Corporate behaviour and political risk : Dutch companies in China, 1903-1941

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Corporate Behaviour and Political Risk

Dutch Companies in China
1903-1941

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Dutch Companies in China
1903-1941

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Corporate Behaviour and Political Risk

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INTRODUCTION

Dutch Companies in China, 1903-1941

The well-known image of China as a huge market has tempted many foreign investors, and not only in recent years. Before World War II, China was known in the West as the land of the 'four hundred million customers'.[1] Foreign companies in China often encountered a great number of cultural, economic, and political hurdles, which were not easily overcome. Consequently, the process of becoming embedded in Chinese society has been a slow and difficult one. Large Dutch companies first learned how to do business in China in the decades immediately preceding World War II. They opened offices in China from 1903 and remained active until the Japanese attack on Pearl Harbor in 1941. This year constitutes a watershed in the history of Sino-Western relations: after 1941 the Chinese market became largely inaccessible because of the Pacific War and the Cold War, and it took until 1979 before China re-opened to foreign direct investment (FDI) from the West.[2] This study focuses on the direct investment activities of large Dutch companies in China between 1903 and 1941.

Since the nineteenth century, many of the cultural and economic characteristics that have challenged foreign enterprises in China have remained basically the same. For instance, great cultural differences between regions and widespread poverty have always posed enormous challenges to firms wishing to sell foreign products in China. The nation's political situation, however, has changed dramatically in the past one and a half centuries. In the course of the first half of the twentieth century, China transformed from a feudal society under imperial rule into a socialist society under communist leadership. This transformation involved a series of revolutions and protracted civil wars, and was accompanied by major foreign interference. Thus when Dutch firms first entered China, they had to adapt not only to unfamiliar market conditions, but also to frequent and unpredictable changes in their political environment. The nature of China's political situation and the accelerated rate of change proliferated the number of potential political problems for foreign companies. Cultural and economic factors were impervious to foreign intervention, but in the political sphere a certain measure of pressure could be exerted by foreign governments. Attuned to this, the China policies of the major military powers were aimed specifically at removing political obstacles to their countries' investments by interventionist actions. The Netherlands, however, as one of the smaller European powers, did not have the military strength to actively protect Dutch business interest in China.[3] Therefore Dutch firms were likely to experience political problems more often than their rivals from stronger states. These other nationalities at least enjoyed a collective support against political problems that the Dutch lacked. The fact that several large Dutch firms were active in China during a period of major political

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[1] As was the title of a popular book written in 1936 by Carl Crow (published London 1937), a marketing and advertising man who had worked in China for several decades. World population at this time was roughly 2 billion.

[2] On Pearl Harbor as a turning point in China's foreign relations: J. Osterhammel *China und die Weltgesellschaft: Vom 18. Jahrhundert bis in unsere Zeit* (München 1989), 323.

[3] F. Dankers, 'Nederland en China, 1940-1950: De Hoofdlijnen van het Nederlandse Chinabeleid in Continuïteit en Verandering' (unpublished MA thesis, Nijmegen University 1982); F. van Dongen, *Tussen Neutraliteit en Imperialisme: De Nederlands-Chinese Betrekkingen van 1863 tot 1901* (Groningen 1966).

instability suggests that they may have developed methods to deal with political problems. This raises the question: what strategies did Dutch firms employ to overcome political obstacles in China?

This question cannot be answered by relying on mainstream academic literature, which has virtually ignored the history of Dutch business activities in China. For instance, C.F. Remer's 732-page standard work on foreign investment in China contains just one short paragraph on Dutch firms there. The only three companies he mentions are the Nederlandsche Handel-Maatschappij, the Nederlandsch-Indische Handelsbank, and the Nederlandsche Maatschappij voor Havenwerken—without actually mentioning the latter company by name.[4] Other authors do not even pay attention to Dutch companies as a distinct category. In G.C. Allen and A.G. Donnithorne's work on Western enterprise in East Asia, three Dutch firms—Royal Dutch, the Nederlandsche Handel-Maatschappij, and the Java-China-Japan Lijn—are mentioned or implicitly referred to, but without giving any significance to their nationality.[5] Chi-ming Hou's investigation into foreign investment in China contains no mention of Dutch firms, except for one footnote on the Nederlandsche Handel-Maatschappij.[6] In Feuerwerker's outline of the foreign presence in China, the only Dutch company mentioned is Royal Dutch.[7] The same is true for Tien-yi Yang's overview article 'Foreign Business Activities and the Chinese Response, 1842-1937'.[8] Chinese-owned Dutch companies from the Netherlands Indies are omitted altogether. In these overview works only British, Japanese, American, German, French, and Russian companies are dealt with as distinct groups.

There is an obvious explanation for the lack of interest in Dutch firms in mainstream literature: Dutch investments in China were always thought to have been extremely small. The most-cited estimates of the value of foreign investments in China are those by Remer and Hou. On the basis of data on China's foreign debts and additional information supplied to him in 1931 by Dutch bankers and the Netherlands Chamber of Commerce in Shanghai, Remer came to the conclusion that total Dutch investment in 1931 amounted to US$28.7 million, of which US$10 million were direct investments and the remainder portfolio investments.[9] For the decades preceding 1931 Remer could not did find data on Dutch investment, and therefore excluded them from his calculations of foreign investment in 1902 and in 1914.[10] In 1965 Chi-ming Hou accepted Remer's estimate for 1931, but decided that Dutch investment both before (in 1902 and 1914) and after (in 1936) that year amounted to nothing.[11] A more recent estimate by Tien-yi Yang comes to exactly the

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[4] C.F. Remer, *Foreign Investments in China* (New York 1968), 656-658.

[5] G.C. Allen and A. Donnithorne, *Western Enterprise in Far Eastern Economic Development: China and Japan* (London 1954), 99-101, 109, and 126 respectively.

[6] Chi-ming Hou, *Foreign Investment and Economic Development in China, 1840-1937* (Cambridge MA 1965), 242 n11.

[7] A. Feuerwerker, *The Foreign Establishment in China in the Early Twentieth Century* (Ann Arbor 1976), 85.

[8] Osterhammel, *Weltgesellschaft*, 253; Tien-yi Yang, 'Foreign Business Activities and the Chinese Response, 1842-1937' in: Akio Okochi and Tadakatsu Inoue (eds), *Overseas Business Activities: Proceedings of the Fuji Conference* (Tokyo 1984), 234.

[9] Remer, *Foreign Investments,* 658.

[10] Ibid. 67.

[11] Hou, *Foreign Investment*, 17.

same figures as Hou.[12] Other publications which feature estimates on foreign investment in China before 1941 mention only the largest investing nationalities, and include Dutch investment into the 'others' category.[13] Consequently the picture that emerges from the main reference works is that there were no Dutch investments in China before the 1920s or after 1931. The only figure available is the US$28.7 million mentioned for 1931, a mere 0.9 per cent of total foreign investment in China in that year.[14] Consequently, apart from a ninth position briefly occupied in around 1930, the Netherlands was not even on the ranking list of investor countries in pre-1941 China. As will be shown in the next chapter, this representation is not correct. Nevertheless, it explains the lack of attention paid to Dutch investments.

Although not many data can be found in the main overview works on the history of foreign business in China, there does exist a small body of case studies on Dutch business involvement in China. These show that while Dutch investment may have been small in comparison to foreign investment in total, several large Dutch firms were active and owned assets in China throughout the first half of the twentieth century.[15] The main evidence for this is provided by the unpublished MA thesis of P. Baart on Dutch companies in China between 1895 and 1949.[16] Her work is unique in that it outlines which Dutch firms were active in China, what their main activities were, why they had come to China, and what their local market environment looked like. While it does not focus explicitly on strategies to deal with political problems, it provides a useful basis for further investigation. Apart from Baart no other author has attempted to combine analyses of various Dutch companies into a single piece of research. A general study on Sino-Dutch relations between 1900 and 1940—which would form a framework for case studies on political, economic, or cultural topics—is lacking as yet. Only F. Dankers' analysis of relations between the Netherlands and China during the 1940s contains a brief overview of bilateral—including economic—relations prior to 1940.[17]

Besides Baart's thesis there are also studies that concentrate on individual companies. An MA thesis by M. Groeneveld and an article by L. Blussé deal with the NSC, a railway construction firm, and I.J. Brugmans' company history of the Java-China-Japan Lijn gives an outline of this shipping company's interests in China. For Havenwerken there is an unpublished company history that supplies data on its activities in China.[18] Besides these there is F.C. Gerretson's company history of

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[12] Yang, 'Foreign Business', 217.

[13] Allen and Donnithorne, *Western Enterprise,* 1954, 262; Osterhammel, *Weltgesellschaft*, 256.

[14] According to both Remer and Hou: Remer, *Foreign Investments,* 67; Hou, *Foreign Investment,* 17.

[15] See the next chapter for further information on these companies.

[16] P. Baart, 'Aktiviteiten van het Nederlandse Bedrijfsleven in China, 1895-1949' (unpublished MA thesis, Utrecht University1989).

