanghai alone.¹ Although it is impossible to precisely calculate all these assets in money terms, the fact that they were large amounts is not disputed.

Preparing for open battle between Chinese and Nationalist troops and the likely threat of damage to British investments, the British Chamber of Commerce in Shanghai responded instinctively. The Chamber advocated the "internationalization of Shanghai" as a way of keeping Shanghai safe from the "interference" of Chinese armies in the civil war.² "Whether or not there will be fighting is impossible to say," reads a Chamber of Commerce memorandum to London, "but the declared intention of the Nationalists is that they will defend to the bitter end." Even if they did not fight, the Nationalists were thought to be prepared to strip the city. Some observers thought that they remained in Shanghai just for that purpose.³

Since its broad proposal to place an international military cordon around all of Shanghai was impractical, the Chamber of Commerce proposed instead a more restricted approach which still was beyond Western capabilities.⁴ The Chamber proposed a joint armed intervention by the British, American and French governments to encircle the Bund, the Western financial enclave along the Whampoa River. This military scheme was reasoned as practical since the protective force needed for such an operation would not be large, and once the imminent conflict had subsided the protective intervention of Western troops could then be discontinued.

1. John Keswick, Chairman, British Chamber of Commerce (Shanghai) to British Consul-General, Shanghai, December 11, 1948, in *China Association Minutes and Circulars* (C.A.M.C.), 1949. The China Association has traditionally been a powerful London-based lobby for British firms doing business in China.

All monetary units have been converted to British Sterling or U.S. dollars based on the official exchange rates at the time. \$HK 5.71 = \$US 1; \$US 2.80 = UK 1; \$US 1-Chinese RMP 21,400 (1949); 31,000 (1950); 22,890 (1951); 23,430 (1952); 23,430 (1953); 25,200 (1954).

London interview with Sir John Keswick, November 27, 1975.

2. This was originally proposed in a letter from the British Chamber of Commerce to the British Ambassador to China on November 30, 1948.

3. British Chamber of Commerce, Shanghai, to China Association, London, in *C.A.M.C.* May 12, 1949 No. 49/G/29.

4. *Ibid.*

British firms had to deal simultaneously with several severe problems. First and most immediate, the Nationalists' continuing blockade of Shanghai caused the closing of the port, and as part of a more general industrial paralysis throughout Shanghai, the slow stifling of all enterprises in which British capital was invested ensued. Affected initially were shipping wharves, warehouses, banking and merchant houses. Subsequently, manufacturers were affected due to the exhaustion of supplies of needed imported raw material and fuel, and the corresponding reduction in utility services.⁵

The British Chamber's request for British government intervention in terms of the broad "internationalization" proposal was apparently never seriously considered in official government circles. The Chamber did not, however, give up. Even after the Communist takeover of Shanghai, it persisted in requesting official British support to directly intervene, the goal now being the breaking of the Nationalist blockade of China. The Chamber's efforts are testimony to the British business community's ingrained dependence on official British military power as well as to the various civil war related problems.⁶

Realizing the problems created by the blockade in July, 1949, Chamber of Commerce representatives noted to Hector McNeil, the British Minister of State, that "unless some relief is found, it would have to be recognized that the British commercial stake in Shanghai might be lost."⁷ McNeil's response was a flat refusal of any assistance, particularly military assistance, owing in part to policy differences between the United States and Britain. The United States leaned towards withdrawal from, and isolation of, China.⁸ The British were anxious at all levels to work out a *modus vivendi*, but their post-World War II policy had become subordinated to U.S. policy. The U.S. State Department favored a blockade of China out of the fear that American and British

5. British Chamber of Commerce, Shanghai, to China Association (C.A.), London in *C.A.M.C.* July 4, 1949 No. 49/B/40.

6. See China Association (London) to British Chamber of Commerce (Shanghai), in *C.A.M.C.*, July 21, 1949 No. 49/G/43.

7. Notes of meeting between C.A. representatives and Mr. Hector McNeil, Minister of State, in *C.A.M.C.*, July 28, 1949.

8. *Ibid.*

private enterprise, if left alone, would cooperate with the Communists.⁹

Given these political realities, discussions between British business leaders from Shanghai and Minister Hector McNeil could hardly have eased British businessmen's fears for the future of British investments in China. The discussions emphasized the decided vulnerability of the fixed assets foreigners had built up over the previous hundred years in China. Although the firms still desired to remain in Shanghai, they faced unusual difficulties. To meet the challenge of the difficulties, the British Chamber even entertained the possibility of a private "buccaneer" action in an effort to break the blockade and to reopen the vital transport link between Hong Kong and Shanghai. As a last resort to salvage something of the pre-Communist era, but also in a longer term view, the Chamber suggested the possibility of putting Taiwan under international jurisdiction. Whatever the outcome of the civil war, it was argued, China would need finance and an international jurisdiction in Taiwan would provide a firm foundation for raising money and sustaining profits.¹⁰

Foreign firms' problems had many sources, including the fact that the Chinese Communists were not overly sympathetic to their problems. New Chinese regulations, for example, prohibited labor cutbacks or economic retrenchment on the part of either Chinese or foreign private firms. With little profit being made in Shanghai, foreign firms were at times compelled to rely for their continued financing on resources outside China which previously had been withdrawn with relative ease. One British firm reportedly brought into China £37,000 from Hong Kong for the month of September, 1949, to meet various expenses, mainly wages.

The Chinese Communists, of course, had pressing problems of their own, the resolution of which often required action antagonistic to foreign interests. The new Chinese authorities sought, for example, to reduce the effects of inherited inflation by linking workers' wages to the price of rice. Due to the effects of war and flooding, the price of rice had continued to rise steadily thereby increasing wage payments by the firms. As the Chinese tried to maintain a steady standard of living, Chinese policy often

9. For an analysis of the conflicting policy preferences between the American government and a single American firm, see Warren W. Tozer, "Last Bridge to China: The Shanghai Power Company, The Truman Administration and the Chinese Communists," in *Diplomatic History*, Vol. 1, No. 1, Winter 1977.

10. Cf. note 8.

required the firms to bring Sterling into China from London and Hong Kong. From March to July, 1949 there was a three-fold increase in the price of rice in China, the partial cost of which the firms were required to pay.

These initial problems and fears concerning new Chinese Government policies were part of longer term problems and fears relating to the future of foreign business under Communist rule. As early as July, 1949, both individual firms' records and China Association records indicate fears among foreign firms, particularly small ones, of liquidation.¹¹ These fears were not groundless. In Tientsin, foreign banks had been closed and their funds frozen in February, 1949. In practical terms this meant that firms with no local earnings, a common condition in a war-time situation, found it difficult to even pay their staffs. Some firms, like British-American Tobacco and the oil companies, had stocks which they could sell, but at various times others had to borrow from outside China. Bringing in funds from outside China was made necessary in July when the Chinese authorities in Tientsin exacted an £800,00 levy from various groups of private firms, including foreign ones.¹²

From the vantage point of Shanghai in summer 1949, nobody knew if the July levy or other provisions promulgated by the new regime should be taken as precedents in planning for an uncertain future. From China Association records it appears that some British merchants felt that Chinese policy would seek to elbow out foreign traders in favor of Chinese rivals as soon as possible. Yet few heads of firms believed that completely closing down their China-based operations was inevitable.¹³

An important reason for this continued hope for the future was that all the propaganda put forward by the Chinese Communists urged foreign, as well as Chinese, merchants, industrialists and bankers to remain in areas likely to come under Communist control as their "assistance would be needed in developing the country's trade." After Tientsin was occupied by Communist forces in mid-January of 1949, for example, public

11. See C.A. memorandum, "The Present Position of British Traders in China," in *C.A.M.C.*, August 17, 1949 No. 49/G/49.

12. British Chamber of Commerce (Shanghai) to C.A. (London), in *C.A.M.C.*, July 14, 1949, No. 49/F/13.

13. Cf. 13.

announcements from General Chu Teh made this point.¹⁴ A similar propaganda effort followed in Shanghai.

Beyond generalities, however, the specific information which would help British businessmen to form an estimate of the new regime's policy toward Western firms was not forthcoming. One reason may have been that formulating that policy was not of highest priority. In any event, in areas where the Communists had taken control they had studiously avoided intercourse with the British trade consuls,¹⁵ consequently worrying British businessmen. In the case of Jardine Matheson, however, the firm's executives did not believe that the Chinese were out to completely destroy foreign business activity.

Jardine Matheson's managers, in addition to certain anxieties, had a very positive initial impression of the new regime. "The new authorities appeared to have a very realistic approach to their problems," confirmed Sir John Keswick, Jardine Matheson's head man in Shanghai at the time.¹⁶ Heavy taxation, for example, was not, in Keswick's view, a result of anti-foreignism as such but a sign of the need for capital to meet the expenses of a big army and a new government.

Jardine Matheson's early favorable reaction to the new regime was also based particularly on its perception of the honesty of Chinese Communist tax officials and of a certain flexibility among Chinese officials with taxes when general economic conditions permitted. "In the process of being examined for payment of taxes," Keswick noted, "we came through satisfactorily and were left with a favorable impression of the efficiency of the examiners." Keswick added, "They used one of our telephones in order to call for some information and immediately insisted on paying cash for the telephone call they had made. They would not accept even the offer of a cigarette!"¹⁷

In addition, certain of China's economic policies actually reduced financial pressure on foreign firms, such as the change in July, 1950 from requiring constant wages to be based on rice quotations to wages based on Parity Deposit Units (P.D.U.). For foreign firms this was a more satisfactory arrangement because the initial basis for rice prices was liable to manipulation. By

14. C.A., "General Bulletin," in *C.A.M.C.*, January 20, 1949, No. 49/M/1.

15. C.A., *C.A.M.C.*, January 20, 1949, No. 49/G/9.

16. Sir John Keswick of Jardine Matheson and Co., interview, London, November 27, 1975.

17. *Ibid.*

contrast the value of the P.D.U.s was jointly based on current quotations for rice, coal, briquettes, cloth and cooking oil which were less likely to be manipulated. Foreign enterprise similarly benefited from an unexplained waiver on Income Tax # 1, a business profits tax for the first eight months of 1949, and from a cancellation of the Business License Tax, established before 1949 by the Nationalist regime as a yearly tax on capital.

While managers of British firms believed in September, 1949, that it was too soon to know if they would be able to trade with the new regime, later impressions indicate some optimism that this would be the case. Keswick believed that the top people in the Chinese Government were able and honest. The rapid takeover in the cities, he felt, meant that many "country boys" without urban experience were obliged to work in a new and different environment. It was on this basis that Keswick attributed any "pettiness in labor disputes," which, under the circumstances, he viewed as quite excusable.¹⁸

Pettiness in labor disputes, of course, was not the main issue for the future of foreign enterprise in China. The issue of whether there was a firm basis for optimism was much more complex. A pessimist might have to be convinced of any profit-making future in China. Some businessmen believed that quite unrevolutionary changes had come about to which foreign enterprise would adjust. Nobody was at all certain of his own analysis. Optimistic assessments of the profit-making future were accompanied by a painful realization, often from the vantage point of Shanghai, that a profound irreversible change in business conditions had occurred.

In analyzing his own firm's future, a famous *taipan*, as the heads of the largest firms were called, recognized that a number of preexisting conditions for doing business in China had been transformed. Most important, he wrote, was that foreign businessmen had to realize that "conditions under which British traders have operated in China during the last century have changed completely." By this he meant:

(O)ur treaties of privilege have gone and we shall never see extraterritoriality again. This means that we must live and trade in China under Chinese law, subject to Chinese habits and customs, and with only such protection as our officials are able to give us (this will be the same as in the period previous to 1842), and subject to the whims of politics which

18. *Ibid.*

are bound to change during the formative years of the current Chinese revolution, which only started not quite four decades ago.¹⁹

In presenting his position that China had in fact made an historic turnabout, the *taipan* concluded that the leftward trend of Chinese politics would continue for a number of years, during which time British firms would be weakened greatly. These assumptions prompted him to conclude that although the Chinese wanted foreign trade, foreign traders would only be able to survive the trend with trading machinery modeled to fit new conditions.

A plan was sometimes proposed to deal with the situation, the essence of which was the development of a large combine of British China firms, each of which would surrender some of its individuality in order to prevent debilitating competition among themselves within a business environment now controlled by the Chinese whose bargaining position was unchallenged. A spirit of "united we stand and divided we fall" was a central element of the combine proposal. Most important to its proponents was a united British front on all political and commercial problems in China with a uniform approach to labor, wage and tax questions. In addition, it was hoped thereby to secure maximum business efficiency by exploiting economies of scale to provide financial strength for large-scale contracts with the Chinese state trading companies. According to the plan, joining the combine would have been voluntary. Any British firm could remain outside the combine, although this was contrary to the directed goal of unity.

The reaction to the above proposal by a British banker in London was one of unambiguous resistance. "Unless the firm and its staff can continue as a privately owned or public company on its own British feet in China," wrote this businessman, "it must dwindle away." No grouping of interests or Sino-British "half-caste amalgamation," was sufficiently attractive, "or indeed, in my opinion, workable in practice."²⁰ The response to the proposal reflected skepticism about the irreversible nature of the historic turnabout in business conditions in China. "We are in a state of change or revolution," a skeptic wrote, and asked, "Must not the dust settle before we take drastic decision to act irrevocably?" In answer as to how to proceed with British trade in an unknown

19. Confidential document, Shanghai, July 30, 1949. Detailed documentation of this and other sources must remain without direct documentation.

20. Confidential document, London, October 20, 1949.

future under monopoly or nationalist conditions, such schemes as the combine proposal always surfaced as a possible solution.

Unable to appreciate from London the difference between the temporary difficult conditions of the past and the historic changes brought on by the Chinese Communist Revolution, another British businessman wrote about mergers in October 1949:

It is the same urge which I fear prompted me successively to scheme for what appeared then to be the only progressive enlightened solution for our future, firstly, by taking into partnership the Generalissimo and the Soongs, and secondly and even more foolhardy, by forming an Anglo-Japanese Company to take over all our business in what appeared to be then a permanently controlled China by Japan. They were both ill-founded ideas, and fortune, perhaps more accurately, events, saved us from being led prematurely into such commitments, conceived when the forces and circumstances surrounding our position in China seemed overwhelmingly against us.²¹

The lack of enthusiasm for the 1949 combine proposal stemmed directly from a clear understanding of the goal of foreign enterprise in China, to make remittable profits from private enterprise. The combine should only be a last resort in this view. While it was granted that the combine might inevitably be the only way to remain in China, it was also thought that the combine, even as a last resort, might prove unworkable. British firms had offices in London which retained capital and various reserves intact; they were reluctant to surrender their identity and control of these funds. While the smaller firms with hardly any reserves might be willing to join the combine, a British businessman noted, "I cannot see the big oil boys, tobacco kings, or soap czars, for example, willingly combining until the situation is far more crystallized and finally desperate than it is now."²²

A leading British firm's head representative in Hong Kong reflected a view of the business future which was influenced by the Chinese banker Wang Ming. Wang's optimism for foreign enterprise in China stemmed from two events. First, as part of Mao Tse-tung's policy for the period of New Democracy, refugee textile industrialists in Hong Kong had been approached by Peking to return to Shanghai. Peking, according to Wang Ming,

21. Confidential document, London, November 2, 1949.

22. *Ibid.*

had given them assurances against increased demands by labor and assurances of free entry and exit from Shanghai. Consequently, many industrialists had decided to return to Shanghai.