[17] L. Blussé, *Tribuut aan China: Vier Eeuwen Nederlands-Chinese Betrekkingen* (Amsterdam 1989), 148; Dankers, 'China en Nederland', 30-34.

[18] Respectively: M. Groeneveld, 'De Constructie van de Nederlandse Sectie van de Lung-Tsing-U-Hai-Spoorweg, 1920-1925' (unpublished MA thesis; Leiden University 1994); L. Blussé, 'Theory and Practice of Railroad Building in China: The Cannibalization of the Lung-Hai Railroad, 1920-1925', *Journal of the Japan-Netherlands Institute* 6 (1996) 29-41; I.J. Brugmans, *Van Chinavaart tot Oceaanvaart* (Amsterdam 1952); 'Geschiedenis KNMH', HBG Gouda, KNMH. Brief overviews of the JCJL and Havenwerken can also be found in Blussé, *Tribuut aan China*, 166-168 and 168-171 respectively.

Royal Dutch up to the First World War.[19] His analysis of the strategy of this petroleum company towards China is excellent—albeit somewhat buried in a multi-volume work that covers a very wide range of themes and territories—but does not touch the 1920s and 1930s. The latter period is covered by two publications that address the role of foreign petroleum companies in China. These works, by I. Anderson and J. Osterhammel, include detailed information on Royal Dutch/Shell.[20] However, the value of these publications for a study into Dutch corporate strategy is limited by the fact that both authors were interested primarily in the British minority parent firm of Royal Dutch/Shell, and interpreted the company's behaviour mainly from the perspective of this British parent and that of the British government.

Useful as these more specialised works are as a means to gain an insight into the market environment of various Dutch firms in China, they are not suitable for a detailed analysis of the attitude of these firms towards local political problems.[21] Only Anderson and Osterhammel focus explicitly on the political context of Royal Dutch/Shell's activities, but do so without attempting to link this to its Dutch background. The Chinese interests and activities of some large Dutch companies outlined by Baart—the Nederlandsche Handel-Maatschappij, the Nederlandsch-Indische Handelsbank, Philips, Unilever, Havenwerken—have received no attention whatsoever from other academic researchers. For an analysis of Dutch company behaviour in the context of Chinese political developments, new research into corporate archives and other sources is needed.

Political Risk

A starting point for the analysis of Dutch corporate strategies is provided by looking at what is known about the investment behaviour of firms from other Western nations. Allen and Donnithorne's 1954 study is representative of most later Western-language historiography on the development of Western firms in China.[22] It sketches the basic features of the evolution of Western business presence since the Opium War of 1842. Allen and Donnithorne emphasise the strong concentration of foreign companies in the main open ports—the so-called treaty ports, including Hong Kong[23]—where they operated outside Chinese jurisdiction and were protected by foreign military power. The main ports, Shanghai and Hong Kong, were entirely open to foreign commercial activities and investment by any nationality. Foreign

[19] F.C. Gerretson, *History of the Royal Dutch* (4 Vols.; Leiden 1958). The original version was published in Dutch in 1932-1941. The final version was published long after Gerretson's death in 1971-1973, and was edited and completed by G. Puchinger. This completed version did not contain new data on China.

[20] I.H. Anderson Jr, *The Standard-Vacuum Oil Company and United States East Asian Policy, 1933-1941* (Princeton and London 1975); and J. Osterhammel, *Britischer Imperialismus im fernen Osten: Strukturen der Durchdringung und einheimischer Widerstand auf dem chinesischen Markt, 1932-1937* (Bochum 1982).

[21] The works by Blussé and Groeneveld on the NSC do pay attention to political risks, but without making them their main point of attention.

[22] Allen and Donnithorne, *Western Enterprise*.

[23] Hong Kong was not a port opened to foreign trade by treaty (i.e., a treaty port), but a port on territory that was ceded to Great Britain in 1842. Consequently it became a Crown Colony, which was open to international trade. From the perspective of Dutch firms, however, there was no important difference between British-ruled Hong Kong and the larger treaty ports (mainly Shanghai, Tianjin, Xiamen, Hankou, and Guangzhou), which were formally part of China but in practice under foreign administration and often under a strong British influence. In this text, the term 'treaty ports' is meant to include Hong Kong, unless specified otherwise.

companies focused on certain sectors such as mining, railway construction, industrial manufacturing, import and export trade, and areas closely related to China's foreign trade such as banking, insurance, and shipping. Agriculture, handicraft production, and domestic trade remained largely untouched by foreign enterprise. In sectors that did attract foreign investment, such as industry and foreign trade, there often was a division between Chinese-dominated and foreign-dominated activities.

Moreover, not only in terms of geographic location and activities but also organisationally, foreign business long remained separated from the rest of the Chinese economy. Western firms generally operated through Chinese middlemen—compradores, agents, or contractors—who handled all contacts with Chinese suppliers and clients.[24] Allen and Donnithorne mention several causes for the limited ability of foreign firms to penetrate deeply into the Chinese economy, such as their unfamiliarity with the social and commercial structure of China and the importance of personal relationships in Chinese business; the refusal by the Chinese government to accommodate foreign companies; the absence of local firms able to provide auxiliary services; and poor communications in the country's interior.[25] The result was that Chinese and Western entrepreneurs each had great difficulty in entering the other's sectors. Only after 1900 did the distinction between the foreign and the indigenous sector gradually become less pronounced. This process was accelerated by the Guomindang (or 'Nationalist') government which came to power in 1928, and which pursued 'an economic policy which showed no deference to the economic interests of foreigners'.[26]

Allen and Donnithorne, as well as other authors,[27] emphasise the enclave nature of the foreign business presence in China. Foreign companies were to a certain degree immune to political instability because their activities were largely separated from the rest of the country. However, during the early twentieth century the treaty ports were becoming more closely integrated into the rest of the Chinese economy. Therefore their ability to shield foreign firms from the effects of political—and ensuing economic—turbulence in China declined. The growing tendency after 1900 of large foreign companies to invest outside the treaty ports and engage in activities related to China's domestic trade and agriculture is confirmed in the detailed case studies by Sherman Cochran into the tobacco industry and Chang J. Ning into foreign-controlled up-country trade networks around Hankou (now part of the city of Wuhan) during the early twentieth century.[28]

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[24] Allen and Donnithorne, *Western Enterprise*, 31-51.

[25] Ibid. 31-51 and 241-253.

[26] Ibid. 249.

[27] See for example, R.F. Dernberger 'The Role of the Foreigner in China's Economic Development, 1840-1949' in: D.H. Perkins (ed), *China's Modern Economy in Historical Perspective* (Stanford 1975), 33; Hou, *Foreign Investment*, 165-188; R. Murphy, 'The Treaty Ports and China's Modernisation' in: M. Elvin and W. Skinner (eds), *The Chinese City between Two Worlds* (Stanford 1974), 65.

[28] S. Cochran, *Big Business in China: Sino-Foreign Rivalry in the Cigarette Industry, 1890-1930* (Cambridge MA and London 1980) and idem, 'Commercial Penetration and Economic Imperialism in China: An American Cigarette Company's Entrance into the Market', in: E.R. May and J.K. Fairbank, *America's China Trade in Historical Perspective: The Chinese and American Performance* (Cambridge MA 1986), 151-203; Chang J. Ning, 'Sino-British Relations during 1910-30: A Case Study of British Business in Hankow' (unpublished PhD dissertation; Cambridge University 1994) and idem, 'New British Companies in China: The Case of International Export Company in Hankou, 1907-18', *Studies in Chinese History* 8 (Dec. 1998), 29-63.

The growing number of firms that expanded their operations outside the protected treaty ports must have experienced an increase in political obstacles, especially when the abdication of the last emperor in 1912 was followed by decades of great political instability. Unfortunately very few scholars have addressed the question of how Western business responded to political obstacles during the first half of the twentieth century. An important exception is J. Osterhammel, whose doctoral dissertation provides a detailed investigation into the position of British business on the Chinese market from the late 1920s until the start of the Sino-Japanese War in 1937.[29] The British, together with the Japanese, were the largest direct investors in China, and were represented by giant companies such as the Hongkong and Shanghai Banking Corpration (HSBC); Jardine, Matheson and Company (hereafter 'Jardine'); Butterfield and Swire ('Swire'); the British-American Tobacco Company (BAT); Imperial Chemical Industries (ICI); Union Cold Storage; Peking Syndicate; Chinese Engineering and Mining Company; Arnhold & Company; Sassoon; Lever Brothers; and Asiatic Petroleum Company (a British subsidiary of the Royal Dutch/Shell group). Osterhammel examines which obstacles these large British firms encountered on their way to conquer China's markets.[30]

He found that during the early 1930s an important shift took place in the perception of British corporations of their position in China. They considered two political developments to be highly relevant to their position in China. The first of these was that the British government was no longer capable of protecting British investments: Chinese popular and official resistance to foreign military and diplomatic interventions had become too strong by the late 1920s. The second development was that China's political leaders were determined to push back foreign economic influence in China, and that these leaders were becoming strong enough to carry out such a policy. In response large British concerns attempted to protect themselves against the effects of anti-foreign nationalism—in their eyes the main cause of political threats—by forming an alliance with Chiang Kai-shek's (Jiang Jieshi's) Guomindang government. The Guomindang—China's revolutionary Nationalist Party, also known as Kuomintang, KMT—was the strongest political power in China during the early and mid-1930s.[31] By the mid-1930s Guomindang leaders and large British firms were co-operating in various fields.

The type of companies to which this change in perception applied were those 'that saw their future not in hovering on the fringes of the China market, but in thoroughly penetrating it'.[32] One example given by Osterhammel of co-operation was the government's policy of taxing British-American Tobacco, the largest tobacco firm in China, less than competing Chinese producers. BAT rewarded the government for this privilege by agreeing to a higher overall tax rate and by paying

[29] This dissertation was published as Osterhammel, *Britischer Imperialismus*.

[30] Cochran has also paid attention to the response of Western business to political change in China. But in contrast with Osterhammel, for him the main focus is not on the interaction between business and politics itself, but the issue of competition between foreign and Chinese companies: Cochran, *Big Business*.

[31] Ibid. 406. The arguments for this conclusion are repeated more explicitly and further elaborated in J. Osterhammel 'Imperialism in Transition: British Business and Chinese Authorities, 1932-1937', *China Quarterly* 98 (1984).

[32] Ibid. 286.

its tax in advance.[33] Another case of co-operation was Chiang Kai-shek's siding with the British mining firm Peking Syndicate in its conflict with local authorities in Henan (Honan) province, in return for the imposition of greater Chinese control on the exploitation of firm's mining interests.[34] Osterhammel also points at plans that were being developed by Swire, Jardine, ICI, and Chinese Engineering & Mining to transfer part of their operations to joint-ventures with the Chinese government and private Chinese investors.[35] He stresses that the motives behind such plans were primarily political, not economic.[36] This Sino-British co-operation was possible because both sides believed that their interests were compatible to a sufficient degree.[37]

Osterhammel's study covers the early and mid-1930s, but can also be used to obtain an idea of British business behaviour before and after this period. Allen and Donnithorne have shown that after circa 1900 foreign business became more involved in the Chinese economy. When civil war erupted in the late 1910s, foreign companies were exposed to violence and a breakdown of law and order in many parts of the country. Osterhammel's finding that British business switched from British official support to Chinese official support after 1930, implies that from the mid-1910s until the late 1920s, British firms had relied on protection by the British government. In 1937, the Sino-Japanese War and the Japanese occupation undoubtedly produced new political risks for foreign investors, which could not be addressed by looking for support from the Chinese government. Nevertheless, it is not unlikely that British business maintained its strategy of the early 1930s and switched from co-operating with the Chinese government to establishing close relations with the Japanese in order to obtain political protection.[38]

The work of Osterhammel provided for the first time an understanding of the behaviour of large foreign companies towards political events during the early twentieth century. His findings have recently been supported and elaborated by R. Bickers, who did not focus exclusively on companies but examined the wider British presence in China.[39] Bickers has shown that by the 1930s large British firms were adapting to the demands and needs of the Chinese government, because British foreign policy was no longer capable of protecting British business interests through the traditional tools of imperialism—diplomacy, finance, and gunboats. The large companies believed that in the long run they could sustain their position in China only by taking into account the interests of the Chinese and approaching China on the same basis of equality that characterised relations among Western nations. Thus like Osterhammel, Bickers concluded that the large British firms looked for indigenous support in order to deal with the political changes that China was going through. Bickers also showed that this led not only to co-operative schemes with Chinese political and business elites, but to a general tendency to accommodate to

[33] Osterhammel, *Britischer Imperialismus*, 365.
[34] Ibid. 381-382.
[35] Ibid. 387-406.
[36] Ibid. 406.
[37] Ibid. 423-424.
[38] One of the few exceptions is Anderson, *Standard-Vacuum*, which contains information on how Stanvac, Royal Dutch/Shell and Caltex experienced the 1937-1941 period in China.
[39] R. Bickers, *Britain in China: Community, Culture, and Colonialism 1900-1949* (Manchester and New York 1999).

Chinese interests and popular sentiments. Another important contribution by Bickers was that he stressed that not all British firms followed the same strategy. The many companies that operated entirely within the foreign sectors of the treaty port economy—small and medium-size services and trading firms—preferred holding on to their extraterritorial status and the maintenance of British military protection in order to survive political changes in China.

The information that is available on Western firms in general and British firms in particular suggests how Dutch companies may have dealt with political risks between 1903 and 1941. There seems to be no problem with applying the conclusions of Allen and Donnithorne, Cochran, and Chang Ning to Dutch firms during the first years of the century. Like other Western companies, Dutch firms were initially largely immune to China's political situation. They concentrated their investments in the treaty ports, which were open to all nationalities, and until circa 1916 the situation in China did not cause major political risks. In 1916 Yuan Shi-kai, who had been China's president since the abdication of the last emperor in 1912, died. After his death the country was partitioned up between rivalling warlords, and from then onwards the experiences of British and Dutch firms diverged. From Osterhammel's research it is known that British companies obtained protection from their government during the 1920s. Dutch investors did not have the same support. Although the Dutch government encouraged Dutch business activities in China,[40] it rarely intervened directly in relations between Chinese authorities and Dutch businessmen.

Research by F. van Dongen and F. Dankers has shown that from the late nineteenth century to the mid-twentieth century the Netherlands kept a low profile in Chinese political affairs. The Dutch government did sometimes participate in collective military or diplomatic actions, such as during the Boxer War of 1900 and the ensuing peace negotiations, but refrained from confronting the Chinese government individually. The main worry of the Dutch government was that pursuing an active role in promoting Dutch business interests in China would limit its ability to isolate the large ethnic Chinese population of the Netherlands Indies from political influences from China.[41] Especially when nationalism developed into a force capable of mobilising large parts of the Chinese population for political activities during the 1910s, the Dutch colonial administration worried that anti-Western political agitation would spread to its ethnic Chinese subjects. It feared that such a development would be encouraged by intervening in China's internal affairs, which could focus the attention of Chinese public opinion on the problems of the Chinese in the Netherlands Indies. Moreover, apart from a small detachment of

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[40] Especially before the Chinese revolution of 1911. The main reason for the Dutch government to establish diplomatic relations with China in 1863 was the desire to stimulate Dutch trade with China. In the 1880s the Dutch government supported attempts by Sumatran tobacco planters to obtain permission from the Chinese authorities to recruit contract labourers. In 1901-1905 it supported the entry of the NHM into the Shanghai bankers' committee for the handling of the Boxer indemnity: F.P. van der Putten, 'Small Powers and Imperialism: The Netherlands in China, 1886-1905', *Itinerario* 20/1 (1996) 115-132.

[41] Dankers, 'China en Nederland'. On the attempt to keep Chinese consuls out of the Netherlands Indies in order to limit the contact between overseas Chinese and Chinese government officials: Yen Ching-hwang, *Coolies and Mandarims: China's Protection of Overseas Chinese during the Late Ching Period, 1851-1911* (Singapore 1985); and P. de Beukelaer, 'De Toelating van Chinese Consuls in Nederlands-Indië: De Totstandkoming van de Nederlands-Chinese Conventie van 8 Mei 1911' (unpublished MA thesis; Nijmegen University 1979).

marines to guard the legation in Beijing, the Netherlands did not have a permanent military presence in that country.[42] With a policy aimed at avoiding attracting public attention and with no military power available, there was little the Dutch legation in Beijing could do to protect Dutch investments during times of war and upsurges of anti-foreign nationalism. The period of civil war between 1916 and 1928 must have caused problems for Dutch firms in China, from which they could not be protected by Dutch political power. It is likely that the companies developed alternative ways to protect themselves.

For the 1928-1937 period—the 'Nanjing Decade' when the country's capital was in Nanjing—the findings of Osterhammel and Bickers relating to British companies seem applicable to Dutch firms. Here the main political threat was caused by popular and official anti-foreign activities stimulated by the rise of nationalism. The Guomindang government, itself a product of nationalism, provided British companies with protection against the more extreme effects of anti-foreign sentiments. Dutch business was in the same position and quite possibly it also responded by co-operating with the Chinese government. For the 1937-1941 period, finally, it is again unclear how Dutch or any other Western companies responded to political threats, but one distinct possibility is that they switched from co-operating with the Chinese government to accommodating themselves to the Japanese military in order to obtain political protection.