The second source of Wang's optimism was his belief that Peking had decided "to let commercial banks in Shanghai carry on business as before." A British firm's internal memorandum notes:

These banks apparently still have foreign assets and while they have been registered with the new government they have not been touched, nor does a reliable source think they will be. The new Minister of Economics has recently been in Shanghai and the source contacts report to him that it will not be the policy of the new regime to nationalize commercial banks for at least ten or twenty years as it is realized they play an important function in the life of Shanghai which it is the desire of the government to build up and further industrialize.²³

These competing assessments of the future for foreign enterprise in China reflected the past experiences of each businessman during the pre-communist era in China. From the vantage point of Shanghai it was possible to see most clearly the terms of a historic turnabout in China. In London a British banker might see only "the possibility of waiting two or three years until we can open up again." Wang Ming, who influenced a leading British firm's Hong Kong analysis of the future, appreciated neither the dramatic changes in business conditions in China, nor the speed and irreversibility of that change.

What is striking in the debate about the future of foreign enterprise in China is the early indication of the essentially passive role the firms would play in influencing the new rules and regulations under which they might operate in China. Unlike the hundred years prior to 1949 when British firms and the British government significantly determined the business environment for foreign capitalism, the Chinese government was now completely controlling the environment in which these firms precariously existed and, in their own defense, could contribute very little. The Chinese Communists, to whose victory foreign firms had barely contributed, owed the foreign firms very little, if anything at all. And in fact, because they had so little leverage, the British firms feared that foreign trade with China would take

23. Confidential document, London, October 19, 1949.

place solely on Chinese terms, perhaps through Chinese government monopolies, with the British government unable to do anything about it. Gradually foreign businessmen would realize that they had become nearly powerless hostages to a past once marked by great political and economic power.

B. *Revolutionary Realities*

The Chinese People's Government was determined that economic development within China should primarily serve the interests of China and its people. On this basis, with the urban economy in a state of shambles after almost twenty years of continuous warfare, China's new leaders had few sympathies for British firms and their profit and loss accounts. Firms questioned whether foreign enterprise would be permitted the minimal security, opportunity, freedom of movement and freedom from excessive taxation required in their view to remain in China.

But these issues could not be separated from the Chinese revolution or the historic downturn in, for example, Britain's foreign affairs. The post-World War II era saw the erosion of British power and influence throughout Asia, the subordination of British policy to American interests and the rise to power of the Chinese Communists. The decline of Britain's influence in Asia had important repercussions for the security of British firms since in the past the preventive and punitive roles of British military power had assured protection for these firms in China and helped to maintain various privileges. For example, if a British firm were having labor troubles, before 1949, a gunboat from Britain's China Fleet would be sent to the area as a "precautionary measure" to make it "easier for consul and others concerned to deal with a difficult situation." Even when things were quiet, as Stephen Endicott writes, "British Chambers of Commerce recorded their appreciation of the fact that the sight of gunboats comforted British merchants by smoothing the channels of trade."²⁴

The end of Britain's historic gunboat policies is exemplified by the April, 1949 incident involving the British frigate H.M.S. Amethyst. When the Amethyst was sailing from Shanghai to Nanking to relieve the destroyer Consort, which was then at Nanking and beginning to run short of supplies, the Chinese Communists engaged the ship in a battle that eventually involved four other British gunboats and resulted in the deaths of several

24. Stephen Endicott, *Diplomacy and Enterprises* (Vancouver, B.C.: University of British Columbia Press, 1975), p. 9.

hundred British and Chinese troops and the end of gunboat diplomacy. After the Amethyst incident the traditional British gunboat solution for various problems in China gave way before the power and permanence of Chinese Communist rule.²⁵

British merchants realized very early after the Communists took power that the Chinese Communist Party was "here to stay," although some British merchants felt that few Chinese were really communists, and that it would take many years to convert them. In the new environment, where British merchants no longer could depend on warships to solve their problems, the various firms' only hope of remaining in China was to reach a mutually acceptable *modus vivendi* with the People's Government.

Because of the "natural anti-communism" which some British firms viewed as a permanent Chinese characteristic, "the best and only way of checking the spread of communism," notes a China Association memorandum, "was for democratic powers to maintain and develop friendly relations with the Chinese people and the Chinese government."²⁶ In pursuit of this policy, the China Association exerted its influence in favoring formal diplomatic relations between England and China as a precondition for settling grievances, in the short term, and implementing a Treaty of Commerce, from which British firms would no doubt profit, in the long term.²⁷ While a favorable possibility the plan remained only a proposal. The British merchants became hostages to the determination of the People's Government to operate the new economic environment in the interests of its own people; the People's Government demanded that they continue to operate in China irrespective of their losses.

While operating with these immediate losses, a major effort of the firms was to assess exactly what China's long-term policy towards foreign capitalism would be. Some firms, under the cumulative effect of several incidents, mainly involving labor and tax disputes between British firms and Chinese workers, concluded that their future in China was a limited one. In representing these firms, Michael Lindsay, the former British Embassy press attaché, personally delivered a memorandum to Chou En-lai noting his impression that "it is the deliberate policy of the new government to subject foreign business to obstruction and

25. Even Luard, *Britain and China*, (London: Johns Hopkins Press, 1962), p. 83-103.

26. C.A. memorandum, October 11, 1949, Bulletin No. 42.

27. C.A. memorandum, November 1, 1949, No. 49/E/15.

annoyance as part of a plan to drive them out of China.”²⁸ The cause of Sino-British business troubles in late 1949, according to Lindsay, lay in differences between Chinese and British approaches to problem-solving. Lindsay’s impression of the Chinese perspective, for example, was to decide on a basic policy of principle to be worked out in practice. Lindsay interpreted the normal British approach, on the other hand, to be based on solving immediate practical problems and, on this basis, to develop a “working policy of principle.” If both sides would only understand and appreciate these differences, Lindsay hoped that British firms and the People’s Government might be able to live together on good terms.

But Lindsay was wrong. The issue was not whether the People’s Government and the British firms could live together on some abstract “good terms,” but on whose terms they would live together, if at all. And the answer to that question was increasingly clear. In one of the rare public statements of its position, the Chinese approach was summed up by China’s *Liberation Daily News* in a note in August 1950:

Although foreign interests are owned by foreigners under the jurisdiction of the People’s Government these enterprises have been deprived of their special privileges which they enjoyed in the past . . . if they can dutifully obey all ordinances and rulings of the People’s Government and engage in business which is beneficial to the livelihood of the people and the livelihood of our country, they will be permitted to exist and will be protected.²⁹

Since such explicit policy statements were rare, China’s policy towards foreign firms has to be extrapolated from these few statements as well as from the foreign firms’ statements, China Association documents and from China’s practice. It appears to be as follows: The Chinese in the long run wanted to completely take control of their economy. This required, in the Chinese view, driving foreign capitalists out of the country. The method to achieve this goal, as the *Liberation News* statement suggests, was through ordinances and rulings by the People’s Government. The ensuing indirect approach insured that foreign capitalism operated under terms profitable for China and that such operations would become relatively unprofitable for the firms.

28. *Ibid.*

29. *Liberation Daily*, August 6, 1950.

Requiring the continued payment of taxes and wages by firms was in the People's Government's interest; outright confiscation probably was not.

The opportunity of British firms for profit-making was limited by a variety of factors. First and foremost, the People's Government was primarily concerned not with their profits but with production and the employment of Chinese workers. Cities were swollen by refugees; industrial production and most other economic activities were far below pre-war peaks; employment was high; and inflation and food shortages reflected both a collapse of administration and major structural dislocations after decades of continuous warfare. To compound these problems, China's new leaders had neither the experience nor the training necessary to cope with the demands of an urban, industrial economy whose reconstruction in any event was hampered by the Nationalist blockade.

The People's Government tried immediately to deal with this difficult situation which involved regulating the conditions for the sale of China's labor power and completely undercutting the ability of foreign capitalism to maintain an environment congenial to their profit-making. The effect of these policies on British firms was to require remittances from abroad in order to meet operating overheads, wages and taxes.

Closure of businesses was not permitted in China after 1949 without explicit permission from the People's Government. In practice, the government refused to seriously consider requests for firms to close down and withdraw staff until the liabilities of the firm grew to be nearly equal to or in excess of its assets. The length of time during which liabilities accumulated was determined by the People's Government in the exercise of its sovereign prerogatives, not by foreign firms who were now subject to the conditions set forth by the new government. These conditions included approval for closure only upon labor's agreement to the necessity of closing and an acceptable severance pay agreement for former employees of the firm.

Consequently, the firms were caught in a squeeze. On the one hand, hostage capitalism meant the refusal on the part of the People's Government to permit, by any means, the closure of industry or business of value to the nation's economy. On the other hand, firms were not in control of their labor policy. Like most laws, China's laws were framed in such a way as to permit several interpretations. A Western lawyer recalls this difficulty in the following way: "The law might read that Unions," for

example, "shall not usurp or interfere with the administration rights of management," but "unions shall have the right of suggestion and protest of any matter which in the opinion of the union affects the workers' present or future livelihood."³⁰ In applying such potentially conflicting principles, arbitration seldom found sympathy with foreign firms. Glaring examples of the lack of freedom to "do business as usual" occurred during both the Nationalist blockade and the UN embargo when wharves in Shanghai and other areas were nearly completely closed but workers nonetheless had to be paid by the firms.

The firms were both "hostages" to their past and in some sense also "hostages" to their future hopes for China trade. If efforts at closure ultimately were dependent upon the good will of the People's Government, that good will was important to the firms for more reasons than one. There still remained the hope for future profits. For fear of jeopardizing the potential longer term profitable trade relationship between the People's Government and a consolidated firm operating outside of China, foreign firms were generally uncertain as to how energetically they should pursue closure. Thus, short term uncertainty and hard times had to be weighed against longer term hopes and expectations.

For many foreign firms, remittances from reserves abroad were necessary to keep the firms operating in times of depressed business. And they had to keep operating unless they received permission to close. In order to function they had to retain their property which, in turn, meant paying tax. To insure that such obligations would be met, the Chinese required the continuing presence of a senior European firm executive in China. Hostage capitalism was reinforced with hostage capitalists. At least one of the senior executives, who was required to have Power of Attorney, typically was held personally responsible for performance of his firm's obligations and payment of taxes, refusal of which, for however good reason, might have resulted in imprisonment.

Until permission to cease firm operations was granted, permission to leave China was denied for at least one European official from within the firm. Thus, when a manager of a large firm desired to leave, he was required first to produce for the Bureau of Foreign Affairs a letter or telegram from the head office appointing his successor, notifying the successor of this appointment and requesting his acceptance; a letter from the named

30. Confidential interview, London, November 29, 1975.

successor to the existing manager accepting the post and accepting full responsibility attached to the position, the successor's Power of Attorney or the incumbent's Power of Attorney with a Deed of Substitution in favor of the successor; and a fairly detailed history of the successor's education, working life and qualifications. While this requirement was in effect, British firms never used the frequently discussed tactic of unilaterally stopping remittances of China to force liquidation negotiations to begin. They feared jeopardizing the safety of their European staff.³¹

China's rules and regulations were harsh in their effect on foreign firms, but they appear to have been strictly enforced primarily in the interest of improving the Chinese economy and only secondarily for purposes of historic revenge. Nevertheless, at times, with all of the regulations placed on foreign firms, trade came to a near standstill. Only a few merchants, for example, were importing and exporting through Tsingtao and Tientsin. At other times, as from January to October 1950, the Chinese economy showed substantial signs of improvement and foreign firms benefited. As China's currency showed signs of more stability, the fear of intolerable tax burdens receded somewhat, and as the pressure to buy new government bonds eased, the strains on foreign firms lightened. The rich harvests, the revival of modest trade, the evidence of incorruptibility and the development of sound reconstruction in China clearly increased confidence in the new government. As a result, internal purchasing power and internal trade increased significantly.

The earlier fear among foreign firms that taxation might take the form of confiscatory levies based on presumed ability to pay proved largely groundless. Business taxes in fact were levied on the basis of turnover. There was a reduction in property taxes of thirty-six percent for business premises, of ten percent for residential premises and of twenty percent for land tax. These developments, perceived by foreign firms as a change in China's policy, did not go unappreciated by the firms.

The short term adjustment by both Peking and foreign firms to the new environment, however, did not and could not resolve what, in retrospect, can be seen as permanent difficulties in Shanghai for all firms. Take for example the case of several individual British firms in Shanghai.³² In April, 1950, there was

31. C.A.M.C., April 4, 1950, No. 50/6/27 and C.A.M.C., "Present Trading Conditions in China," October 15, 1950.

32. Information on the cases that follow must remain without direct attribution.

little demand for the products of these firms and, with the Nationalist blockade, the foreign wharves had done little or no business for ten months. To make matters still worse, the traditional creditor, the Hong Kong and Shanghai Bank, had no deposits of Chinese currency left and did not in any event want more financial risks in China.

Given business conditions, a particular textile firm was in crisis. This firm had inventory stocks valued at approximately \$US 300,000 of which more than half consisted of blankets and seasonal yarns for which no volume sales could be expected until June. Its large stock of worsted cloth, moreover, had not been selling for some time because of the change after 1949 to more basic Communist-inspired clothing styles among potential Chinese buyers. Stocks of goods had been difficult to sell except in small quantities; the sales price scarcely covered the cost of the cotton used in production.³³

Notwithstanding the poor prospects for short-term substantial sales revenues, wages and taxes still had to be paid. An additional £70,000 was needed before the end of April. This was considered impossible to raise, especially since the mill already had an overdraft with the Hong Kong and Shanghai Bank of £120,000. Although the firm hoped the bank would carry the overdraft as long as possible, a bank official noted, "Because deposits are decreasing as everyone is drawing out money they have with the bank, therefore it might be very difficult to allow the overdraft to run on."

Another British firm, a bottling company, was in an equally bad way, perhaps worse. April sales were terrible; only about thirty to fifty cases of various drinks a day were being sold, whereas sales normally were at least 500 cases a day at this time of year. The bottling company, had an overdraft with the Hong Kong and Shanghai Bank of approximately £3,000. That loan, according to the firm's records, was to be paid on April 10, 1950. But there was no money in the bottling company's coffers to meet the obligation. All that could be done to deal with the virtually hopeless financial quagmire, in the opinion of a Hong Kong and Shanghai Bank official, was to let shareholders of each of the firms know about the precarious position of their investment.

The foreign wharf companies had seen only a handful of ships come to Shanghai since the liberation of China. Yet they too were being squeezed since overheads had risen substantially.

33. Confidential document, Shanghai, May 2, 1949.

Wages were the main cause of rising overheads. Some Chinese workers who in the past had been treated as seasonal employees, when work was determined by the company based on the number of boats in port, had now been transformed into permanent employees under the new mandatory People's Government regulations. This meant more than a thousand "permanent" Chinese workers were now on the payroll. Attempts by the firms to reduce either numbers of workers or wages were unsuccessful. One shipping company was draining reserves at the rate of about £20,000 a month, with only £85,000 left by April of 1950 out of local reserves estimated at the beginning of 1949 at over £200,000. The company's annual land taxes alone, levied on both land and houses, were approximately £20,000 to £25,000. Consequently, "unless some reduction in wages could be secured," a firm's director wrote in 1950, "funds would run out before the end of June."³⁴

As can be seen from the condition of these firms, British firms generally were in trouble. At the highest decision-making levels among British executives in Hong Kong, London and Shanghai, discussions were held in search of a course of action to protect the firms against the pressures of hostage capitalism.