This tentative and incomplete outline of Dutch corporate response toward its political environment will have to be tested and supplemented by detailed analyses of the experiences of Dutch firms throughout 1903-1941. Based on the foregoing information it may be assumed that after 1916 Dutch companies sought protection against the disruptions caused by political problems. Or, to be more exact, they looked for protection against the *risk* of an upsurge in political problems: firms base their strategy not only on the current situation but also on expectations of future developments and the assessment of future threats. The main political risks most likely were related to the civil war (between 1916 and 1928), Chinese anti-foreign nationalism (from 1928 until 1937), and Japanese imperialism (1937-1941). Before 1916 political risk probably did not play a major role in the Dutch perception of the Chinese market. To answer the question of how Dutch business dealt with political risk in China, the first step will to be to verify whether this hypothesis is correct: did political risk play a subordinate role in corporate strategy before 1916, and were in 1916-1928 the civil war, in 1928-1937 Chinese nationalism, and in 1937-1941 Japanese imperialism the main causes of political risk? Provided that the hypothesis is correct, the main question can be broken down into three sub-questions. First, how did Dutch companies try to minimise the effects of China's civil war between 1916 and 1928? Second, did they accommodate to the interests of the Guomindang government or other powerful elements in the Chinese society between 1928 and

[42] A large part of central Beijing, the so-called Legation Quarter, was administered by a council of foreign diplomatic ministers. The Legation Quarter had its own 2075-men strong multinational defence force ('legation guards'). The Netherlands particpated in both the council and the defence. On the development of the Legation Quarter: Frans-Paul van der Putten, 'Diplomatieke Cultuur in de Gezantschapswijk van Beijing in de Late Negentiende en Vroege Twintigste Eeuw' in: P. van Kemseke (ed), *Diplomatieke Cultuur* (Leuven 2000), 157-172.

1937? And third, did they accommodate to the interests of the Japanese military in 1937-1941?

Corporate Behaviour

To answer these questions two basic approaches are possible: examining the attitude of Dutch firms collectively, or conducting a case study for each Dutch company separately. The first method, the collective approach, has been used by Osterhammel in his study on British firms, which is as yet the only example of an investigation that encompasses all companies of a single nationality. He defined a framework common to all British firms—consisting of activity, geographic, institutional, and national-political characteristics—in which he positioned the experiences of individual companies. In a separate publication Osterhammel explains why he thinks that this collective approach can be used also for studies on American, French, German, Japanese, and Russian firms in early twentieth-century China.[43] He argues that the companies of these nationalities formed 'business systems': they dealt with each other more intensely than with firms of other nationalities, in certain matters they acted collectively through national business associations, and they had close relations with a home government that had a large degree of political influence in China. This being the case, Osterhammel claims that this collective approach is not useful for nationalities that had too few firms in China to form an integrated whole, or that did not play a relevant political role in China. Leaving the question of how many Dutch firms were present in China and how strongly they were interconnected aside for the moment, the fact that the Netherlands was not a country with significant political influence in China is sufficient to indicate that according to Osterhammel's criteria Dutch firms do not qualify for his business system approach. This does not mean that Dutch firms in China cannot be studied as a group, but it does show that according to Osterhammel the behaviour of a single British company or a group of British companies cannot be properly understood unless it is seen within the context of the British business and political presence in China as a whole. Because this precondition does not apply to the study of Dutch companies, these should not be analysed collectively.

There is also a reason why a firm-by-firm approach is preferable regardless of which nationality it concerns. Osterhammel concluded that during the 1930s, British companies detached themselves from British government protection and tried to form co-operative arrangements with the Guomindang government. This means that from the late 1920s, the large British concerns gradually behaved less according to a national pattern and instead followed a more unique, individual pattern. Their British identity lost much of its relevance for their position in China. Therefore, for a follow-up study to Osterhammel's work on British firms in the 1930s, a firm-by-firm approach would probably be more effective than a collective analysis. With regard to the Dutch situation, this applies to the whole period up to 1941. There is no reason to assume that Dutch companies responded to political risks in a manner that was typical of their nationality, other than that they did not rely on their home government for political protection. It is therefore preferable to look at each company

[43] J. Osterhammel 'Semi-Colonialism and Informal Empire in Twentieth-Century China: Towards a Framework of Analysis' in: Wolfgang J. Mommsen and Jürgen Osterhammel (eds), *Imperialism and After: Continuities and Discontinuities* (London 1986), 290-314.

separately. Only afterwards can it be established whether a common tendency existed in the behaviour of Dutch firms.

The firm-by-firm approach offers the opportunity to discover variations in the way Dutch firms responded to political risks. In order to explain the origin of these variations it is necessary to know the origin of corporate behaviour in general. The way in which a given company behaves is the result of the interaction between its environment and its interests. In this case the environment is the political condition of China; generally it was the same for each Dutch firm and forms the starting point of the analysis. Therefore the variations in Dutch company behaviour will have to be explained from corporate interests. Each firm has a unique interest profile, consisting of overall interests that apply to the entire organisation, and local interests, that apply only to its activities in China. It is these local interests that make it possible to make comparisons of foreign corporate behaviour in China. Every foreign company had a certain main interest in China. This could be, for instance, making a profit or enlarging sales output. It is assumed here that a firm's main local interest provided its motive for responding in a certain way to changes in its local environment, such as the increase of political risks. To explain variations in the way Dutch reacted to political problems, this study will relate these variations to differences in main local interest.

To identify what the main local interest for each company was, it is necessary to examine how its overall interests related to China. Therefore, the starting point of each case study is to use data from corporate archives and company histories to reconstruct its overall interests during the time it was active in China. It is possible to find out a firm's overall interests by looking at which people controlled the firm and what their interests were. According to A.D. Chandler jr, there were two main variants of corporate control in Western companies in the early twentieth century.[44] The first variant was the more traditional one, in which a firm is controlled by its owners. They could be the persons who created the company, bankers, or people who purchased company shares on the stock market. The second variant came into existence only after 1870, and applies to firms that are being controlled by salaried managers, i.e., by people who were not major owners of the company.[45] Chandler postulates that there is a fundamental difference in the behaviour of these two ideal types. Owners were interested primarily in matters for which the organisation was

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[44] A.D. Chandler Jr, 'The United States: Seedbed of Managerial Capitalism' in: Alfred D. Chandler Jr en Herman Daems (eds), *Managerial Hierarchies: Comparative Perspectives on the Rise of the Modern Industrial Enterprise* (Cambridge MA and London 1980), 9-40; and A.D. Chandler Jr and H. Daems, 'Introduction', ibid. 1-8.

[45] The reason why owners cannot always control a firm is that managers have more knowledge of what goes on in the organisation: Chandler, 'Managerial Capitalism', 12. Max Weber also pointed out that 'bureaucratic governance means rule by knowledge': M. Weber, *Wirtschaft und Gesellschaft: Grundriss der Verstehenden Soziologie* (5th rev. ed.; Tübingen 1972), 129. Many firms were governed by a bureaucracy of managers (Chandler calls this a managerial hierarchy) because of their size, complex structure, and technologically advanced activities. The outcome of the historian Chandler's 'managerial revolution', the rise to dominance of managerial hierarchies within firms, corresponds with the views of economist J.K. Galbraith on the power structure of twentieth century economic life. Galbraith introduced the term 'technostructure', which more or less refers to the same concept as managerial hierarchy, but rather than focus on the development within companies he singled out on the dominant position in Western economies of large, manager-controlled organisations. By doing this he supported Chandler's notion that there is a close relationship between corporate behaviour and corporate structure. J.K. Galbraith, *Economics and the Public Purpose* (Boston 1973).

merely a tool—usually this was profit, but it also may have been performing a certain economic task. Because they directed their company with the aim of achieving their own interest, this became also the company's main overall interest. Managers, however, were not primarily interested in maximising the firm's profits, as dividends went not to them but to the owners. Instead their 'basic objective was to keep their organisation profitably employed; they did so by increasing the speed and volume of their activities and by internalising more units or processes'.[46] Thus it can be said that their interest—for the duration of their employment by the company—was not so much producing a profit but expanding the company, because this corresponded with their career interest. In Chandler's view, all managers in a large company put together formed a 'managerial hierarchy', they functioned as intermediaries between the owners on the one hand and the company's workers, customers, and suppliers on the other. The two types of firms described by him were ideal types; in reality companies often were partly controlled by owners and partly by managers. Moreover, some owners—such as the firm's founding father or his descendants—may have been interested mainly in growth rather than dividends. Nevertheless, when account is taken of the fact that a firm's main overall interest may be a mixture of managerial and ownership interests, and that owners and managers sometimes have the same interests, Chandler's model is a very useful analytical tool.

Once a firm's main overall interest has been reconstructed—growth, profit, a specific economic task, or a mixture—the second step in each case study is to examine how these related to China as a host country. This can be based on data from corporate archives, company histories, and publications on relevant economic sectors in China. This second step in the analysis—which amounts to a reconstruction of its assessment of the market—will reveal a firm's main local interest. It could again be profit, growth, a commercial task, or a mixture, but it was not necessarily the same as the company's overall interest. The third step of each case study is to make an analysis of which political risks its encountered in China and how it responded to them. This analysis can be made on the basis of data from corporate archives, relevant government archives, and publications on political situation in China. The perspective to be used is that of the persons who controlled the firm. This means that the data are produced at the corporate centre, rather than in China itself. Consequently this study contains little local-level information on conditions at specific sites or localities in China. This third step should be aimed at testing the hypothesis and answering the three sub-questions mentioned in the previous section. Moreover, its outcome should relate explicitly to the company's main local interest, in order not just to describe corporate strategies but to also explain them. Finally, after a three-step case study has been made of each of the Dutch firms, a concluding comparison can be made of the various ways in which they responded to political risks in China, in order to establish which elements were common to all Dutch firms. By relating behavioural variations to differences in main local interest, hopefully it will be possible to explain why some companies responded differently than others to certain political risks.