The fact was, however, that many British firms did have a policy to minimize losses under currently unfavorable but uncertain conditions. "I considered we did have a policy but the implementation of any policy was entirely dependent on the conditions under which it could be executed." On what the future profitability for the firm might be, "I found myself like the agnostic," a famous Shanghai *taipan* noted "I just did not know . . . the signs were that our future in China was hopeless, but I was never prepared to say definitely that we would not survive."³⁵

The harsh reality of the firms' poor bargaining position starkly determined their policies. Differences in the degree of optimism for the firms' future prospects in China among senior firm executives, and their differences in outlook, which in normal times might have been significant, were made insignificant by that harsh reality. No matter the differences in attitude, the heads of leading British firms per force agreed on the immediate policy to employ: reduce overhead, reduce commitments by refusing all offers of new business, trade only in profitable fields and prepare for closure when and if the opportunity should arise.

34. Confidential document, Shanghai, April 8, 1950.

35. Confidential interview, London, November 28, 1975.

In pursuance of this policy, one firm in Shanghai managed between May, 1949 and May, 1950 to reduce its own staff as follows: British employees from 48 to 43, or 26%; local foreigners 33 to 22, or 33%; Chinese from 321 to 290, or 10%.

The same firm's preparations for liquidation involved communicating a two-sided message to the Chinese authorities. It would not further finance from holdings abroad its various business operations in China and, without Chinese cooperation, the firms would simply dissolve. With a view towards their liquidation, target dates for the closure of trade offices outside Shanghai, in Chungking, Ichang, Changsha, Hankow, Kinkiang, Wuhu, Nanking, Chinkiang, Foochow, Tsingtao, Tientsin, Canton and Swatow were also set. Thus, the firm in preparing for closure sought to limit additional remittances to China to extricate itself from investments in China while, at the same time, endeavoring to concentrate on trade with China in order both to cover various other losses and tailor its operations to a new trade-dominated relationship with China.

If the closure of British direct investment in China was inevitable, hopes for a long-term relationship often were difficult to sustain. The short-term trade prospects varied with more general international conditions. Generally speaking many British firms benefited, on the one hand, by the beginning of the Korean War, which resulted in a threefold increase in Hong Kong exports to China from the 1950 level of \$US 14,000 to \$US 335,080 for the six-month period prior to June 1951.³⁶ On the other hand, shortly after the war began, British firms in China, for example, suddenly and swiftly became victims of the UN embargo of China which Britain agreed to observe. Under these conditions any British trade with China became difficult. In response to the embargo, most Western nations, including Britain, restricted their trade with China to items such as cotton, fertilizer, textile machinery, dyes and drugs.

In this context, China feared the complete halt of imports from abroad.³⁷ Because of the conditions imposed by the Korean War and the UN embargo, China abandoned normal methods of commercial trading and financing in favor of various types of barter deals in which exports were permitted only against virtually assured imports. Any imbalances which accumulated

36. Even Luard, *op. cit.*, p. 68.

37. Pauline Lewin, *The Foreign Trade of Communist China*, (New York: Praeger Publishers, 1964), pp. 30-38.

were kept small and short term. China shifted to barter trade as a direct result of China's unfortunate experience when the U.S. government froze Chinese assets located in the U.S. Subsequently, Peking wanted to avoid maintaining or building up other assets abroad that might be frozen without warning or redress should America's more forward policy be followed by its Allies in the West.

For their part the Chinese tried to circumvent the effect of the embargo in another way, by switching the main flow of China's trade from the West to the Soviet and East European bloc. They also sought to make it as uncomfortable as possible for those who maintained the embargo. What this meant, as Chen Ming, China's Vice-Minister of the Foreign Trade Ministry for the East China Region, explained to a British firm's representatives, was that China was only prepared to trade provided there was "full security for China." Evidently this is why in 1951 the Chinese promulgated new regulations denying permission for Chinese export goods to be shipped until the purchase money was deposited in China by telegraphic transfer. This meant that foreign importers and exporters had to finance the cost of their imports to China until such time as they could recover their outlay from the sale of exports from China. Foreign firms were reluctant to remit money to China on the terms demanded. There was no guarantee in the event of a non-executed contract that the goods would be shipped or that the deposit would be refunded.

As part of the Chinese policy of obtaining "full security for China," the Chinese required that all foreign contracts be guaranteed against non-compliance. Because British banks charged an insurance fee of one-eighth of one percent of the value of the contract and put a time limit on their guarantees unacceptable to China, British firms established a policy of guaranteeing each other's contracts. For example, in the event that Shell failed to meet the provisions of a contract with the People's Government, the guaranteeing firm, Swires, would be liable. In this situation many firms decided that the benefits of trading with China were outweighed by the risks.

British firms, then, were obstructed from all sides, not just by the Chinese Communists. Prior to the Korean War, the firms were trying to cope with new Chinese regulations which effectively limited the profitability of China's trade and investment. After the Korean War began, because of the UN embargo, firms had the new difficulty of locating supplies for export to China in barter arrangements acceptable to the British government. Peking, in

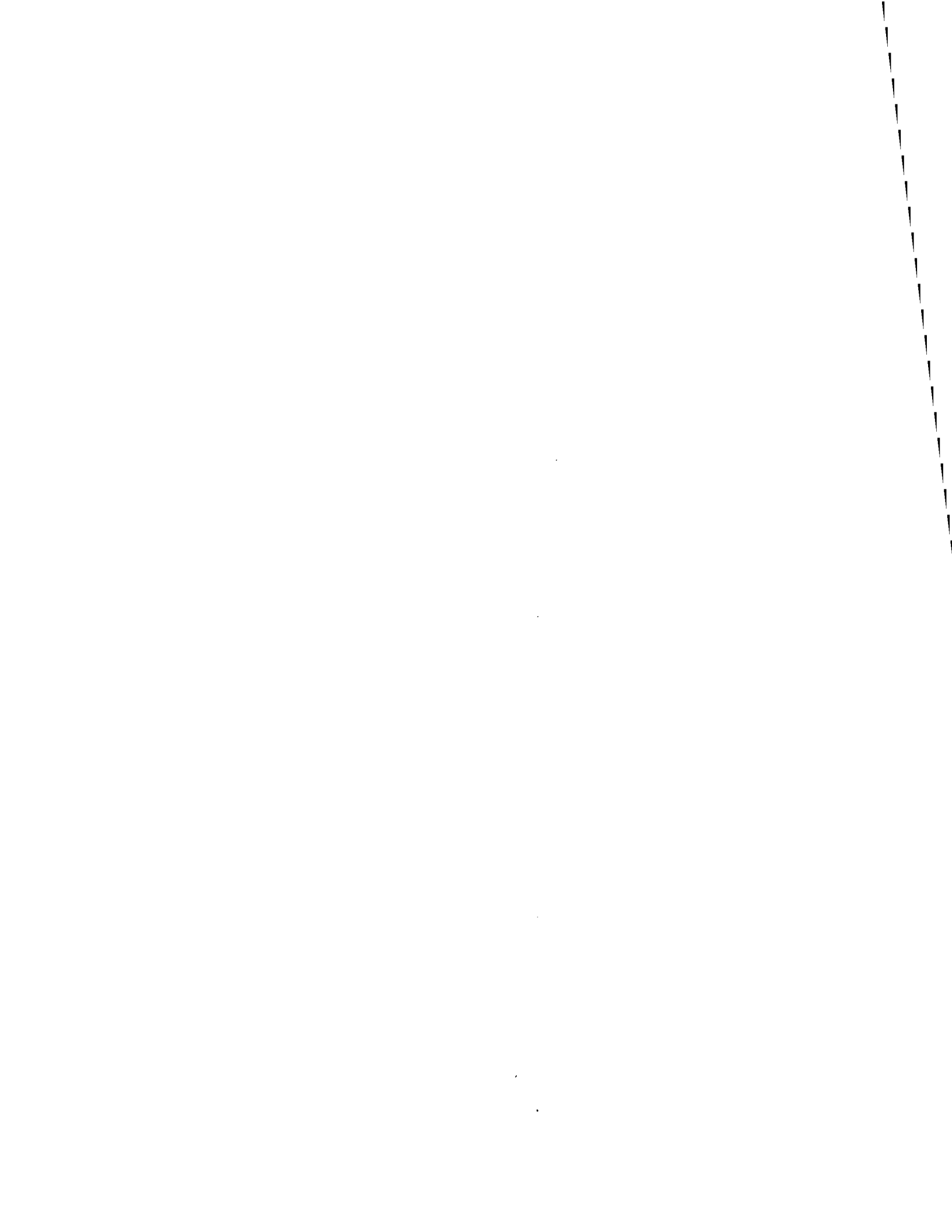
turn, stiffened in not approving Chinese exports unless suitable imports were lined up to utilize the proceeds. Understandably, the People's Government was afraid of receiving unusable foreign exchange, of acquiring freezable Chinese assets abroad and of a drain on outputs without compensating inputs.

British firms, caught in the middle, feared violating the embargo, as well as being placed on an unofficial black-list in the United States for trading with China at all. To complicate matters, within China there were analogous retaliatory restrictions which adversely affected foreign firms. For example, in addition to the imports-first requirement of the barter trade, the Chinese placed the most popular export items on a "Special Export List" requiring foreign firms to obtain official permission for exporting.

The British firms were in a bind. Faced with a Chinese government hostile to foreign capitalism and the British government's compliance with the U.S.-directed UN embargo hostile to China, British firms concluded that from a purely trading angle there was little justification for continuing trade with China. For the leading British firms' part, however, the firms continued to hope that their potential as exporters-importers, if not as foreign investors in China, would serve as a basis for preserving good relations.³⁸

The reason good relations were so important for the firms lay in the reality of hostage capitalism. Foreign firms wanted to reduce their many commitments throughout China. Closure, however, was dependent upon the good will of the people's Government. Maintaining good will had become especially difficult when Britain agreed to the UN embargo of China. Efforts at closure on the part of the leading firms were feared by the firms to be possibly construed by the Chinese as a "lack of good faith." As a result the leading British firms' executives in 1951 saw little prospect of *ever* being permitted to close down their operations in China without jeopardizing the potential longer-term trade relationship between the People's Government and newly organized British "China firms" outside China.

38. See *in passim.*, C.A.M.C., for 1950.



Chapter III

“THE BRITISH CHINA TRADE HAS HAD IT”

- A. The “San-Fan” “Wu-Fan” campaigns
- B. “This is Too Much”

By early 1952 conditions for British investment in China had deteriorated to the point that they were no longer described in terms of a hopeful “wait and see.” The previous months’ problems, now exacerbated, in the view of the British firms, by China’s “San-Fan” “Wu-Fan” (Three-Anti Five-Anti) campaigns, affected British firms’ assessments of their future in China. “Surely the picture is very clear for all to see,” wrote a British *taipan* in February, 1952, “and the writing is on the wall even in braille for the blind . . . British China trade has had it.”¹ Simply getting out of China on any terms was unacceptable, but inevitable.

The decision to withdraw from China was not an easy one for British firms. Some firms, especially the larger ones, even considered retaining their properties, at least legally, in the hope that either a new government would one day rule China or that conditions of doing business under the People’s Government would change in order that various British commercial interests could once again engage in profit-making. “The obvious maneuver would have been to try to conduct our retreat so that the Chinese are forced to take over our properties without our consent,” noted a British businessman.”²

The hope for a return to the previous era’s business environment presented great difficulties, in the words of another *taipan*, “akin to wishing to give away our cake and still hold on to it.”³ Even if properties were legally retained, perhaps by a lease arrangement, various taxes amounting to large sums of hard currency would have to be paid on an option of better business conditions in an uncertain future. In the view of British businessmen, there was every reason to believe, as a condition of that option, that any succeeding non-Communist Chinese government might nationalistically say that the British had in fact given up their land and buildings under the Chinese Communists,

1. Confidential document, Shanghai, February 26, 1952.
2. Confidential interview, London, December 1, 1975.
3. Ibid.

and therefore they belonged to the new succeeding government. Realizing this possibility, British firms unanimously agreed to enlist the help of the British government with both negotiations for the liquidation of British investments in China and for the establishment of a new British organization whose purpose it would be to trade with China from Hong Kong and London. Maintaining China properties in any way was no longer considered a possibility.

A. *The "San-Fan" and "Wu-Fan" Campaigns*

Chinese firms and foreign firms were organically linked; they did business with each other. It follows that any change in business conditions affecting Chinese firms would affect foreign firms. This was indeed the case with China's "San-Fan" campaigns in late 1951 and early 1952.

While prior to 1949 the Chinese Communists had developed a high degree of organizational skill in an agrarian environment, the issue after the Communist Victory in 1949 was whether they could handle the task of governing and developing the relatively sophisticated and complex urban sector of Chinese society. Shanghai, for example, was not simply a war-torn, refugee-swollen city which would become the industrial heart of the People's Republic. Shanghai had also been a base for the defeated Chinese Nationalists (KMT) and the center of foreign imperialism in China. To the Chinese Communists, Shanghai, therefore, represented "the struggle against the cynicism of bureaucratic capitalist speculation and the dead weight of imperialism."⁴

The struggle proved to be lengthy. From the outset the Chinese Communists' governing of Shanghai included a system of price controls to force out of business private Chinese firms involved in speculative ventures. Chinese capitalist elements retained, however, a dominant position in Shanghai during the first eighteen months under Communist rule. Rapid recruitment of new members into the Communist Party to organize Shanghai could not and did not prove adequate to prevent continuing speculation, corruption and otherwise illegal business dealings associated with the permissive atmosphere for which Shanghai had been well known under Nationalist rule.

The party itself, in part, reflected the society within which it had developed. Some Communist Party members were willing to

4. Soong Ching Ling, "Shanghai's New Day Has Dawned," in *The Struggle for New China*, English translation (Peking: Foreign Language Press, 1963), p. 246.

enrich themselves by engaging in bribery, the use of public funds for private ventures and the sale of public property to private individuals.⁵

China's continuing struggle against these undesirable elements in its society and within the Party took the form of a series of mass-movement campaigns during late 1951 and early 1952. The "San-Fan" (or Three-Anti) campaign against "corruption, waste, and bureaucracy" in government offices in the winter of 1951-52 reviewed the conduct and discipline of Party and non-Party officials who failed to meet Chinese Communist Party standards. The subsequent "Wu-Fan" (or Five-Anti) campaign, which grew out of the immediately preceding "San-Fan" campaign, was specifically directed at Chinese businessmen who allegedly engaged in bribery, tax evasion, theft of state property, cheating on government contracts and stealing state economic secrets. The effect of the two campaigns was to drastically weaken the position of urban capitalists in China. Combined, "San-Fan" and "Wu-Fan" reduced the wealth and assets of urban capitalists, ostracized many as being potentially dangerous and subversive, and eliminated any possibility of their maintaining or achieving significant political influence during the period when China's leaders wanted to socialize the country's economy.

The campaigns took the form of wide-scale denunciations and confessions encouraged by the Chinese Communist Party. Many of the charges espoused the general judgement that private profit-making was exploitative, the equivalent of "stealing from the people." As a result of the campaigns, *People's Daily* reported in October, 1952 that seventy-six percent of all merchants and capitalist industrialists in seven cities were found guilty of one or more offenses and punished by fines exacted by the newly established People's Tribunals.⁶ At the same time, while the Tribunals required the payment of various fines, Chinese firms were prohibited by law from hiring or firing workers, altering their wages, borrowing private capital or ceasing to operate.

The combination of economic hardship and psychological demoralization so weakened China's capitalist sector that the Chinese Communist leadership was able to organize and reinforce a variety of control mechanisms, rejuvenated labor unions, for

5. The best analysis of "San-Fan" "Wu-Fan" which I have relied on, is John Gardner, "The Wu-Fan Campaign in Shanghai," in A Doak Barnett (ed.), *Chinese Communist Politics in action* (Seattle: Univ. of Washington Press, 1969), pp. 477-539.