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[46] Chandler, 'Managerial Capitalism', 12.

There are two important limitations to this research project. In the first place, its scope entails only companies that were incorporated as Dutch and controlled from the Netherlands. Legally firms in China that were controlled from the Netherlands Indies, which were usually owned by overseas Chinese living in Java, were also Dutch companies. However, Chinese-owned firms perceived the political situation in China from a perspective that was fundamentally different from Dutch-owned companies. This was largely the result of the fact that overseas Chinese were not regarded as foreigners by the Chinese government or public, nor did the Dutch government consider overseas Chinese investments in China to be Dutch economic interests. The aim of this study is to investigate the response of a group of foreign companies towards political change in an environment that is culturally unfamiliar. Being foreign and being regarded as such are key elements that were largely absent in the case of Chinese-owned Dutch companies. In the second place, this investigation excludes small firms. Apart from the large enterprises that will be introduced in the following chapter, there was an unknown number of small Dutch companies present in China. The main reason why they are ignored in this study is that most of them were too small to have left sufficient traces of their past for a detailed analysis.[47]

[47] The only larger Dutch companies with direct investments in China that were controlled from Europe and that are not included in this study were the Deutsch-Niederländische Telegraphen Gesellschaft, which was controlled from Germany, and the two trading firms Holland-China Handelscompagnie (from 1903) and Transmarina (1918-1927). The latter traded in all parts of the world, but remained smaller than the HCHC in China, and after only nine years it closed down in China. The HCHC was active only in China and the oldest Dutch trading firm there. Unfortunately neither its main shareholders M. & R. de Monchy and the NHM, nor its later parent Internatio have retained HCHC company archives. There were other Dutch firms with FDI in China, but they were very small and often not controlled from Europe. For a full list of Dutch companies that were present or represented in China: Baart, 'Aktiviteiten', appendix. For some basic information on some of the smaller Dutch (trading and insurance) firms in China: ibid. 159-170.

CHAPTER 1

DUTCH INVESTMENT IN CHINA

There are two basic types of investment: portfolio investment and direct investment. Dutch portfolio investments in China were made primarily through the purchase of Chinese government bonds that were issued in the Netherlands.[48] In 1931 Dutch portfolio investments in China amounted to US$ 18.7 million. The larger part of this amount consisted of ƒ31.75 million worth of Longhai railway bonds that were owned by Dutch investors plus ƒ13.53 million worth of interest in arrears (by 1931), together a sum of ƒ45.28 million or $18.2 million. In addition to the Longhai debt there was a smaller obligation of the Chinese government to Dutch investors which amounted to half a million US dollars.[49] By itself, the ownership of these bonds did not enable the holders to play an active role in the Chinese economy. Bondholders were entitled to the sum they invested plus a certain rate of interest, payable by the Chinese government in regular instalments. As will be seen in the chapter on the NSC, some Dutch bondholders were banks that also invested directly in China. When China declined to fulfil its obligation to these bondholders, they actively tried to find alternative ways to get their money back. Nevertheless, their role as bondholders was fundamentally a passive one and when they were active within China, this was only possible because they happened to be also direct investors.

As this investigation is concerned with the behaviour of Dutch firms that were physically present in China, direct investments (FDI) are more important. FDI, like portfolio investments, generate income for the investor. However, the crucial difference is that FDI involves control by the investor. In other words, the Dutch companies that owned FDI in China played an active role in the local economy because they managed these assets—buildings, land, supplies, machines, but also people—directly. Political risks affected portfolio and direct investments alike, but while portfolio investors could do little once they had made their investments, direct investors continued to manage their investments, and were better capable of adapting to such change. For instance, they could move the location of their assets to another part of China, or they could enter into a joint-venture with other investors, or they could move into another market segment; all this with the aim of maximising opportunities or minimising damage.

In 1931 the estimated value of Dutch direct investment in China was $35.5 million. According to C.F. Remer this was only $10 million,[50] but he regarded the investments by Royal Dutch/Shell and Unilever as British. His practice is not followed here. In this study the assets of Royal Dutch/Shell are considered to be Dutch because a Dutch parent company (Royal Dutch) had majority voting rights for their control. The value of Unilever investments is regarded here as half Dutch and half British, because their control was shared equally between a Dutch company

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[48] In 1930 the Netherlands was the seventh largest creditor country to the Chinese government, and the fourth largest (after Japan, Britain, and Belgium) creditor with respect to Chinese railway obligations: Remer, *Foreign Investments*, 135 and 143

[49] Ibid. 657.

[50] Ibid. 658.

(Unilever NV) and a British company (Unilever Ltd). The value of investments by Royal Dutch can be based on existing estimates for Standard Oil Company of New York, whose investments mirrored those by Royal Dutch/Shell. Wilkins estimated Standard's 1914 investments at $20 million, while in 1929 the US Department of Commerce estimated that the total US oil investments in China amounted to $42.8 million.[51] Virtually this entire amount was accounted for by Standard and The Texas Company, the former being the larger party. A cautious estimate for Standard in 1931 would be $25 million. The figure of $25 million for Royal Dutch/Shell seems plausible: its investments in the Yangzi (Chang Jiang) provinces (where most storage and shipping facilities were located) in the mid-1920s are known to have amounted to about £3.5 million or $17 million.[52] The figure for the investments by Unilever can be based on a 1940 company record, which values the company's Chinese investments in December 1939 at £196,000. Of this £189,000 was invested in the soap business.[53] The 1939 assets and stock for the soap business were probably not fundamentally larger than those of eight years earlier. An estimate for the total value of Unilever's investments in China in 1931 would be £175,000, or $964,000. Because Unilever NV had a 50 per cent interest in Unilever, its investment in China probably amounted to some $482,000. Therefore if the investments by Royal Dutch and Unilever NV are added to Remer's figure the new total for Dutch FDI becomes $35.5 million. The principal aim of this chapter is to present an outline of Dutch direct investments and the companies that were responsible for it. The main characteristics are the relative size of Dutch FDI, the moment of entry, the main activities, the geographic presence, the institutional background, and the linkages with the Chinese business environment.[54]

A look at the relative size of Dutch FDI in China shows that this was a relatively moderate figure. In the first place, in terms of Dutch FDI world-wide this represented a share of some 2.6 per cent.[55] If the very considerable Dutch direct investments in the Netherlands Indies were counted as FDI, the share of FDI in China would be far lower.[56] Nonetheless, the bulk of Dutch FDI was located in Western countries—the US alone accounted for 38 per cent in 1938—and China was one of the larger hosts to Dutch FDI in the non-Western world outside the Netherlands Indies.[57] This is not

[51] M. Wilkins, 'The Impacts of American Multinational Enterprise on American-Chinese Economic Relations, 1786-1949' in: E.R. May and J.K. Fairbank, *America's China Trade in Historical Perspective: The Chinese and American Performance* (Cambridge MA 1986), 264; Remer, *Foreign Investments*, 310.

[52] APC London to British Foreign Office 17 Jan. 1927, PRO London, FO 371, 12431, F471.

[53] 'Mr J.L. Heyworth visit report China and Japan 1940, Unilever Rotterdam, DIR 18, 325.1.

[54] This approach is based mainly on Osterhammel, 'Informal Empire', but it does not include the political dimension of intervention mechanisms that was irrelevant in the Dutch case.

[55] In 1938 the amount of Dutch direct investments world-wide was circa $1 billion, which meant that FDI in China accounted for at least 3.6 per cent of all Dutch FDI—assuming that the 1931 figure of total Dutch FDI was not below the 1938 figure: F. de Goey, 'Dutch Overseas Investment in the Very Long Run (c. 1600-1990)' in: Roger van Hoesel and Rajneesh Narula (eds), *Multinational Enterprises from the Netherlands* (London 1999), 49. He included direct investments in the Netherlands Indies in the total FDI figure. The $1 billion does not include direct foreign investments by Chinese living in the Netherlands Indies, because the value of these is unknown.

[56] In 1938 the Netherlands Indies, under Dutch administration and therefore not regarded as foreign in this study, were host to some $1.6 billion—far in excess of all Dutch FDI combined: ibid.

[57] Regarding the relationship between Dutch FDI and political climate in general, the world (between the late nineteenth century and the 1930s) can be divided into the West plus its colonies on the one hand and the remainder of the non-Western world on the other hand. The first group was generally politically open

surprising, as according to some estimates China was the largest recipient of FDI in the non-Western world.[58] In the second place, the Dutch direct investment of $35.5 million represented 1.5 per cent of all FDI in China in 1931.[59] This made the Dutch the seventh-largest foreign direct investors in China. About three-quarters of FDI in China was owned in more or less equal shares by British and Japanese investors. The remaining quarter was divided between a large number of nationalities, of which the US, the USSR, France, and Germany had a larger share than the Dutch. Of the remaining investing countries, the Belgian share was about equal to that of the Dutch, and the Italian, Danish, Swedish, and Norwegian shares were smaller.

In terms of their moment of entry into China, Dutch companies entered the country relatively late—apart from the notable exception of the Dutch East India Company (Vereenigde Oost-Indische Compagnie, VOC). The development of Western FDI in China, the period prior to 1941 may be divided into four phases. The first phase began with the establishment of a Portuguese trading post in Macao about 1557. During this phase the Portuguese were the only Westerners who were allowed by the Chinese government to run a trading establishment in the Chinese empire. The second phase began in 1715 when the British chartered trading company for Asia, the East India Company (EIC), opened a 'factory' or branch office in Guangzhou (Canton). During this phase China allowed several Western companies to also establish branches in Guangzhou, but kept all other ports closed to Western merchants.[60] The third phase began in 1842, when Britain defeated China in the Opium War and consequently forced China to open an increasing number of places to foreign trading activities. During this phase mainly British, but also American, German, and other foreign trading firms established themselves in Chinese ports. The fourth phase began in 1895, when Japan defeated China in the first Sino-Japanese war and forced China to allow foreigners to engage in industrial production in China. After 1895 the number of foreign companies in China grew rapidly.

Dutch FDI in China took place only in the second and fourth phases. The first Dutch FDI in China was made in 1762 when the VOC established a branch office in

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and stable, whereas the second group was also politically open (the USSR being an important exception from ca 1920, in the 1930s joined by Japan and to a lesser extent Mexico) but less stable. China was a prominent representative of this second group: it was its largest host of FDI, it was politically very open, and also very unstable.

[58] In 1930 China was host to some $2.3 billions worth of FDI. This was 8.8 per cent of the figure for the world's total FDI in 1938; China's share was probably larger in 1930: G. Jones, *The Evolution of International Business: An Introduction* (London 1996), 42. The worldwide total used by Jones for 1938 includes also colonial investments, and therefore should be lower in the present context. This is another reason why in 1930 China probably hosted more than 8.8 per cent of all FDI.

[59] In 1930 the value of all foreign FDI in China combined was some $2.3 billion: Osterhammel, *Weltgesellschaft*, 256. Remer's estimate for 1931 was $2.5 billion: Remer, *Foreign Investments*, 69. Mira Wilkins only came to $350 million for 1929: M. Wilkins, 'Hosts to Transnational Investments: A Comparative Analysis' in: Hans Pohl (ed), *Transnational Investment from the 19th Century to the Present* (Stuttgart 1994), 46. It is not entirely clear why her figure is so dramatically lower than those of Osterhammel and Remer. One reason why Wilkins's estimate is too low is that she excluded direct investments by foreigners living permanently in China. Foreign firms controlled from within China were usually located in Shanghai's International Settlement, outside Chinese administrative reach and therefore regarded as foreign in this study. On the other hand, investments by foreigners in Hong Kong, the International Settlement or other concessions are regarded as investments in the Chinese economy.

[60] The foreign direct investment consisted mainly of rented buildings and the stock kept in them.

Guangzhou—following the example of the EIC.[61] At this time, the VOC was the world's largest shipping and trading company.[62] Through its Guangzhou office, it purchased tea for the European market. In the latter half of the eighteenth century the company ran into financial difficulties and was liquidated in 1799. Its large Asian possessions subsequently were administered by the Dutch government, which later transferred the Guangzhou office to the care of Nederlandsche Handel-Maatschappij. After the Napoleonic wars Dutch trade with China did not regain its former importance and when the Guangzhou branch office was destroyed during the Opium War, the NHM declined to rebuild it. During the third phase in the development of FDI in China (1842-1895) there was no significant Dutch investment in China.[63] During this period British investors became very active along the Chinese coast. British trading firms like Jardine and Swire established themselves in cities like Hong Kong and Shanghai, and gradually diversified into activities such as coastal shipping and sugar refining. To finance such activities, British bankers also became active in China. Dutch private enterprise developed rapidly in the Netherlands Indies from the 1870s, but did not turn its attention to China until after 1895.[64] Until that time several Dutch firms, mainly colonial enterprises, were represented in China through German trading companies that acted as their agent.[65]

The first major Dutch investment in China since the days of the VOC was made in 1897, when Royal Dutch built large oil storage tanks in Shanghai and Hong Kong. In the following year installations were built also in six other Chinese cities. Its large-scale entry into the Chinese oil trade stands in marked contrast to the disinterested Dutch attitude prior to 1897. Yet these investments cannot be regarded as FDI because they were not controlled by Royal Dutch. The oil tanks were operated by the German firm E. Meyer & Company, that sold the oil to Chinese distributors on behalf of the Dutch company. It was also around 1897 that Dutch FDI first appeared in China, albeit on a small scale. At the end of the 1890s there were

[61] Large parts of Formosa (Taiwan) were controlled by the VOC during 1624-1661. However, during this time Formosa was not yet part of China: Van Dongen, *Neutraliteit en Imperialisme*, 16-19. After 1762, an office subordinate to the one in Guangzhou was maintained in Macao.

[62] Osterhammel, *Weltgesellschaft*, 117.

[63] No clear explanation exists for the near complete absence of Dutch economic activity in China before 1896. Two developments that at first sight seem to have been relevant are the fact that the Netherlands industrialised only after the middle of the nineteenth century—later than in the other Western European countries—and that private business activities in the Netherlands Indies were only encouraged after 1870 by the Dutch government. Apparently there were few incentives or organisational capacities to invest in Asia before industrialisation, and when this changed during the second half of the nineteenth century the new opportunities in the Netherlands Indies may have initially absorbed all available Dutch capital. Brugmans and Blussé both believe that business opportunities in Southeast Asia were so attractive that China was neglected: Blussé, 'Cannibalization', 34; Brugmans, *Chinavaart*, 14 and 17.

[64] On the state of Sino-Dutch economic relations at the close of the nineteenth century see E. Heldring, *Oost-Azië en Indië: Beschouwingen en Schetsen* (Amsterdam 1899).

[65] Between circa 1870 and 1895, the main Dutch economic interest in China was the recruitment of contract ('coolie') labourers for the tobacco plantations in Deli, Northeast Sumatra. Initially the Chinese government refused direct contracting for Deli, and the tobacco planters had to contract their Chinese labour indirectly in the British Straits Settlements. However, in the 1880s German trading and shipping firms obtained permission from the Chinese authorities to recruit labourers in South China and ship them directly to Deli. The Deli tobacco planters left this task to the Germans—rather than doing it for themselves—mainly because it were German consuls who had secured permission for labour recruitment. Dutch official representatives had tried to do the same but failed: Van der Putten, 'Small Powers and Imperialism'.

three Dutch trading firms in Shanghai and Hong Kong: Hotz, s'Jacob & Co., the Holland China-Syndicaat (HCS), and J.L. van Laer & Co.[66] After the turn of the century other Dutch direct investors gradually became active in China. The first large Dutch firms established themselves in China in the decade 1903-1912, a second group followed after the First World War in the period 1920-1930. There were no major new entries during the 1930s.

Turning to the type of activities of Dutch firms after 1902, they were involved in banking, shipping, construction, production, and distribution. In banking there were two Dutch firms present in China: the Nederlandsche Handel-Maatschappij (NHM) and the Nederlandsch-Indische Handelsbank (NIHB), both were active in financing trade between China and the Netherlands Indies. The main Dutch shipping firm active in Chinese waters was the Java-China-Japan Lijn (JCJL) which linked several Chinese ports to Japan and the Netherlands Indies. The two Dutch construction companies in China were the Nederlandsche Maatschappij voor Havenwerken, active in harbour works, and the Nederlandsch Syndicaat voor China (NSC) which engaged in railway construction.[67] Two Dutch firms had production facilities in China: Royal Dutch/Shell for candles and Unilever for soap and food. With Philips the same two companies were also the main Dutch distributing companies in China. These eight companies were responsible for nearly all Dutch FDI in China. Of the firms that were controlled from the Netherlands, they were the only eight whose activities went beyond importing and exporting and were therefore possibly open to political risks in a direct way.

As will be shown in the following chapters, relations among these eight companies were tight in the case of the banks, the shipping line, and the construction firms. Some of these held shares in other companies, and frequently managing and supervisory board members combined functions in several firms. Sometimes the firms also worked together in China. By contrast the three distributing companies had few relations with Dutch firms in China. In the early 1920s a China association (Nederlandsch-Chineesche Vereniging) was founded in the Netherlands which aimed at creating a greater understanding of China among Dutch students, businessmen, and politicians. It concentrated on spreading cultural, economic, and political information by organising meetings and publishing a journal. This was also the time that a Dutch chamber of commerce was established in Shanghai to represent Dutch firms active in that city.[68] However, the number of Dutch firms in China was small, and the interests of most were not located exclusively in that country. As a result of this and the close ties already existing between many Dutch companies in Asia, a political lobbying organisation to represent all Dutch business interests in China never saw the light of day.