6. *People's Daily*, October 1, 1952.

example, in an effort to prevent a resurgence of bourgeois influence. Most Chinese firms, weakened by the mass campaigns that forced them to accept loans from the People's Bank, simply became managers of production under state control and direction. The campaigns "pushed private industry and commerce a step towards state capitalism," Chou En-lai later remarked.⁷

The "San-Fan" "Wu-Fan" campaigns were conducted with such intensity and effectiveness against Chinese firms that foreign firms were affected as well. "Everything per force has come to a virtual standstill," wrote a British businessman from Shanghai.⁸ Many Chinese government offices and Chinese firms opened for normal business two hours a day, which barely enabled them to deal with day-to-day routine business and made all new business of any consequence out of the question. Chinese firms which normally would have had business dealings with British firms were tied up with "San-Fan" "Wu-Fan" activities.

Beyond that, British firms came under direct fire in the campaigns over matters concerning irregular practices, wages and corruption. To illustrate, British firms usually paid higher wages than most Chinese firms; jobs with these firms were enthusiastically sought by Chinese workers.⁹ Since most British employers relied on a gang-boss system, whereby the number one foreman recommended the workers to be employed, foremen acquired immense power over workers seeking jobs. In exchange for work, foremen usually exacted tolls from the wages of both men and women workers, and with attractive women they frequently exacted other favors as well. Sustained criticism of these practices during "San-Fan" "Wu-Fan" disrupted business for British firms.

On another level, one British firm's staff got directly involved in the campaigns when an Insurance Department head was locked up and fined by the Chinese authorities for passing business contracts in Shanghai to Hong Kong where taxes were more favorable to the firm.

Events seemed to go from bad to worse for British firms in China. Under the impact of the mass campaigns in China, the courts ruled that it was illegal for any Chinese worker not to receive his wages or for his livelihood to be jeopardized in any way. Although this was a monumentally reasonable decision from

7. Chou En-lai, "A Great Decade," in *Ten Great Years* (Peking: Foreign Language Press, 1960), p. 27.

8. W.C. Gomersall, *The China Engineers, Ltd.*, "Quarterly Review," November, 1951.

9. *Ibid.*

the worker's point of view, British firms found it very difficult to accept. From their point of view, past practices should be a guide for the present. As a result, in March, 1952, a British executive, as the responsible person for his firm's accounts, was locked up for a week by a judge of a People's Tribunal for the firm's failure to meet its February 1952 wage bill for 200 Chinese workers.

In an effort to resolve the problem, a leading British firm asked for a reconsideration by the People's Tribunal of the firm's need for financial assistance to meet wages, as well as the payment of the firm's 1951 income tax without a penalty for late payment. In the previous year, 1951, the firm had been able to borrow from the Chinese-owned Best Service Bank and the National Industrial Bank of China. Now, however, because of the "San-Fan" "Wu-Fan" regulations, borrowing was not permitted.

The British firms' financial problems can be appreciated from the beverage sales record of one British bottling firm from 1946 to 1951.¹⁰ In each of these years, the average sales for January and February combined had been 18,384 cases of various beverages. In contrast, sales for January and February of 1952 amounted to only 2,713 cases. The difference, in the firm's view, was largely attributed to China's virtual deprivation of the foreign firm's right to sell. The People's Government had recently established a government bottling enterprise, amounting to a government monopoly on bottling production and sales. As a result the foreign bottling company's lack of local revenue created another problem for the firm. The balance of its 1951 income tax was due on March 12 and was now accumulating a fine of one percent per day on unpaid tax.¹⁰

In order to free its Shanghai-based executive the \$HK equivalent of \$US 25,000 was raised from a friendly British firm with the aid of the Hong Kong Bank to help pay February wages and the previous year's income tax. In the meantime, in spite of the government bottling company's virtual monopoly, British business executives hoped for enough spring sales of various beverages to provide revenue for operating expenses and to prevent another visit to the Shanghai jail.

B. *"This is Too Much"*

Until now the larger British firms had planned to continue operating its various enterprises in China. A year ago foreign executives were less certain that their firms would have an

10. Confidential interview with a British *taipan*, London, December 1, 1975.

unprofitable future in China; now it was universally agreed that "the crux of the matter is what is the least expensive way of saying we plan to quit." How to do this, of course, was a great issue when the Chinese government, and not British firms, decided all business conditions. "There are increasing signs of the bill mounting up every day we delay," and "this is too much," added a taipan.

Consequently, in March, 1952, China Association member firms agreed that business conditions were so irreversibly dismal that the British government should be asked to use whatever offices it might have to expedite closure for British firms in China.¹¹ An initial, immediate concern, noted in a China Association memorandum, was how firms could be protected from being required by the conditions of hostage capitalism to remit funds from outside China to British firms in China. An often proposed, but never implemented, defense was enactment of British government-enforced licensing restrictions on the transfer of sterling in China. China firms in the spring of 1952 heatedly discussed this defense but were afraid that such a licensing system might only bring swift retaliation by the Chinese.

Individually, each firm was making its own withdrawal plans. As a part of one plan, several firms advocated a collective approach among China firms working closely with the British government. A central component of this approach entailed announcing a date for cutting off all remittances from abroad in order to force negotiations for closure to begin. Even if all of the firms could agree that it was time to withdraw, there was not, however, a consensus to establish a cut-off date for remittance of Sterling to China. The British banks did not like the idea of a deadline date at all, because they had commitments to the Chinese government for the return of U.S. dollars which the U.S. government had frozen. British American Tobacco, on the other hand, was engaged in its own negotiations for closure with the Chinese which, in the view of British American Tobacco, were coming to a close. Shell, having been expropriated outright a year earlier, was only interested in getting its five remaining staff members out and opposed any deadline. In short, all of the firms still perceived themselves as being in their own canoes and still hoped to find a paddle or two that would allow individual profits

11. China Association telegram to Secretary of State for Foreign Affairs, "Withdrawal of British Firms from China-permits for Sterling Remittances," March 18, 1952, and Leo Lamb, British Chargé d'affaires in Peking, to British Foreign Office, March 17, 1952.

so they could paddle according to their own specific circumstances. Without unanimity among them, the British government, of course, would not consider arranging the restrictive licensing procedures discussed.

Despite the lack of agreement on a cut-off date, various firms and the British government were still able to agree to a plan of action they hoped would expedite closure. A "two-shot" approach was finally accepted. First, a statement was to be sent to the Chinese by Leo Lamb, the British Chargé D'affaires, who would simply note that the various disabling policies affecting British firms could only result in the elimination of British business interests in China. This first note hopefully would pave the way for a second note asking for negotiations to begin for the liquidation of British firms in China.¹²

Though in a poor bargaining position, British firms and the British government hoped to be able to deliver the notes in such a way as not to provoke the People's Government into sudden and violent reaction, especially at the local level. British firms in London and in Hong Kong worried immediately about the safety of British staff in China, though their long-term concern was with Britain's presence in Hong Kong and the future of Sino-British trade.

Knowing that the involvement of the British government in negotiating with the Chinese government was not likely to significantly reduce the pressures of hostage capitalism, the various firms' executives continued to pursue their own efforts towards closure. It was a difficult no win situation. On the one hand, a collective approach required the gamble that individual concerns of various firms might be sacrificed to a greater degree than in an individual effort. On the other hand, the firms feared that negotiating individually for withdrawal would increase the likelihood that "not only will (one firm) be played off against the other but outstanding contracts might have to be executed to the letter." So, serious problems existed even if fears of retaliation against British staff in China, Hong Kong or future trade proved groundless.

Various schemes were proposed within each British firm to achieve the fastest possible closure. A problem for one of them, getting rid of the burden of Hong Kong-domiciled companies,

12 For the first two notes see Great Britain, Foreign Office, *Correspondence Between the Government of the United Kingdom of Great Britain and Northern Ireland and the Central People's Government of China on British Trade in China, Peking, April 12-July 5, 1952* (Cmd. 8639) (London HMSO, 1952), p. 2-3.

included as an initial proposal the washed-sale of the parent firm's controlling shares in the subsidiary firms so that the parent firm could be disqualified under Hong Kong law from acting as general managers.

"In order to play really safe, it seemed to me," wrote a British *taipan*, "that the transfer should not be domiciled in the Far East. I am wondered therefore about a suitable 'stooge' company, registered, let us say, in Montevideo, which would be prepared to hold these shares under a declaration of trust in favor of the firm."¹³

The idea was for a purchaser to pay the market price of the parent firm's shares, for which the parent firm would reimburse the purchaser immediately from reserves held abroad. This, in the view of the *taipan*, theoretically would have permitted the parent firm to forfeit the Powers of Attorney for the subsidiary companies and to be free of responsibility for the subsidiaries' liabilities.

The problem with this scheme, as Chinese authorities made very clear, was that the People's Government was not in the least interested in the technicalities of Hong Kong business ordinances or in the various attorneys' agreements between British parent firms and their subsidiaries. To discourage a leading firm's liquidation tactic, the Chinese authorities, perhaps aware of the nature of the firm's internal discussions, showed great interest in the possible transfer of parent company shares by asking for detailed lists of shareholders in the subsidiary companies. More conclusively, the Chinese reasserted that no firm could give up its responsibilities without the approval of the People's Government. In practical terms British firms were learning once again that China was indeed calling the shots.

Yet, if only because British firms did have obligations to their shareholders, the firms could not consider Hong Kong business ordinances at Attorneys' agreements to be unimportant. In the case of moving towards liquidation, for example, one British firm's directors felt obliged to comply with Hong Kong Ordinances in getting the majority of the firm's shareholders to pass a resolution in favor of liquidation. Otherwise, in the event of a successful closure in China, the firm's directors feared fines for non-compliance with Hong Kong business law and liability suites against the directors by the more powerful of the shareholders in Hong Kong. The firms were on the defensive from all sides.

13. Cf. 10.

For the time being, however, British firms had no option but "to sit tight" in anticipation of the British Diplomatic Notes, the first of which was communicated by Leo Lamb to the People's Government on April 12, 1952. As previously planned, this note outlined the firms' difficulties and added, "If this situation continues it can only result, sooner or later, in the elimination of British business interests in China to the detriment of friendly relations between China and the United Kingdom." A second British Note was communicated to the Chinese on May 19, even before China had replied to the first note. This second note stated the obvious: "Nearly all, if not all, of the British companies in China had come to the conclusion that (the change in Sino-British business conditions brought on by the Chinese Communist Revolution) necessitates a corresponding change in the nature of their obligations and in the scope of their activities."¹⁴ Closure, as the British chargé d'affaires put it, was in order, although the firms still hoped to perform a useful service in the interests of Sino-British trade, the proper machinery for which, as the note went on to suggest, should be established.

All of Britain's Diplomatic Notes, including a third one in November, 1952, sought a quick resolution of the difficulties facing British firms. But the British would offer nothing in return, not even relaxation of the trade embargo. Theoretically, British options were many. They varied from publicity through "planted" articles in Western newspapers, to cutting off remittances, to closing Chinese banks in London or Singapore, to halting the purchase of Chinese exports or even to the withdrawal of the British Chargé d'affaires. In fact, there was little that Britain could do to facilitate a rapid withdrawal. The steps Britain might have taken probably would have produced only a "mounting spiral of reciprocal brutality," a "game" which Humphrey Trevelyan, British Chargé d'affaires to the People's Government from 1953 to 1955, pointed out later "we were unlikely to win."¹⁵ The British Notes then could be little more than pleas for mercy.

The People's Government replied to the British Notes in July.¹⁶ As expected by the firms, the reply did not help them. Chang Han-fu, responding on behalf of the People's Government asserted that "the predicament of the British firms in China was

14. Cf. 12. The third note was merely a reminder to the Chinese that British firms were having difficulties and a further plea to help ease those troubles.

15. Humphrey Trevelyan, *Worlds Apart: China 1953-55, Soviet Union 1962-5* (London: MacMillan, 1971), p. 59.

16. Cf. 12.

the bitter fruit of the policy of trade control and embargo of the British Government . . . by following the U.S. Government in carrying out the trade control and embargo." Chang Han-fu argued, "the British Government had not only contravened but also jeopardized the interests of the British people."

Because of what the Chinese viewed as the British Government's official hostility, the People's Government refused to establish full diplomatic relations with Britain. Relatedly, Peking was not prepared to discuss closure for British firms with the British government. Instead of dealing with the matter of British interests in China with the British government, the Chinese preferred to respond directly to approaches from the British firms involved.

The third party involved, China, did not object on principle to taking over British industrial assets. Yet Chinese terms were expected to be hard, partly in response to the historic policies of imperialism employed by Britain against China. More immediately, in 1952, China feared increasing diplomatic isolation from the West. The U.S. Navy, for example, was pressing for a blockade of the entire China Coast. As a matter of prudence, the Chinese therefore tried to prevent isolation by holding hostage the various British firms which while being restrained from closing, would be certain to exercise their influence on the British government against such a blockade.

When the Chinese government was prepared to allow the firms to leave, the terms were expected to be difficult. Nobody doubted this since early signs all pointed in that direction. Among them were the demands made on a number of leading British firms by trade unions in Tientsin. These demands, which the Chinese government required to be accepted before serious discussion of closure could even take place, included: (1) one and one-third months of regular wages per year of service as severance pay to Chinese workers; (2) six months wages for termination of employment; (3) six months salary as discharge fee owing to closure of business; and (4) a home-leave travel allowance equal to ten percent of the discharge fee.

Given the difficulties in Tientsin and the likely troubles with closure applications to follow in Shanghai, one British firm's directors decided to try to negotiate closure on the basis of the firm's holdings, with the greatest liabilities to be negotiated first. The parent firm basically involved itself in the export-import trade as well as the general managements of several subsidiary companies. With little foreign trade taking place, the firm's

directors decided to make a case for closure on the basis of its assets in various property holdings against accumulating liabilities (as viewed by the firm) due to the difficulty of doing any export-import business.

As a shipping enterprise at a time of little or no actual shipping business, this firm's monthly overhead of the People's Dollar equivalent of \$US 20,000 in workers' wages made it necessary for the firm to bring in remittances from Hong Kong, totaling \$US 400,000 in Hong Kong Dollars in 1951. Not surprisingly, the firm's directors were anxious to cease operations. The firm's representatives went to the Shanghai Foreign Affairs Bureau on September 9, 1952 with estimates of assets and liabilities to begin closure negotiations.

A big discrepancy between assets and liabilities on the side of assets was intentional. The big discrepancy was desirable as others wishing to add to the firm's liabilities and to question the total of its assets were expected to be less inclined to bother if the assets total were sufficiently large. Assets were listed to be the RMP equivalent of \$US 1,500,000 based on a recent Shanghai Realty Guide Association valuation of the firm's principle land and buildings. Liabilities were figured to be the RMP equivalent of \$US 250,000.¹⁷

The Chinese authorities expressed little interest in the favorable reports of the firm's own balance sheet's assets and liabilities; the separation of various assets was merely legalistic. The Chinese saw through the disingenuous tactic of trying to close the parent firm before closing the associated firms. As Managing Agents with Power of Attorney for various subsidiary companies, the parent firm, Chinese authorities reasoned, would not be eligible for closure until the accounts of various subsidiary companies were first settled. In short, the Chinese, and not the British firm, decided in what order the firm's holdings would be liquidated. The order that would be used would reflect China's interest, and not the firm's.

Pursuant to the Chinese decision that the parent firm could only follow closure of the subsidiary firms, parent firm executives then focused their attention on the two companies, which had the two largest deficit accounts, and on another subsidiary as well. One subsidiary was in crisis, in the view of the firm's executives, especially because of the average monthly clinic and medical expenses for its nearly 200 workers. Because of new Chinese regulations, in 1952, the average monthly expenses for medical care had risen from the previous year's average of \$US 250 in

17. Confidential Document, Shanghai, September 7, 1952.

RMP to the RMP equivalent of \$US 2,000. In the case of a different subsidiary, liabilities in November 1952, according to the firm's records, had become forty-five percent of the estimated assets based on a 1946 valuation. The valuation of various shipping industry assets, Chinese authorities argued, was now figured too high because of poor business conditions, negligence in maintenance and the inability of the parent firm to find a Chinese firm interested in buying.

These early negotiations concerning closure of a leading British firm's assets reflect and epitomize the historic turnabout of the foreign business environment in China created by the Chinese Communist Revolution. The exchanges between a firm's executives and Chinese Foreign Affairs Bureau officials, for example, are archetypal. They show the confrontation between different interests, social systems and world views as well as the inability of the weaker party, here, the British firm, to assert itself forcefully in that confrontation. The historic shift in relative power allowed the Chinese to collect from British firms a part of what they viewed as an historic debt for past exploitation.

A typical example of this confrontation is incorporated in the following deadpan conversation between a British business executive and a Chinese official in November 1952:
British business executive:

The reason why our bottling company has to cease production is not because of a shortage of resources. There is plenty of material to carry on more production, but continued production without sales would only mean spoiling and throwing away the stock. Our accumulated stock right now is more than the amount sold in the past eight months . . . The right to sell beverages has been taken away from the management because it is impossible for a bottling company under foreign management to compete with government-operated bottling companies whose sale is being pushed everywhere in Shanghai to the detriment of (our) firm's. If our company were taken over by the Government it would be operated at a profit, because the bottling company's plant and machinery are the most up-to-date but (they are) a dead loss under foreign management.

Chinese official:

The question of who is to operate the bottling company will be decided by the authorities concerned, but until that

question is decided (the parent firm) should be responsible for the operation, production and the workers' welfare.

British business executive:

(The firm) will, of course, do their best to manage the bottling company, but (the firm) cannot be responsible for lending money to the bottling company.

Chinese official:

I have not said anything about the parent firm lending money to the bottling company. I said the parent firm should be responsible. Whether or not you lend money is for you to decide.

British business executive:

(The parent firm) will certainly do their best. I just want the Bureau to understand and appreciate the extreme difficulty the bottling company is in, and ask the government to assist the company by expediting a closure decision.

Chinese official:

Yes, until the government has made its decision (the parent firm) should be responsible. If anything happens affecting bottling production and staff welfare, or anything in contravention to Government regulations, (the parent firm) will be held responsible.

British business executive:

I assure you (the parent firm) will do their best and (the parent firm) has never intentionally done anything in violation of government laws and regulations. Incidentally, may I know what the Comrade had in mind when he mentioned "in contravention to government regulations?"

Chinese official:

You must know what things are within the law and what not without my telling you anything. You know, of course, that foreign enterprises operating in China must do everything in accordance with Chinese law.

British business executive:

Oh, yes, of course I understand that. Rest assured (the parent firm) has never intentionally done anything to violate the government law, neither will it do so in the future.

Chinese official:

Anything more to say?

British business executive:

That is all, thank you, but I do appeal to the Comrade to do what he can to expedite a decision on these important matters. His assistance would be greatly appreciated.

Chinese official:

(nodded)

A similar exchange between a British business executive from a shipping firm and a Chinese Foreign Affairs official illustrates the same historic turnabout in business dealings in China. Unlike in the past, when the British firm's major concern in China had been to earn profits to be remitted to London, the demands of hostage capitalism now necessitated that the company's highest priority be meeting the labor union's demands for better health care, even if that meant providing imported medicines to workers. In the new context, the firm had little recourse but to abide by Chinese rules and regulations as they were emphasized in the following discussion. The Chinese official's simple, straightforward language underscores China's awareness that it had attained the superior position during all closure negotiations.

Chinese official:

Until your application for closure is approved by the Government you must continue to maintain the livelihood of your employees. And it is our opinion you should continue to do business, and curtail your expenditure at the same time. Open up the sources and check the flow, as we say.

British business executive:

I quite understand all of this but doing business is practically impossible and our unions make it difficult to

reduce expenditure. The heavy drain caused by the Clinic and Medical Expenses is a reason. The management has no control over these expenses which are entirely at the mercy of the Union. We have recently appealed to the Union to cut down on medical expenses but have gotten nowhere. The majority of the patients demand imported medicines although they know there are locally made medicines just as good and costing only a fraction of the expensive imports, which must be bought with foreign exchange.

Chinese official:

If the expenditure is beneficial to the health of your employees you have to spend the money.

British business executive:

And the Tax Bureau says we must pay income tax. We lost a lot of money last year and the year before. The tax officer, Comrade Wu, has frequently visited our firm and knows all our profit and loss situation; but the Tax Bureau recently has said we must pay Income Tax on an estimated basis for 1952.

Chinese official:

How much is your income tax? Have you received your demand notice?

British business executive:

We were told a week ago that we were to be assessed (the RMP equivalent of \$US 11,000). I went to the Tax Bureau and protested strongly and I hear the amount has been reduced to between the (RMP equivalent of \$US 2,000 and \$US 3,000). But even this is too much to a firm that lost a great deal of money last year; there should be no income tax on losses; we have not yet received the demand notice. I understand that it will be sent to us next week.

Chinese official:

The Tax Bureau does things in accordance with government regulations. They make an estimate according to the general conditions of a trade, fix a sum to be assessed, and collect in advance. Then the Tax Bureau will inspect your books, and if they find you have lost money, they will refund the money

collected, or require you to make up more if your books prove you have made a profit and have paid less than you should.

British business executive:

Yes, I understand . . .

During these discussions between British business executives and Chinese officials the central issue was not yet the actual terms of the firm's closure, but whether or not the firm presently would be considered eligible to make the application for closure. The negotiations for closure would have to come later. This unhappy situation for British businessmen made any consideration given by Chinese authorities to their business difficulties appear as a hopeful sign.¹⁸ Therefore, when the Chinese gave a British-owned bottling company permission in November to dispose of surplus equipment and, at the same time, purchased 1,500 cases of various beverages, the firm's directors took comfort in at least being able to meet the rest of the year's wage bills without bringing into China any more hard currency. The continuing difficulties of the various firms in Shanghai, not to mention similar problems among British shipping offices in other Chinese cities, did not, however, foster bright expectations. If nothing else, the firms hoped that when closure eventually did take place, a much discussed trade relationship with China from abroad, rather than inside China, would permit continued profit making.

The future, however, was tied to the present. To realize expectations of future trade relationships with China, the various British firms felt that they had first to allay Chinese fears that closure and withdrawal were part of a plan to further retaliate against China for its involvement in Korea. This is why Leo Lamb in his Diplomatic Note of May 19 stated that "while existing machinery is not appropriate to present-day needs, the firms feel that they can still perform a useful service in the interests of Sino-British trade."¹⁹

18. Virtually all China Association memoranda for 1952 suggest possible link between closure and future trade. For general discussions of these issues see Evan Luard, *Britain and China* (Baltimore: Johns Hopkins University Press, 1962), Robert Boardman, *Britain and the People's Republic of China, 1949-1974* (New York: Harper and Row, 1976), and Brian Porter, *Britain and the Rise of Communist China* (London: Oxford University Press, 1967).

19. China Association, H.J. Collar, for "China Affairs Committee HK," to Leo Lamb, May 15, 1952.

To this end, the possible establishment of a trade association to stay on in China after all closures was a continuing topic of discussion among British businessmen in the fall and winter of 1952. Two alternative proposals were discussed. One was for a loose association of representatives who, with Peking's approval, would act as contract men in Peking to keep British manufactures abreast of Chinese trade developments, but who would not accept responsibilities for the behavior of individual manufactures in Hong Kong or London. The other was for a trading company which would act as an agent for British importers and exporters. For two reasons the prevailing view throughout 1952 favored the former.

First, because individual firms and their human agents were in difficult straits, in part because of taxes and tax fines, no British China firm wanted to assign to an agent in China any business that might attract Chinese tax liabilities. The firms wanted to close down and avoid such troublesome responsibilities in the future. A trade company in China therefore was contradictory to the single most important goal of the various British firms getting out of China.

Second, a loose association was favored because of the different preferences for closure and future trade among individual firms. The easiest way to make a consensus proposal to the People's Government was to let the association start with the most flexible terms of reference and try to solve its problems as they arose.

The firms agreed, however, that merely raising the issue of future Sino-British trade with Chinese authorities might help their negotiations for closure. A possible bargaining chip for the firms with the Chinese, which was never played, was to propose the establishment of a trade association with the precondition that a Peking-approved closure of direct investments precede its operation.

Nobody knew in mid-June, 1952 what the Chinese reaction to a trade association proposal would be. When an outline of the proposal was finally presented to the Shanghai Foreign Affairs Bureau in late summer 1952, the Chinese quickly announced their position that such a trade mission should be established prior to the various firms' withdrawal from China.

The Chinese were in no hurry to ease closure for the firms. Nor did they accept responsibility as the exclusive or prime source for the firms' difficulties. The Chinese blamed strategic trade regulations enforced by the British government for much of the

difficulties of the various British firms. Not only did the People's Government feel that the British government's position was one of hostility towards the new People's Government but in addition, that many of the traditional British firms were psychologically incapable of accepting the Chinese Communist Revolution and were seeking excess profits "as if China were still the old corrupt foreign colony."²⁰

Because of these various problems associated with the old China firms, China saw the possibility of doing business with other, more sympathetic British firms. When China sent delegates to the Moscow Economic Conference in April, 1952, they ignored the old-China-hand British firms by signing agreements with a British delegation of assorted British businessmen and left-wing politicians for \$US 28 million.²¹ None of the traditional British firms were represented. As a result the old firms feared their complete exclusion from future Sino-British trade. China's establishment of major trade offices in East Berlin and rumors that China planned completely to circumvent Hong Kong for trade with the West exacerbated these fears.

British firms continued throughout 1952 to find themselves caught in the difficult confrontation and transition of the initial Cold War Period. As business in China grew less and less profitable during China's "San-Fan" "Wu-Fan" campaigns, the British firms, which in the previous era had been able to do much as they pleased, now wanted to cease operations and withdraw from China. China, however, was not willing to simply approve their applications for closure. In these difficult times the firms hoped at least in the future to play an important role in Sino-British trade from their home bases of Hong Kong or London. But even that prospect appeared increasingly dim as China increasingly showed signs of preferring to exclude the old British China firms from future China trade.

China now was calling all the shots, signalling to British firms possible future problems. The British government, as a world power and the once military backbone of imperialism in China, was, like the old China firms it had once fought for, now a lingering remnant of an era the Chinese Communists were helping to put to rest.

20. See *South China Morning Post*, May 6, 1952.

21. Boardman, *op Cit.*

Chapter IV

BETWEEN TWO ERAS: THE OLD AND NEW BUSINESS ENVIRONMENTS IN CHINA

A. The Process and Terms of Closure

B. After Closure: Trading *with* China

As British firms and China moved between two eras in their relations, China's control of its economy became more clear than ever before as hostage capitalism came to an end in summer 1954. The "hope and wait and see" attitude at the time of the Chinese Communist takeover changed to hopelessness and desperation in early 1953. Although generally speaking British firms decided to cease operations and to withdraw from China in early 1952, only in early 1953 did the various firms realize how expensive, in the firms view, closure was to be, yet after the firms closure and withdrawal from China, many of which came in 1954, the firms' relations with China did not end. They simply changed.¹

In a desperate effort to gain permission of the People's Government to withdraw from China, a leading British firm agreed in January, 1953 to negotiate its assets against liabilities for a complete Chinese takeover of the firm's China operations. Disputes over the value of these assets and liabilities reflected the different parties' interests and prolonged the negotiations. The firm tried to speed up the slow, expensive process by a variety of means. A trip to Peking by a British *taipan* was even considered "with the sole object of saying to Chang Han-fu (China's Vice Minister of Foreign Affairs), 'How much money will China take to allow (the firm) to close down immediately?'"

The problem was that the various firms' directors were tired of remitting funds from Hong Kong while they waited passively and hoped for closure applications to be approved and the terms of final agreements for closure to be settled. The Chinese, however, were not to be rushed into approving closure applications or settling the terms of closure until they, and not the firms, were ready to do so.

"As to giving you the Government's decision in a short time," a Shanghai Foreign Affairs Bureau official told a

1. Confidential document, Shanghai, May 18, 1953.

British business executive, "please remember (that) this bureau has repeatedly said to you that as (your firm) has been in China for years and years and in consequence has a larger number of problems, it will take the Government some time to study (your application) . . . (you) cannot expect a definite answer in a short time."²

Chinese officials reminded British executives that the People's Government had never said "no" to the firm's application for closure.

China's "yes" in response to British firms' closure application, however, only came gradually. Many subsidiary firms were taken over by China soon after the Korean Armistice in July, 1953. As a reflection of the general improvement in Sino-British relations, the closure agreement for one leading parent firm was finally negotiated in summer 1954, several months after the April Geneva Conference. Final closure agreements cannot be attributed solely to the Geneva Conference. Concurrently, China's entire economy was being nationalized. By mid-1954 that process was in its advanced stages.

After several of the British firms' withdrew from China, their relationship with China continued on a new basis as they played a major role in developing Sino-British trade relations. From Hong Kong the firms traded with China without the direct investment and involvement in China's economy which marked the pre-Communist era in China. This current remodeled relationship between the firms and China apparently has proved to be mutually acceptable.

A. *The Process and Terms of Closure*

Even at the expense of abandoning assets in China, British firms only hoped in the spring of 1953 to be able to negotiate a withdrawal from China. One British firm had already remitted to China the Hong Kong Dollar equivalent of \$US 2,000,000 with no prospect of improved business conditions. In order to meet continuing overhead, the firm tried wherever possible to raise local funds from the sale of unnecessary machinery, for example, a few trucks and accounting machines. But these sales had to be approved by the People's Government, which instead preferred that the firm remit foreign currency. The firm increasingly was desperate to close, if only to cut off remittances to China.

2. Confidential document, Shanghai, April 5, 1953.

In the firm's view the continuing need to remit from Hong Kong led them to propose the formula of offsetting assets against liabilities as a basis for permission to withdraw from China. Using the 1942 British Shanghai Realty Guide to calculate the firm's assets, the firm's managers in their own interest attempted to extract themselves from China in the least painful manner. While the firm used the Realty Guide's terms of the past era to carry the firm into the present transitional era, the Chinese rejected what they saw in this method as a continuing attempt on the firm's part to assert imperialist prerogatives. The Chinese pointed out that, unlike in 1942, the firm's assets now had no value since there were no potential buyers. Without a capitalist environment they were no longer profitmaking concerns.

The unprofitability of the firm's assets was a primary reason given for China's rejection of the firm's calculations of its assets and liabilities. A second reason for China's rejection of the firm's efforts to cease operations arose when China challenged whether the firm even owned what were claimed as assets because of the manner in which they were acquired or because of other liabilities unrecognized by the firm. On the basis of one British firm's unprofitability, for example, the People's Government argued that it would have a difficult time in helping the parent firm find a private Chinese firm willing to take over the firm's responsibilities due to the unhealthy state of the subsidiary company. A Chinese government takeover was considered an impossibility, too.

When China agreed to discuss the terms of closure for the various British firms, disputes inevitably arose over the basis for the firm's calculations of assets and liabilities. In the case of a British bottling company, China argued that in 1945 the bottling company had illegally taken over significant Japanese materials and stocks. The parent firm could not prove the asserted legitimacy of the acquisitions because it had no record that the takeover was ever processed through the Chinese Alien Property Department. There were more mundane disputes and problems to be settled as well. A Chinese "takeover" firm insisted, for example, that as a condition for the Chinese takeover, the British firm provided the Chinese firm with blueprints of the bottling plant. They could not be located.