The concentration of Dutch FDI in the services sector was common to foreign companies in China. Only a few foreign firms in China were active in natural resources; these were mainly interested in iron ore mining (Japanese), coal mining

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[66] According to Van Dongen, Hotz s'Jacob opened an office in Shanghai in 1898, by which time it already had been operating an office in Hong Kong for several years. The HCS was established in 1896 by the Rotterdam trading house M. & R. de Monchy. Van Laer was active only in Shanghai: Van Dongen, *Neutraliteit en Imperialisme*, 221-222.

[67] The NSC itself represented a large number of Dutch companies that held shares in it.

[68] Baart , 'Aktiviteiten', 40-41.

(Japanese and British), tobacco cultivation (British), and the purchase of meat and eggs (British). Foreign involvement in industry was limited to a relatively small number of activities, mainly cotton spinning (British and Japanese), sugar refining (British), cigarette manufacturing (British and Japanese), electric light bulb manufacturing (American), soap manufacturing (British), vegetable oil manufacturing (Japanese and British), and the woollen industry (British and Japanese). The only heavy industry in China was the Japanese steel production site in Anshan, Manchuria. Unlike resources and industry, the foreign services sector in China was very diverse and cannot easily be outlined. Some national specialities may be indicated: British firms were dominant in shipping and banking, and prominent in trade and railway management; German firms were prominent in trade; Japanese firms were prominent in trade, shipping, and railway management; American firms were strong in public utilities; French and Russian firms were very active in railway management; and Belgian firms in railway construction.

Two notable characteristics of Dutch business activity in China were the involvement in hydraulic engineering and the prominent role of trade with the Netherlands Indies. In the first place, hydraulic engineering—building and improving harbours and waterways—was considered by many Dutch entrepreneurs to constitute *the* competitive advantage for Dutch business. Dutch engineers had gained considerable experience with harbour construction and dike building in the Netherlands, and during the late nineteenth century several Dutch engineers were active in various European countries and also in Japan, which boosted the reputation for Dutch hydraulic engineering technology. After 1900 the largest foreign harbour works firm in China was Dutch, and a number of Dutch hydraulic engineers worked in China as advisors to the Chinese government. In the second place, Dutch firms were heavily involved in trade between China and the Netherlands Indies. They were especially dominant in financing and shipping, and in the distribution of Netherlands Indies petroleum products. The first large Dutch companies that invested in China did so to support their trade interests in Southeast Asia. Apart from large Dutch-controlled companies, firms run by Netherlands Indies Chinese also played an important role in this trade. In spite of China's reputation for having little use for foreign goods, the main trade between the Netherlands Indies and China consisted of exports to China. In particular unrefined sugar and refined petroleum were imported by China, followed to a lesser extent by rattan and foods.[69] Chinese products going to the Dutch colony were mainly silk, tobacco products, tea, and rice. Trade between the Netherlands itself and China consisted largely of raw materials exported from China via non-Dutch firms and did not directly lead to Dutch FDI. The Netherlands imported mainly soya beans, peanuts, and vegetable oils—part of which was probably re-exported to Germany. Least significant in Dutch-Chinese trade were exports from the Netherlands, which consisted of dyes and other chemicals, dairy products, and flour.

[69] Dankers, 'China en Nederland', 32-33. On exports from Java to China around 1900 see also J.A.M. Caldwell, 'Indonesian Export and Production from the Decline of the Culture System to the First World War', in: C.D. Cowan (ed), *The Economic Development of South-East Asia: Studies in Economic History and Political Economy* (London 1964), 72-101.

Table I. Value in millions of guilders and percentage of total exports/imports of the Netherlands Indies and the Netherlands respectively to/from China (including Hong Kong), 1909-1938.

	1909	*1920*	*1928*	*1938*
Netherlands Indies				
to China:	43.3 (9.8%)	168.9 (7.5%)	111.0 (6.8%)	22.9 (3.4%)
from China:	12.3 (4.8%)	39.3 (3.5%)	25.0 (2.6%)	14.6 (3.0%)
Netherlands				
to China:		-	8.8 (0.4%)	3.5 (0.3%)
from China:	-	-	13.8 (0.5%)	18.5 (0.8%)[a]

Source: F. Dankers, 'Nederland en China, 1940-1950: De Hoofdlijnen van het Nederlandse Chinabeleid in Continuiteit en Verandering' (unpublished MA thesis; Nijmegen University 1982), 32-33.
[a] Imports from China in 1938 include ƒ10.9 million worth of goods from Japanese Manchukuo.

In the matter of their geographic location, most foreign companies of whatsoever nationality established their local head office in Shanghai, and Dutch firms did likewise. The main difference between them and other foreigners was that the latter had more specific regional preferences. Russian direct investments were concentrated in Manchuria (i.e., the three provinces Fengtian/Liaoning, Jilin, and Heilongjiang); Japanese in Shanghai, Manchuria, Formosa (now Taiwan), Fujian (Fukien), and Shandong (Shantung); French in Shanghai and Yunnan, German in Shanghai, Hankou, and Shandong. American FDI was strongly concentrated in Shanghai, but British direct investments could be found in most of China's provinces. Some Dutch companies also had offices in some cities other than Shanghai: Hong Kong (JCJL, NIHB, NHM, Royal Dutch/Shell), Shantou (then known as Swatow: JCJL, NIHB, Royal Dutch/Shell), Xiamen (or Amoy: JCJL, NIHB, Royal Dutch/Shell), Macao (Harbour Works), and Beijing (or Peking: Harbour Works, NSC). Royal Dutch/Shell was exceptional in that it had offices in almost all provincial capitals, and that it ran its own oil tanks, ships, and trucks along the major rivers and railways. Moreover, this company and Unilever operated warehouses and depots throughout large parts of the interior of China.

With respect to the institutional background of the individual Dutch companies,[70] two important elements were whether the companies were privately- or state-owned, and whether they were active exclusively in the Far East, or also in other parts of the world. With respect to ownership, all Dutch companies in China were privately-owned. Most foreign firms in China were private interests but there were some notable exceptions. The largest single direct investments of Japan, Russia, and France in China consisted of railway companies which were heavily influenced by the governments of these countries. During the second half of the 1930s, the management of the Chinese interests of German and Japanese businesses was also strongly influenced by their governments. British, American, and Dutch FDI shared the fact that they were not subjected to strong government influence throughout the 1902-1941 period.

[70] On Dutch business history in an international perspective see H. Schröter, 'Small European Nations: Cooperative Capitalism in the Twentieth Century' in: Alfred D Chandler Jr, Franco Amatori, Takashi Hikino eds, *Big Business and the Wealth of Nations* (Cambridge 1997), 176-204.

Table II. Western and Japanese companies with large direct investments in China (excluding Formosa and post-1931 Manchuria), 1918-1937, and their original main activity.[71]

	Regional Firms		Global Firms	
Britain	Arnhold & Co.	trading	Union Cold Storage	meat
	Butterfield & Swire	trading	ICI	manufacturing
	Dodwell & Co.	trading	Unilever Ltd	manufacturing
	Jardine, Matheson & Co.	trading	Calico Printers' Assoc.	manufacturing
	Sassoon & Co.	trading	Patons & Baldwins	manufacturing
	Chartered Bank IAC	banking	BAT	manufacturing
	HSBC	banking	GEC	manufacturing
	China Engineering & Mining	coal		
	Peking Syndicate	coal		
	China Gas Company	utilities		
	Shanghai Waterworks	utilities		
	China General Omnibus	bus		
	Shanghai Electric Constr.	tram		
	China Imp. Ex. Lumber	lumber		
	Shanghai Dockyards	manufacturing		
Japan	Mitsui	trading		
	Mitsubishi	trading		
	Sumitomo	trading		
	Okura	trading		
	Yokohama Specie Bank	banking		
	Bank of Korea	banking		
	Bank of Taiwan	banking		
	Dairen Kissen Kaisha	shipping		
	Nippon Yusen Kaisha	shipping		
	Nishin Kissen Kaisha	shipping		
	Osaka Shosen Kaisha	shipping		
	Bodong mine	coal		
	Luda mine	coal		
	Zhengfeng mine	coal		
	Dangtu mine	iron		
	Daye mine	iron		
	Fanchang mine	iron		
	South Manchuria Electric	utilities		
	South Manchuria Gas	utilities		
	South Manchurian Railway	railway		
	Anshan steel	manufacturing		
	Naigaiwata cotton	manufacturing		
	Shanghai Spinning	manufacturing		
	Dai Nippon Spinning	manufacturing		
	Toyo Company cotton	manufacturing		
	Kodera Oil	manufacturing		
	Sino-Japanese Oil	manufacturing		

[71] These are foreign companies that were controlled by Europeans, Americans, or Japanese. Foreign firms controlled by Chinese entrepreneurs are not included. Moreover, companies that were wholly owned by firms on the list are excluded, also if they were owned jointly by two or more of these firms. Several large firms not on the list were subsidiaries of one of the three huge China conglomerates: Jardine, Swire, or the South Manchurian Railway. In China, the Japanese *zaibatsu* were not only prominent in trading but also in banking. Shipping lines that were represented in China through agents are excluded. Companies that themselves were not active in China and that had a large but not exclusive interest in China firms are excluded.