Illegally acquired assets was not the only problem for negotiating British firms' closure and withdrawal from China. As a final condition for the Chinese takeover of a British firm's shipping agency in Tientsin, the People's Government required that all contracts made up to the time of closure must be exactly

performed. But performance was made difficult by the British trade embargo against China, illustrated in the contract between the British firm and the China National Import and Export Corporation, made prior to the time of closure negotiations, for the installation of a boiler to be used at a hydroelectric plant near Tientsin. Performance of the 1950 contract required that the British firm provide thirty-eight cast and forged steel valves that were only available from the highly industrialized countries of the world, such as Britain. The problem in 1953 was that these valves were included on the British government's embargo list for trade with China. The British firm claimed that liability for nonperformance of the contract was precluded by *force majeure* clauses in the original contract. The Chinese disagreed by insisting that it was simple misfortune for the firm to have to share in some of the hardship created by Britain's policy of attempting to economically strangle China. As a consequence of the exact performance policy, China's Steel and Iron Administration threatened to sue the British firm for nonperformance of the contract. In computing their claim for damages, the British firm's relevant internal memorandum notes,

"the Chinese had it worked out that if the boiler had been delivered on time . . . (and) had been erected immediately they could have produced so many millions of kilowatts between then and January (1954), amounting to a fantastic figure, some RMP 117 million (or \$US 5,000) per day, which had been lost to the country and for which they intended to make a claim."³

Faced with the possibility of this enormous claim, the British firm and the British Chargé d'affaires in China lobbied successfully for the British government's approval of the necessary export licenses for the valves. The Chinese threat of making a claim was withdrawn when the valves' license was approved by the British government in June, 1953.

China's firmness in enforcing various measures, such as insisting contracts be exactly performed, prolonged hostage capitalism and raised the levels of frustration and impatience among British firms whose influence was ending. The firm experienced losses throughout 1953, and the firm's directors often described prospects for closure as "disappointing," a "deadlock," or "dreary as a funeral." Once more, in early 1953, the firm

3. Confidential document, Shanghai, April 8, 1953.

considered cutting off remittances from Hong Kong but the idea was vetoed for fear of a negative effect on the twin goals of quickly withdrawing from China and trading from abroad afterwards. Months later, in an effort to speed up what the firm's directors thought was an inevitable closure, the British government sent the Chinese Foreign Affairs Bureau another note seeking "renewed assistance in causing instructions to be issued so that facilities may be given to British firms to close at an early date." In the same vein, a British *taipan* even appealed directly to Prime Minister Chou En-lai in a telegram. A follow-up letter, which apparently was never answered, suggested the possibility that he might visit Chou in Peking to settle all outstanding matters for withdrawal.

Limited settlement of British firms' closure was made possible by the easing of tensions between China and Britain as the Korean Armistice in July, 1953 drew near.⁴ It was only after the Korean Armistice that China appeared willing to complete closure negotiations. The protracted negotiations for the withdrawal of the parent firms were partially eased by the Geneva Conference of April, 1954 which resulted in generally improved Sino-British relations. Coincidentally China was moving quickly in 1953 and 1954 to completely socialize its economy; too much significance could not be attached to the Korean Armistice or to Geneva as an explanation for the end of hostage capitalism.⁵

After the Korean Armistice, negotiations for the closure of British firms in China progressed steadily. In the case of a British bottling company, a Chinese takeover was finalized in late 1953. Another British firm reached a settlement with the China Ocean Shipping Agency in mid-December, 1953 when the British firm agreed to a cash payment of the Hong Kong Dollar equivalent of \$US 37,000 towards unpaid taxes and fines accumulated on unpaid taxes.

The progress towards closure did not always immediately include the British parent firms. The parent firms' closure was settled only after the Geneva Conference in April, 1954. It was during the Geneva Conference that Anthony Eden, Britain's

4. See, generally Evan Luard, *Op. Cit.*, and Robert Boardman, *Op. Cit.*

5. On the trend towards a completely socialized economy see George Ecklund, "Protracted Expropriation of Private Business in China," *Pacific Affairs*, Fall, 1961, p. 244. The percentage of total industrial production in 1954 was 19.9%; for 1955, 13%; for 1956, nil. The percentage of total wholesale trade in 1954 was 10%; for 1955, 4%; for 1956, nil. The percentage of total retail trade for 1954 was 26.5%; for 1955, 8%; for 1956, 2.9%.

Secretary for Foreign Affairs, and China's Prime Minister Chou En-lai discussed a number of questions affecting relations between Britain and China, including the difficulties of British firms in China.

As a result of the Geneva talks between Eden and Chou, a Chinese diplomatic mission was established in London under a Chargé d'affaires, corresponding to the British post in Peking. In a brief period of near cordiality between Britain and China, Prime Minister Chou En-lai agreed personally to look into sources of conflict between China and Britain, including the closure of the British firms. As if to emphasize China's interest in improved relations with Britain, a month after the Geneva Conference ended, when a British civil aircraft was shot down by Chinese aircraft with the loss of ten lives, the Chinese government surprised the world by publishing an immediate apology and paying in full the claim for compensation subsequently sought (requested) by the British government.⁶

How much this brief détente in Sino British relations helped British firms is difficult to ascertain without access to Chinese sources. Even after Geneva, British businessmen discovered that the assets-for-liabilities formula, as it was envisioned by the firms' directors, did not easily work.

"Eventually it will boil down, I suppose, to the price-cash payment the Chinese will want from the firm to be allowed to close the doors,"

a British businessman predicted.⁷

The difference between the two parties were not simply issues involving extortion. As with any liquidation scheme a number of issues were raised in British firms' closure in China. Unlike in the past, however, China's superior bargaining position dictated inevitable closure terms which were unacceptable to the firm. China was sympathetic to its workers' needs and not to British staff's needs.

It is on the basis of China's sympathies that the cash payment which one British firm was required to make appears to have been justified. During the negotiations for the closure of a particular British firm in early 1954, for example, thirty-one of the

6. "Chang Han-fu Answers Trevelyan in Case of British Aircraft," NCNA-English Peking (July 26, 1964), in SCMP, No. 856:1 (July 27, 1954), reprinted with discussion in Cohen and Chiu (eds.), *Op. Cit.*, pp. 740-71.

7. Confidential document, Shanghai, December 30, 1953.

firm's seventy-three remaining Chinese employees who were qualified under an agreement of February 1950, decided to retire. Under this agreement they were entitled to certain pay. If only thirty-one employees decided to retire the cost would have been the Chinese equivalent of \$US 70,000. If all seventy-three qualified workers wished to retire, which the British firm feared might be the case, the firm's directors calculated the cost of the retirement would be the RMP equivalent of \$US 100,000. The firm argued that in effect the Chinese authorities would be taking over all of the firm's assets and only a portion of the liabilities in requiring that the firm provide the funds for the retirement of these workers. The Chinese did not agree, and the firm was required to remit the HK dollar equivalent of \$US 60,000 as a final settlement of the matter.

China's insistence that employment agreements with this British firm strictly be adhered in one particular case affected two of the firm's British employees. During the closure negotiations two members of the British staff made applications for retirement. If approved, this would have required that the firm provide six months' pay in addition to a pension for life. The Chinese authorities, however, insisted that the firm's employment agreements indicated that employees were only entitled to these circumstances under specific circumstances, which had not been met. For example, an employee was entitled to six months' leave only after completing forty-two months' service. Neither employee had fulfilled this obligation. Further, according to the agreements, an employee was eligible for pension only after completing fifteen years of service and attaining forty-five years of age. One employee was fifty-two, while the other was forty-one.

The firm argued that since closure was a special circumstance, even if these men did not exactly fulfill the terms of the employment agreements, they should be allowed pension benefits. The Chinese, in contrast, argued that the agreements provided the relevant standards for deciding the issue and, based upon them, the two men were not entitled to these benefits. As a result, if the two men were to retire, funds for this, according to Chinese authorities, should come not from the British firm's China operations in the form of a remittance from China, but instead from the firm's reserves held abroad. The Chinese apparently saw the entire matter as a disguised remittance abroad from the firm's China accounts.

China's rejection of disguised remittances reflected the country's determination to retain as much as possible of British

firms' China-based assets. A dispute which focused on transportation provisions from China to England for the two British employees mentioned previously also illustrates that determination. A British negotiator insisted that they should travel by first class since managers always traveled by first class.

The Chinese official replied:

"We cannot find any provision to that effect."

British firm's negotiator:

"Can you find any provision that they should travel by second class?"

The Chinese official (pointing to a paragraph in an agreement):

"here is the provision."

British firm's negotiator:

"This agreement is a dead one. It expired in 1942."

Chinese official:

"They came by second class."

British firm's negotiator:

"There are some precedents that foreign staff were allowed to travel by first class."

Chinese official:

"We have noted such precedents. But they were deviations from the regulations."

How the British employees returned to England is not recorded in this British firm's records. It would be surprising, however, if they returned to England by first class transportation from the firm's China accounts. More likely, the firm's Hong Kong office made up the difference between first and second class transportation.

Once these and other issues were settled between British firms and China, a settlement could be reached for the closure of the firm's China operations. By summer, 1954, a complete settlement was made with several of the leading British firms whereby China simply took over the firm's remaining responsibilities in exchange

for the firm's various assets. Apparently the British firms in turn received no compensation. Typically when the Shanghai assets were turned over to China the firms' assets in various China outports, Hankow, Swatow, Foochow, Tsingtao, and Canton, for example, were simultaneously relinquished as well. Most of the outport agencies had managed to avoid building up great liabilities by using the revenue from renting their properties to meet overhead. For purposes of closure the only liability usually involved in close agreements was the pay-off of Chinese workers in accordance with the firms' employment agreements. In Foochow, which would not seem to be unrepresentative of the other outports, this amounted for one British firm to a remittance in Hong Kong Dollars of \$US 11,000 before closure was agreed to by all of the parties.

As the closure of one British firm's China operations reached its final stages in the summer of 1954, all foreign personnel previously employed by the firm were gradually given exit permits to leave China.

In the new environment which evolved after the Chinese Communists took over, firms like Swires, the Hong Kong Shanghai Bank and Shell, among others, had been caught in the process by which China used its inherited forces of production to transform its economy into a socialist one. Some of these firms' directors hoped that as part of this transformation a new mode of doing business might be acceptable to the Chinese government. With the firms' still sizable reserve held abroad, their directors hoped to rebuild the firms from outside China as import-export firms for the China trade. After establishing a new base of operations in Hong Kong they applied for permission to set up trading correspondent's offices in Peking. The request was denied, but as it turned out this denial had little effect on the firm's later development as a China traders and as dominant firms in the Pacific region as well.

B. *After Closure: Trading with China*

As a reaction to the favorable foreign business environment of pre-Communist China past, the People's Government trade policy has been repeatedly stated: "China is willing to restore and develop international trade relations with governments and peoples of other countries, on the basis of equality and mutual benefit."⁸ During the years of hostage capitalism and the years

8. One example, among many, of this position is "Statement by the Chinese Vice Minister for Foreign Affairs, Mr. Chang Han-fu, on British Trade with China, July 5, 1952" in Cohen and Chiu (eds.), *Op. Cit.*, p. 698.

that followed, China has used its power and influence with British firms to defend itself against discriminatory trade policies reminiscent of the previous era. In the process these firms have played key roles in developing a new era's trading institutions.

Throughout the years of hostage capitalism the Chinese insisted that the root cause of Sino-British trade difficulties was Britain's trade restrictions on the export of various goods to China, which increased the difficulties of British firms in China and affected China's import and export trade with Britain. The Chinese rather explicitly argued that, "(t)he predicament of the British firms in China (was) the bitter fruit of the policy of trade control and embargo of the British government."⁹ Taken literally, the Chinese seem to have argued that without British trade controls and the embargo, the terms for other British firms' withdrawal from China might have been easier. To what degree the terms would have been easier for the firms is impossible to know.

One indication that the British firms would have had an easier time of hostage capitalism was the Chinese reaction to restrictive trade policies. China redirected as much of the Sino-British trade as was possible away from the traditional China firms into entirely new British channels.¹⁰ China sought to deal directly with manufacturers in Britain, even though early efforts do not appear to have been fruitful. More significantly, until 1954, China tried to conduct negotiations in trade matters with Britain only through the exclusive means of various politically sympathetic organizations. Prior to 1954, for example, China's trade offices in East Berlin often dealt with British businessmen only if they were acting under the auspices of the British Council for the Promotion of International Trade, or later, the London Export Corporation.

Neither the old British China firms nor the British government was happy with this arrangement. If they could no longer invest in China the old China firms wanted at least to trade with China. Some firms involved in hostage capitalism even counted on this possibility as a kind of compensation for enduring the difficult terms of withdrawal from China. The British Government believed that, in contrast to the new "fellow-traveler" firms, the older British China firms would be more likely to co-operate in following British Government trade policies. In November, 1953, the British Government declared the British Council for the

9. *Ibid.*, p. 699.

10. Cf. 1.

Promotion of International Trade to be a Communist-front organization and warned British businessmen against taking part in its activities. In November, 1955, the British Government reminded the British Parliament that the decision to use the British Council for the Promotion of International Trade was a matter for the "patriotic judgment of each British firm or individual."¹¹

In the cordial mood of official Sino-British relations at Geneva in July, 1954, British Government officials made a strenuous effort to persuade the Chinese Government to redirect trade between Britain and China into more traditional channels. The effort was successful; as the Chinese authorities openly declared their willingness to deal with the old British China firms. As a result, in June, 1954, a new semi-official British China trade organization, the Sino-British Trade Committee (later council), came into being. This new organization had no imperialist history with which it could be associated; although it represented the China Association, the Federation of British Industries, the National Union of Manufacturers, the London Chambers of Commerce, and the Association of British Chambers of Commerce. In behalf of these member organizations the Sino-British Trade Committee invited a Chinese mission to Britain in late June and early July, 1954. China accepted.¹²

At these meetings, which were a kind of courtship between British commercial interests and China, the former successfully promoted a Sino-British policy which provided that trade with the latter should be channeled through an organization that was acceptable to traditional British China interests. The leading Chinese official at the meetings even expressed his pleasure that the British delegation included a number of old China firms which were represented and whose experience in the China trade was of much value in China. Relatedly, the Chinese expressed a new flexibility in dealing with merchants instead of manufacturers. Major British "China firms" enthusiastically welcomed this new development.

China's leaders evidently realized that the old British China firms could play a valuable role in helping to develop Sino-British trade. China desired trade with the West, so the older China firms' reputation within the West as dependable importer-exporters was useful. Without an international sales network of its own, China must have realized the precarious status of organizations like the

11. Evan Luard, *Op. Cit.*, p. 129.

12. *Ibid.*

British Council for the Promotion of International Trade. Trading with such organizations was no way to improve official Sino-British relations. It was the same firms which China had nationalized domestically, which China had to cooperate with for the sale of China's products abroad. They provided China access to Sterling deposits, insurance headquarters, and commodity market centers.¹³ Because of their size and experience with these matters in the China trade, firms like Swires and Jardine Matheson in Hong Kong, were especially suited to China's needs. A Chinese official expressed China's new flexibility this way:

As to the question whether a merchant or a manufacturer is preferred (by China), an experienced businessman would never affirm this before negotiations start. Generally speaking, it seems that trade with manufacturers are more direct and convenient than dealing with merchants. However . . . a merchant sometimes acts as a good bridge between buyer and seller in cases where buying and selling terms differ. Sometimes it is also possible that merchants are in a position to offer more favorable terms than the manufacturer. China's foreign trade organizations do not oppose the possibilities that the merchants can under certain conditions offer their services to both buyers and sellers.¹⁴

Although no specific contracts were negotiated in the summer of 1954, on the basis of statements like these by Chinese officials, British businessmen from the older China firms viewed the discussions to have been a great success. A return trip to China by British merchants who were affiliated with the Sino-British Trade Council met with progress on the trying question of payments, which were made difficult by the Korean War. China agreed to payments by irrevocable letters of credit instead of by letters of guarantee, and to adopt other adjustments to earlier trade requirements.

Major difficulties between Britain and China continued after the brief détente brought on by the Geneva Conference. Britain did not unilaterally relax controls on the China trade until 1957. This irritated China. Concurrently, it was not until 1957 that the last British firm, Patons and Baldwins, was allowed to cease operations and withdraw from China.

13. Edward Friedman, "The International Political Economy and Chinese Politics," *Stanford Journal of International Studies* X, Spring 1975, p. 6.

14. Confidential document, London, August 2, 1954.

After the relaxation of the British embargo in 1957 an intensive trade drive was conducted by British exporters. "A large British motor manufacturer," writes Evan Luard, "placed a quarter-page advertisement in the *People's Daily* six times the size of any normal advertisement in that paper."¹⁵ In a different era perhaps these advertisements would have helped to penetrate the China market.

Although in the aggregate Sino-British trade has been limited, for a few British firms the China trade remains very important. Now in Hong Kong their philosophy of successful private enterprise has remained what it has always been. "We deal in anything we can make money at," a Jardine Matheson director has said.¹⁶

With major interests throughout the Pacific, Jardine Matheson as well as Swires, are more diversified than ever before. The firms' long experience in Asia enabled them to adapt successfully to a new business environment. Through their established contacts with the appropriate Chinese organizations and knowledge of Chinese needs and prices, the firms have become leaders in providing trade information, which would be prohibitively expensive for Western firms to supply for themselves. For the Chinese Jardine Mathesons's or Swire's knowledge, for example, of Western markets and prices has been of great value as well.

It is on this basis that as an agent, a principal, or a consultant, these firms sell, among other items, fertilizers, livestock, cotton, and machine tools to China and buys back from China 20,000 tons of rice annually, as well as soy beans, animal and vegetable oil, hog bristles, and furs. From the selling side of the trading relationship, the firm acts as an agent for many British manufacturers in Asia. In the early 1960's Jardine Matheson helped to negotiate the sale to China of six British turbo-prop commercial aircraft. More recently, the firm has

15. Evan Luard, p. 14.

16. See Noel Barber, "China Traders Extraordinary," *The Reader's Digest*, July, 1953, p. 67; Alan Demaree, "Old China Hands Know How to Live with New Ais," *Fortune*, November, 1971; Alexander Frater, "Mandarins from Dumfriesshire," *Daily Telegraph* (London), October 5, 1973, pp. 58-66; Joseph Lelyveld, "Jardine's — Where the Hong Kong Action Is," in *New York Times*, January 13, 1974; Vickers, da Costa and Co., Ltd., Research Group, *The Swire Group: Unknown Giant*, November 1973. "An Old China Hand Readies for a New Wave of Trade," *Business Week*, May 21, 1979, pp. 108-109.

negotiated the sale of Western drill ships and piping for the development of China's oil.¹⁷

As British firms' contemporary China trade demonstrates, their relationship with China did not end with hostage capitalism. It only changed. After the Geneva Conference in 1954, the traditional British China firms began to play an active role in developing Sino-British trade relations. From Hong Kong, British firms have traded *with* China without the direct investment and involvement in China's economy which marked the pre-Communist era.

17. *South China Morning Post* (Hong Kong), December 12, 1974.

Chapter V

HOSTAGE CAPITALISM IN PERSPECTIVE

Hostage capitalism illustrates and illuminates the transition from the relatively receptive Kuomintang era's foreign business environment to the more hostile business environment brought on by the Chinese Communists. After the Chinese Communist Revolution, China's leaders were determined that China would control its own destiny without the direct foreign influence characteristic of the previous era.¹ This effort towards the control of China's economy included a nationalization policy — what I have called hostage capitalism, the success of which was determined by the balance of political forces inside and outside China.² In perspective, what stands out is the pragmatism of the various parties to this transitional policy, which has allowed their new relations to develop in a mutually beneficial way.

Nationalizing foreign assets often includes the risk of retaliation by the foreign parent country if a mutually acceptable compensation is not agreed to by both parties. In the Chinese case Britain's weakened position in the balance of world forces lowered the risk of retaliation when China's bargaining position allowed the terms of nationalization to be decided solely by the Chinese. On the one hand, hostage capitalism included the refusal of the People's Government to permit, by any means, the closure of industry or business of any value to the nation's economy. On the other hand, Chinese regulations insured by way of various measures, wage and tax policies, for example; that the firms would cease to be profitmaking. Until closure applications were approved by the People's Government, at least one of a firm's senior European executives was denied an exit permit to leave China. In order to meet obligations, and in order to even have the possibility of having a closure application considered, the firms had to remit funds from abroad to China. In effect, during the nationalizing process a reverse compensation took place.

1. See, for example, Mao Tse-tung, "Report to the Second Plenary session of the Seventh Central Committee of the Communist Party of China," *Selected Works, Vol. IV, Op. Cit.*

2. I do not draw any distinction among confiscation, expropriation, or nationalization. All of these terms mean state acquisition of private foreign property.

Yet hostage capitalism was not simply a policy of revenge for the historic injustices of the previous era. China's new socialist society had to be built on the inherited foundations, that is — the inherited relations and forces of production of the previous era. These foundations could only gradually be transformed. Political and economic realities meant China's leaders had to move step-by-step in the transition from an era of a foreign-dominated capitalist urban economy to one in which China would own the means of industrial production.

The design of this pragmatic transitional policy appears to have been only broadly drawn in advance by China's leaders. The timing of the transition appears to have been uncertain and had to be worked out over the course of the policy's application in practice.³ Party leaders often disagreed with basic-level cadres in implementing a dualistic industrial policy, which by definition affected both Chinese and foreign private enterprise in China.

Over the long run the state sector was to lead, and eventually eliminate the private sector of the economy. Thus, private capitalists were required to accept greater restrictions, and workers were increasingly to assume their position as a relatively more powerful force in Chinese society. Over the short run, however, the need to increase production and to unite with private capitalists until their skills could be replaced, or, in the case of native Chinese capitalists, until they could be won over, were more immediate needs.

To the extent that foreign capitalists had a role to play in the transition, the policy of hostile capitalism reflected China's strong bargaining position with foreign firms. Although in the long run China wanted to drive foreign capitalists out of the country, in the short run there was every reason not to hurry the process. In the short term, the policy of foreign hostage capitalism provided jobs for Chinese workers who were employed to engage in production at the firms' expense. At the same time, while China trained its people to take over these firms, the firms were building up liabilities which eventually would be used to offset the firms' assets upon their withdrawal from China when the country was ready to socialize its economy.

The difficulties of China's transition to a socialized economy, which in any case was going to exclude foreign firms, were exacerbated by the U.S. led policy towards China of diplomatic isolation and economic strangulation. Britain's leaders perceived

3. See Kenneth Lieberthal, "Mao vs. Lin? Policy Towards Industry and Commerce, 1946-1949," *China Quarterly*, No. 47, 1971, pp. 494-520.

their greater post-World War II interest to lay with the U.S. and respected much of the U.S.-designed restrictive trade policy which British firms opposed. There is some reason to believe that had Britain followed these policies the terms of hostage capitalism would have been easier on the firms.

During the period of the Korean conflict, China's leaders seldom missed an opportunity to point out that Sino-British trade relations would greatly improve if only the British Government would cease its restrictive policies towards China. In two specific instances China bargained for Britain to cease acquiescing in policies of isolation towards China. First, in the summer of 1950, China offered a package of concessions to Britain for Britain's approval of China's admission to the United Nations.⁴ Among these concessions was a "guarantee that no discriminatory action would be taken against British business in China;" British registered ships would be permitted to ply freely along the China coast; through traffic on the Kowloon-Canton railway would be resumed: a promise would be given not to effect any blockage "material or moral" of Hong Kong; and trade agreements would be concluded with Britain on the basis of equality.⁵ Second, China's linkage of Britain's compliance with hostile policies towards China was clear in Chang Han Fu's reply in July, 1952, to official British Government requests for China's help in arranging "for the transfer as going concerns, custody, or closure," of British firms in China. China's reply was that the firms' difficulties were "the bitter fruit of the policy of trade control and embargo of the British Government." This alone, the note continued, "sufficed to prove that by following the United States in carrying out the trade control and embargo, the British Government not only (had) contravened but also (had) jeopardized the interests of the British people."⁶

After the Korean War, when British trade controls could be expected to cease, China apparently hoped for improved relations with Britain and agreed to partially ease the terms of hostage capitalism. Subsidiaries of some of the major British China firms negotiated closure agreements. Yet China was still unhappy with Britain's trade controls which were expected to be relaxed after the Korean War. Later, in the cordial atmosphere between China

4. China Association Bulletin, No. 49, June 20, 1950, p. 1.

5. I have relied here on Evan Luard, *Op. Cit.*, pp. 140, 155-175 and Robert Boardman, *Op. Cit.*, pp. 92-109.

6. See "Statement by the Chinese Vice-Minister for Foreign Affairs, Mr. Chang Han-fu, on British Trade with China," July 5, 1952, *Op. Cit.*

and Britain several months after the Korean Armistice at the Geneva Conference, Chou En-lai and Anthony Eden discussed a variety of outstanding problems in the relations between the two countries.⁷ As a result, Chou En-lai agreed that China would move towards negotiating final closure agreements with British firms still in China. Almost immediately, replacement visas were granted more easily to British staff in China. Firms were allowed to cut down staffs. And the discussions on closure between Chinese officials and representatives of the various firms proceeded more smoothly. After more than four years of hostage capitalism Swires and Jardine Matheson, for example, ceased operations and withdrew from China in summer, 1954. Other firms withdrew as well.

Although an immediate benefit of the Geneva talks seems to have been easier withdrawal for some British firms, hostage capitalism did not completely end with some of the larger firms' withdrawal from China in 1954-55. Perhaps because of Britain's tardiness, in China's view, in unilaterally taking action to relax trade controls against China, the last British firm to leave China, Patons and Baldwins, was not permitted to do so until 1957. It was in 1957 that Britain moved away from the U.S. led embargo of the China trade. Yet with or without improved Sino-British relations, foreign firms could be expected to be absorbed in the accelerated assimilation of private enterprise in China towards the end of 1955.

China has said very little about its general policy of nationalizing foreign firms or specifically about unhappiness of the foreign firms subjected to the coercive nature of hostage capitalism.

Whether any body of rules now exists setting limits to the means that a government can use to obtain the investor's consent to nationalization is a much debated issue. There appears to be quite general agreement that *some* international restraint exists. "Indeed, those states which take the circuitous route of expropriation by consent," writes a distinguished legal scholar, "appear to do so either in recognition of the existence of an international understanding or out of a practical desire not to advertise their defiance of it."⁸ China's leaders in this context need not have been worried about the possibility of favorable intervention by the British state. They no doubt did concern themselves, however,

7. See China Association, "Annual Report," 1957.

8. Detler F. Vagts, "Coercion and Foreign Investment Rearrangements," in *American Journal of International Law*, Vol. 195, No. 2, p. 126.

with their policies' impact on the new government's international credit rating and the possibility of adverse effects on international economic institutions generally. To this day both Chinese officials and representatives of British firms are reluctant to speak openly about the difficulties of hostage capitalism.

Chinese officials have told this author that strictly speaking nationalization never took place.⁹ But they are simply being disingenuous. Because China so completely controlled the business environment of the various firms the People's Government could confidently wait for the firms to request permission for closure and the Chinese could in effect orchestrate that closure. During hostage capitalism, year after year of poor business conditions continued to absorb local funds and require reserves from abroad to be brought in to meet overhead. Although the terms of closure were unacceptable in the sense that British firms were obliged to turn over their assets in exchange for mounting liabilities, these terms of closure were inevitable as well. In this situation, the firms were relieved to sign an agreement for closure if only to stop being required to bring monies from abroad. China gradually tightened regulations, increased taxes, and fixed lower prices until diminishing profitability broke the foreign firms' resistance to what for their boards of directors was a depressing "no-win" situation. British businessmen were trapped and no amount of business acumen could rescue them. Chinese government action had so distorted earnings that earnings as a partial measure of the value of the various firms' assets became completely artificial. *A fortiori* there was no set of competing buyers for British, or other foreign firms, in China. Very considerable, well-orchestrated non-market factors thus determined the legally questionable validity of the waiver of rights to future claims for compensation, which foreign managers were forced to sign upon ceasing operations and withdrawing from China.¹⁰

9. Confidential Interview, Peking, March 15, 1973.

10. Another indirect, non-market, way in which foreign property, mainly land and houses of private persons, was nationalized in China was by simple abandonment by the owners. Property was treated as ownerless if it was not registered with the local land office. Ownerless land was taken over by the local land administration bureau and the government reserved the right to expropriate such land. At various times notifications were inserted in the Chinese press by the authorities listing properties that would be treated as ownerless unless formal claims were made, in which case taxes were usually owed. Evidently such notices appeared only in Chinese newspapers, there are many in *Jie fang jih-pao* in the early 1950's, the export of which was prohibited. In many cases the properties were not identifiable because of changes in street names or street numbering.

Beyond limited comments, China has said nothing about its own nationalization program for foreign firms. Even in the decrees which took control of U.S. assets in late 1950, China avoided all references to "confiscation," "expropriation," or "nationalization."¹¹ On two major occasions when China did confiscate foreign property outright, the Chinese stated that these actions were taken specifically in retaliation for British actions in Hong Kong.¹² One case, in May, 1951, involved the requisitioning of all installations of the Shell Oil Co. in China after the Hong Kong Government took possession of an oil tanker of which the ownership was in dispute in China. A second case involved a judgment in July, 1952, by the Hong Kong Government that forty aircraft standing in Hong Kong, the ownership of which had been claimed by the People's Government, should be handed over to a U.S. airline company. Following this action, the Chinese authorities requisitioned the British registered Shanghai Dockyards Ltd. and Mollere Shipbuilding and Engineering Works.

In the only Chinese article on the general subject of nationalization, Li Hao-p'ei noted in 1958 that nationalization of private property for public purposes is recognized under international law as a proper exercise of a state's sovereignty.¹³ In the absence of specific requirements, Li also argued that the payment of compensation is at the discretion of the nationalizing state, as long as it does not discriminate in the application of its policy.¹⁴ Few writers would disagree with Li that a state has the right to nationalize as an exercise of its sovereignty. These writers would question, however, if there are limits to the means employed to exercise this right. How, for example, is consent to nationalization

11. For a useful discussion of this and other Chinese nationalization issues, see James Chieh Hsiung, *Law and Policy in Chin's Foreign Relations, A Study of Attitudes and Practice* (New York: Columbia University Press, 1972), pp. 136-143.

12. An apparent exception was the February, 1953 requisitioning of the Canton assets of Butterfield and Swire for which I have not been able to learn of the specific reason. See "Canton Military Control Committee Requisitions Property of Butterfield and Swire," *Nan-fang jih-pao* (February 25, 1953) in SCMP, No. 519:15 (February 25-26, 1953) and reprinted in Cohen and Chiu, *Op. Cit.*, p. 700.

13. Li Hao-pe'i, "Nationalization and International Law," *Cheng-fa yen-chiu* (Studies of Politics and Law), No. 2:10-15 (1958), p. 204, reprinted in Jerome A. Cohen and Hungdah Chiu (eds.), *People's China and International Law, Op. Cit.*, pp. 718-729.

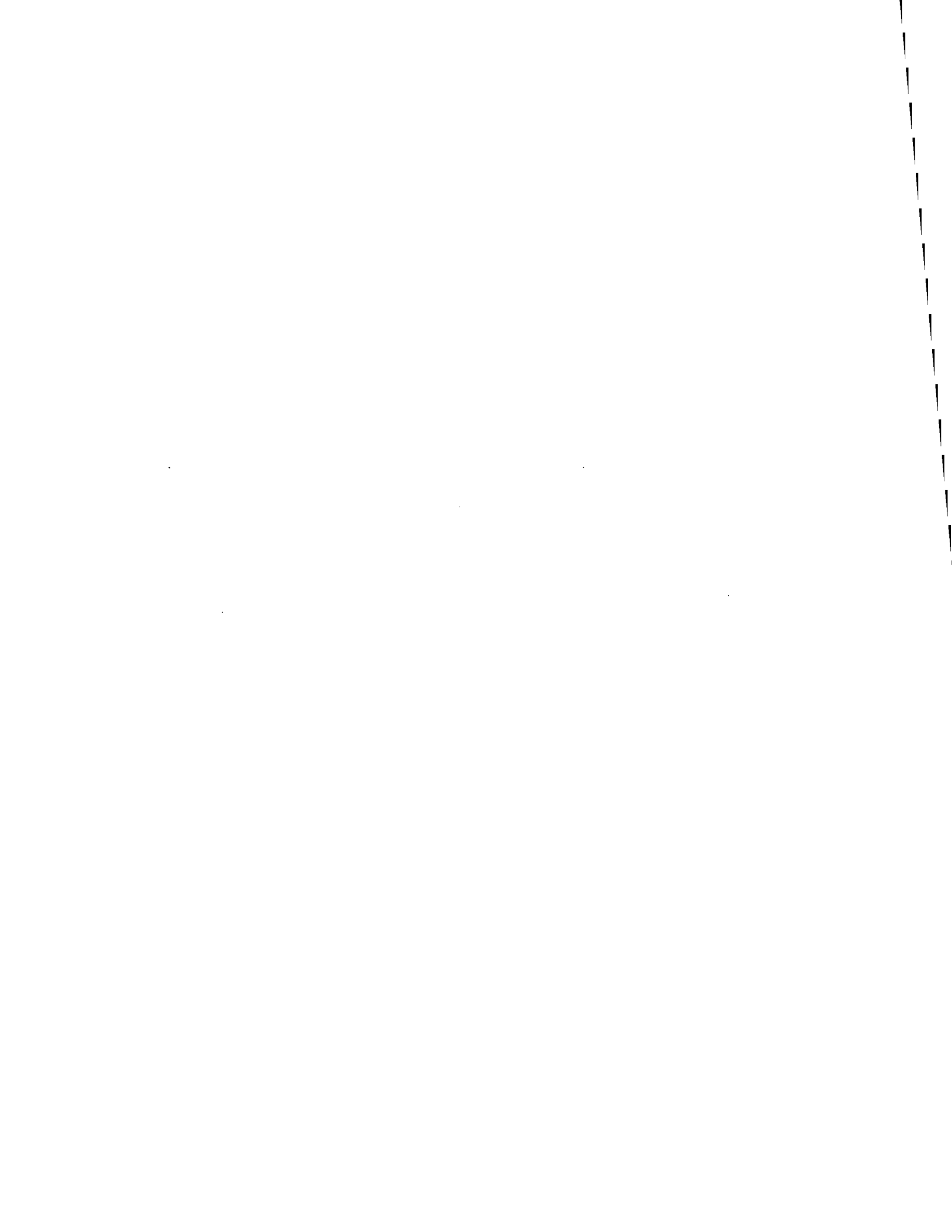
14. China did seem to adopt a discriminatory policy because while British (and other Western) concerns were being put out of business, joint enterprises were operated under formal agreements with the Soviet Union.

negotiated with the party being nationalized? The answer, as many generations of legal scholars will attest, is unclear.

Relatedly, where standards for compensation are referred to among writers on the subject, there is a great deal of variation, ranging from those that permit the payment of little or no compensation to those that require the payment of what may in fact amount to full compensation.¹⁵ As a result, when nationalization of foreign property is involved, it is seldom legal norms, but instead the balance of international and internal power relations that determine the ramifications of nationalization, with the lawyers and legal scholars often serving as the instruments of those interests involved. For China, in 1949 the balance tilted heavily away from Britain and towards China, so that China dictated even the terms of valuation.

China could not nationalize all of the foreign firms' assets, many of which were in Hong Kong and London. This natural restraint on the limits of nationalization, and the realism of both China and the firms in understanding it, has served the various parties well in developing a new relationship. Throughout the years of hostage capitalism, the various firms' directors hoped that their vast experience in China would allow the firms to survive as importers-exporters in the China trade. Since 1954, China in fact has employed the firms' power and influence abroad as consultants in the interest of promoting Sino-Western trade. From all indications the firms have profited handsomely as well, especially in the contemporary post-Mao era when China's leaders have engaged in a massive effort to increase purchases of foreign technology.

15. For useful discussions of these issues see Richard Lillich (ed.), *The Valuation of Nationalized Property in International Law*, Vol. I-III (Charlottesville: The University Press of Virginia, 1972).



INDEX

- America, 10
 Amethyst, 19
 Anti-Imperialist sentiment, 4
 Bankers, 16, 18
 Berlin, 58
 Best Service Bank, 35
 Big Ben, 3
 British-American Tobacco, 7, 13, 36
 British Chamber of Commerce 10, 59
 British China Fleet, 19
 British Council for the Promotion of International Trade, 58
 British firms, 1, 9
 "Buccanner action," 12
 Bund, 10
 Butterfield and Swire Co., 7, 57, 60, 61, 66, 69
 Chang Han-fu, 39, 49
 Chen Ming, 28
 China Iron and Steel Administration, 52
 China National Import and Export, 52
 Chinese civil war, 3
 Chou En-lai, 20, 53, 66
 Chu Teh, 14
 Cold war, 48
 Closure, 2, 20-20
 Combine proposal, 16
 Consort, 19
 Compensation, 63
 Cotton, 27
 Deed of Substitution, 24
 Dyes, 27
 Eden, Anthony, 53, 66
 Embargo, 40
 Extraterritoriality, 4, 15
 Federation of British Industries, 59
 Fertilizer, 27
 Force majeure, 25
 Foreign assets (in China), 5, 28
 Bottling, 43-45
 Medical clinic, 41
 Shipping, 25, 44-46
 Geneva, 50
 Gunboat diplomacy, 10, 19
 Hangchow, 10
 Hauteur, 4
 Historic debt argument, 1
 Hong Kong, 12
 Hong Kong Ordinances, 38
 Hong Kong and Shanghai Bank, 3, 25, 57
 Hostage capitalism, 1, 2, 9-30
 Imperialism, 1
 Imports to China, 27
 Insurance, 34
 Japan, 6
 Jardine, Matheson and Co., 7, 14, 60, 61, 66
 Kiangsi Government, 5
 Keswick, Sir John, 14, 15
 Korea, 9, 27-28, 52
 Kowloon-Hong Kong Railway, 65
 KMT, 32
 Lamb, Leo, 37, 39, 46
 Legal issues, 2, 63-69
Liberation Daily News, 21
 Li Hao-p'ei, 68
 Lindsay, Michael, 20, 21
 Mao Tse-tung, 4, 5
 McNeil, Hector, 11, 12
 Mollere Shipbuilding and Engineering Works, 68
 Montevideo, 38
 Moscow Economic Conference (1952), 48
 Nanking, 10
 National Industrial Bank of China, 35
 Nationalist Chinese armies, 9
 Nationalization as a goal, 4-7
 New Democracy, 17
 Non-attribution of sources, 1
 Oil, 62
 "Oil boys," 17
 Opium war, 7
 Patons, and Baldwins, 66
 People's Bank, 34
People's Daily, 33
 People's Tribunals, 33
 Pfeffer, Richard, 2n
 Power of Attorney, 23, 41
 San Fan campaign, 31-48
 Shanghai, 3, 10
 Shanghai Dockyards, 68
 Shanghai Foreign Affairs Bureau, 41, 47
 Shanghai Municipal Revolutionary Council, 3
 Shanghai Realty Guide, 51

- Shell, 36, 57
Shipping, 41
Sino-British Trade Council, 59
Swire, John, 17
Soong family, 17
Sovereignty, 4
Tax, Business, 4, 15
Tax, general, 22-24, 42-46
Textile machinery, 27
Tientsin, 13
Trading *with* China, 57
Trading association proposal, 42-52
Treaty of Commerce, 20
Trevelyan, H., 39
Tucker, Robert W, 2n
Union, 22-23
United Nations, 9, 27, 29
U.S. Navy, 40
U.S. Department of State, 11
Wang Ming, 17
Wages, 22 12
Whampoa, 10
Wu Fan, 31-48
Wuhan, 10
Yangste Valley, 9

Occasional Papers/Reprints Series in Contemporary Asian Studies

1977 Series

- No. 1 — 1977**
Chinese Attitude Toward Continental Shelf and Its Implication on
Delimiting Seabed in Southeast Asia (Hungdah Chiu) 32 pp. \$ 1.00
- No. 2 — 1977**
Income Distribution in the Process of Economic Growth of the
Republic of China (Yuan-Li Wu) 45 pp. \$ 1.00
- No. 3 — 1977**
The Indonesian Maoists: Doctrines and Perspectives (Justus M. van
der Kroef) 31 pp. \$ 1.00
- No. 4 — 1977**
Taiwan's Foreign Policy in the 1970s: A Case Study of Adaptation
and Viability (Thomas J. Bellows) 22 pp. \$ 1.00
- No. 5 — 1977**
Asian Political Scientists in North America: Professional and
Ethnic Problems (Edited by Chun-tu Hsueh) 148 pp. Index \$ 3.00
- No. 6 — 1977**
The Sino-Japanese Fisheries Agreement of 1975: A Comparison
with Other North Pacific Fisheries Agreements (Song Yook
Hong) 80 pp. \$ 2.00
- No. 7 — 1977****
Foreign Trade Contracts Between West German Companies and the
People's Republic of China: A Case Study (Robert Heuser) 22
pp. \$ 1.00
- No. 8 — 1977***
Reflections on Crime and Punishment in China, With Appended
Sentencing Documents (Randle Edwards, Translation of
Documents by Randle Edwards and Hungdah Chiu) 67 pp. \$ 1.00
- No. 9 — 1977**
Chinese Arts and Literature: A Survey of Recent Trends (Edited by
Wai-lim Yip) 126 pp. \$ 3.00
- No. 10 — 1977**
Legal Aspects of U.S.-Republic of China Trade and Investment —
Proceedings of A Regional Conference of the American Society
of International Law (Edited by Hungdah Chiu and David
Simon) 217 pp. Index \$ 5.00

Occasional Papers/Reprints Series in Contemporary Asian Studies

1977 Series

No. 11 — 1977

Asian American Assembly Position Paper: I. A Review of U.S.-
China Relations 62 pp. \$ 1.00

No. 12 — 1977

Asian-American Assembly Position Paper: II. A Review of U.S.
Employment Policy 24 pp. \$ 1.00

1978 Series

No. 1 — 1978 (13)

Indian Ocean Politics: An Asian-African Perspective (K.P.
Misra) 31 pp. \$ 1.00

No. 2 — 1978 (14)

Normalizing Relations with the People's Republic of China;
Problems, Analysis, and Documents (Edited by Hungdah Chiu,
with contribution by G. J. Sigur, Robert A. Scalapino, King C.
Chen, Eugene A. Theroux, Michael Y.M. Kau, James C. Hsiung
and James W. Morley). 207 pp. Index \$ 3.00

No. 3 — 1978 (15)

Growth, Distribution, and Social Change: Essays on the Economy
of the Republic of China (Edited by Yuan-li Wu and Kung-chia
Yeh) 227 pp. Index \$ 3.00

No. 4 — 1978 (16)

The Societal Objectives of Wealth, Growth, Stability, and Equity in
Taiwan (Jan S. Prybyla) 31 pp. \$ 1.00

No. 5 — 1978 (17)*

The Role of Law in the People's Republic of China as Reflecting
Mao Tse-Tung's Influence (Shao-Chuan Leng) 18 pp. \$ 1.00

No. 6 — 1978 (18)

Criminal Punishment in Mainland China: A Study of Some
Yunnan Province Documents (Hungdah Chiu) 35 pp. \$ 1.00

No. 7 — 1978 (19)

A Guide to the Study of Japanese Law (Lawrence W. Beer and
Hidenori Tomatsu) 45 pp. \$ 2.00

Occasional Papers/Reprints Series in Contemporary Asian Studies

1978 Series

- No. 8 — 1978 (20)**
The Pueblo, EC-121, and Mayaguez Incidents: Some Continuities
and Changes (Robert Simmons) 40 pp. \$ 2.00
- No. 9 — 1978 (21)**
Two Korea's Unification Policy and Strategy (Yong Soon Yim) 82
pp Index \$ 2.00

1979 Series

- No. 1 — 1979 (22)**
Asian Immigrants and Their Status in the U.S. (Edited by
Hungdah Chiu) 54 pp. \$ 2.00
- No. 2 — 1979 (23)**
Social Disorder In Peking After The 1976 Earthquake Revealed By
A Chinese Legal Document (By Hungdah Chiu) 20 pp. \$ 2.00
- No. 3 — 1979 (24)**
The Dragon and the Eagle — A Study of U.S. - People's Republic
of China Relations in Civil Air Transport (Jack C. Young) 65
pp. \$ 3.00
- No. 4 — 1979 (25)**
Chinese Women Writers Today (Edited by Wai-lim Yip and William
Tay) 108 pp. \$ 3.00
- No. 5 — 1979 (26)***
Certain Legal Aspects of Recognizing the People's Republic of
China (Hungdah Chiu) 49 pp. \$ 2.00
- No. 6 — 1979 (27)**
China's Nationalization of Foreign Firms: The Politics of Hostage
Capitalism, 1949-1957 (Thomas N. Thompson) 80 pp. Index \$ 3.00

Forthcoming

- No. 7 — 1979 (28)**
U.S. Status of Force Agreements with Asian Countries: Selected
Studies (Charles Cochran and Hungdah Chiu) About 130 pp.
Index \$ 2.50
- No. 8 — 1979 (29)**
China's Foreign Aid in 1978 (John F. Copper) About 30 pp. \$ 2.00

* Reprinted with revision (all other papers are original).

** Translated from German with revision.



ORDER FORM

To Occasional Papers/Reprints Series in Contemporary Asian Studies, University of Maryland School of Law, 500 West Baltimore Street, Baltimore, Maryland 21201, U.S.A.

Check One:

Please Send:

<i>No.</i>	<i>Author</i>	<i>Title</i>	<i>Copies</i>
------------	---------------	--------------	---------------

_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Please start my subscription of the OPRSCAS:

Starting issue _____

Subscription price is U.S. \$10.00 for 8 issues (regardless of the price of individual issues in the U.S. and Canada and \$12.00 for overseas.)

My check of U.S. \$ _____ is enclosed _____ copy(s) of invoice/receipt required. (Institution/library may request billing before making payment) (Make check payable to OPRSCAS)

Please send book to:

Name/Corp./Library:

Address: (Please include zip code)