	Santai Oil	manufacturing		
	Suzuki Oil	manufacturing		
	South Manchuria Milling	manufacturing		
	East Asia Tobacco	manufacturing		
	Manchuria Woollen	manufacturing		
USA	Andersen, Meyer & Co.	trading	American Express	banking
	American Trading Co.	trading	National City Bank	banking
	China & Japan Trading	trading	Am. Foreign Power	utilities
	Equitable Eastern	banking	ITT	utilities
	American Oriental	banking	Pan Am	airline
			New Jersey Standard	petroleum
			New York Standard	petroleum
			California Standard	petroleum
			The Texas Company	petroleum
			Curtiss Wright	manufacturing
			Ford Motors	manufacturing
			GE	manufacturing
			Western Electric	manufacturing
Germany	Melchers & Co.	trading	IG Farbenindustrie	manufacturing
	Carlowitz & Co.	trading	Siemens	manufacturing
	Siemssen & Co.	trading	AEG	manufacturing
	Deutsch-Asiatische Bank	banking		
Netherlands	NSC	construction	NHM	banking
	NIHB	banking	Royal Dutch/Shell	petroleum
	Java-China-Japan Lijn	shipping	Philips	manufacturing
			Unilever NV	manufacturing
			Havenwerken	construction
France	Compagnie Olivier Chine	trading		
	Banque de l'Indo-Chine	banking		
	Yunnan Railway	railway		
Belgium	Banque Sino-Belge	banking		
	Credit Foncier	banking		
	Ch. Fer & Tramways	construction		
Italy	Italian Bank for China	banking		
USSR	China Eastern Railway	railway		

Sources: Remer, Foreign Investments *for Japan, France, Belgium, Italy, USSR, Osterhammel,* Britischer Imperialismus *for Britain and Japan, Wilkins, 'The Impacts of American Multinational Enterprise on American-Chinese Economic Relations, 1786-1949' in: E.R. May and J.K. Fairbank,* America's China Trade in Historical Perspective: The Chinese and American Performance *(Cambridge MA 1986), 259-292 for the US, and W.C. Kirby,* Germany and Republican China *(Stanford 1984) for Germany.*

Regarding the scope of the Dutch companies, there were regional as well as global Dutch companies in China. Table II lists the larger foreign companies in China in the 1920s-1930s. These were the companies that were responsible for the bulk of direct investments in local business assets. The list shows that most foreign companies in China were 'regional': they were created especially for the East Asian region, where the bulk of their assets was located. Various Dutch firms were linked closely to the Netherlands Indies, while the French, Japanese, and Russian interests related strongly to Indochina, Japan, and eastern Siberia respectively. Many major British companies in China were even established specifically for operation within China, as were some German, Belgian, and American trading companies and banks. These companies had a regional scope, and most of them had entered China between the mid-nineteenth century and the First World War. Most of the large regional firms were British or

Japanese. Some relatively large foreign investing countries such as France and the USSR even had remarkably few large firms in China: a large part of their FDI was accounted for by the Yunnan and the Eastern (North Manchurian) Railway respectively. Other major investors among these regional firms were the South Manchurian Railway, Jardine, Swire, and HSBC.

Apart from regional companies there were also several 'global' firms active in China. These were companies with substantial FDI not only in Asia but also on one or more other continents. They entered China between 1895 and 1937; they generally were established in the late nineteenth century and expanded their size and geographical presence very rapidly. Although the number of global firms with FDI in China was smaller than the number of regional firms, the overall size of the global firms usually far exceeded the size of the regional firms. Some of the global firms were so large that the value of their Chinese assets alone dwarfed that of nearly all regional companies. Most of these global firms were British or American, with a few German or Dutch representatives. None were Japanese, French, Russian, Belgian, or Italian.[72] Given this, in terms of global firm investments, Dutch FDI was much more significant than its relatively low value indicated. In particular the involvement of Royal Dutch/Shell added a special meaning to Dutch FDI. By itself it accounted for three-fifths of all Dutch FDI in China in 1931. The global companies with the largest investments in China were Standard of New York, BAT, and Royal Dutch/Shell. In overall size, Royal Dutch/Shell was the largest of these three.

Finally, turning to the matter of the relationship with the indigenous business environment—with the Chinese competitors, suppliers, and customers of the Dutch companies—the extent to which foreign companies were in direct contact with Chinese groups varied considerably per economic sector and per company. One difficulty which overrode all other was that of coming into direct contact with Chinese consumers. This was a notorious characteristic of the Chinese market. At a general level, a distinction may be made between the periods before and after World War I. In the period before the war, direct contacts were very limited. Foreign companies typically confined their activities to the treaty ports, where they sold and purchased goods through compradores–Chinese middlemen who had knowledge of both the Chinese and foreign business practices and market situations, and who acted as guarantor for the transaction.[73] Such middlemen also played a crucial role in shipping, mining, banking, and railway construction. Consequently foreign firms did not come into direct contact with their customers or suppliers, and generally they were active in different fields to those in which Chinese enterprises were involved.

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[72] On national differences in the development of global firms that were manager-controlled, for instance between US, UK, Germany, and France: Chandler and Daems, 'Introduction'. For France, whose global business organisations developed slower than those of the other three main Western powers, see also P. Fridenson 'France: The Relatively Slow Development of Big Business in the Twentieth Century' in: Alfred D Chandler Jr, Franco Amatori, Takashi Hikino (eds), *Big Business and the Wealth of Nations* (Cambridge 1997), 207-245. The largest Japanese zaibatsu did have FDI in Europe and America, but are regarded here as regional firms because the overwhelming majority of their assets was located in East Asia. The term 'multinational corporation' (or 'multinational enterprise') is not used in this study; the distinction between regional and global firms is thought to be more exact and meaningful in the present context. On some of the problems surrounding the usage of multinational see D.K. Fieldhouse, 'The Multinational: A Critique of a Concept' in: A. Teichova, M. Levy-Leboyer, and H. Nussbaum (eds), *Multinational Enterprise in Historical Perspective* (Cambridge 1986), 9-29.

[73] On the importance of compradores see Osterhammel, *Weltgesellschaft*, 185.

After the First World War the Chinese business environment diversified rapidly. The compradore-system continued to exist, but foreign companies increasingly established direct contacts with their indigenous suppliers and customers. They established offices outside the treaty ports and employed more Chinese staff, thereby replacing not only the compradores but sometimes even the Chinese wholesale dealers. Simultaneously, new Chinese firms moved into activities formerly occupied exclusively by foreign business. A large number of Chinese industrial firms emerged in the 1920s, as well as Chinese banks and export firms that resembled the foreign companies.[74] The level of integration by Dutch business into the Chinese indigenous economy was generally very low. Most firms were active only in the treaty ports and dealt mostly with compradores and foreign companies, but Unilever and Royal Dutch/Shell actively tried to reach consumers by circumventing several layers of Chinese middlemen. Yet despite their best efforts, foreign firms never achieved large-scale direct distribution to consumers at the household level.

[74] On the institutional development of China's 'corporate economy' see Kai Yiu Chan, 'Capital Formation and Accumulation of Chinese Industrial Enterprises in the Republican Period: The Case of Liu Hongsheng's Shanghai Portland Cement Works Company Ltd, 1920-1937'in: R.A. Brown (ed), *Chinese Business Enterprise: Critical Perspective on Business and Management* II (London 1996), 149-170.

CHAPTER 2

BANKING: NHM AND NIHB

> 'A large territory lies vacant but if we wait others will build on it, for its location is favourable. The necessary capital exists, yet where are the money-lenders, architects, and masons? With mutual support of all those who have or want to have an interest in China—bankers, merchants, industrialists, and ship-owners—a great deal can be accomplished over there. Without such co-operation the matter remains very hard to achieve for each separate category.'
>
> E. Heldring, 1899.[75]

Overall Corporate Interest: The NHM

In the late 1890s an ambitious young Dutchman made an extensive journey through the Far East. One of the countries he visited was China, and upon his return to the Netherlands he published a book in which he urged Dutch businessmen to seize the opportunities he thought China had to offer.[76] This man was Ernst Heldring, a member of the managing board of the Koninklijke Nederlandsche Stoomboot Maatschappij (KNSM). His interest was very broad and far exceeded the shipping industry, or even the economy as a whole. Eventually he would become one of the most influential men in Dutch society with close ties to the country's leading businessmen and politicians. The main thing regarding China, he believed in 1899, was that Dutch businessmen would finally become aware of the great opportunities existing in that giant nation. Some thirty-five years earlier the Netherlands and China had established diplomatic relations, on which occasion China had granted the Dutch all the same privileges it had been forced to give to other Western nations. The Netherlands became a treaty power in 1863, when it established diplomatic relations with China and—through a standard 'most-favoured-nation' clause in China's foreign treaties—acquired the same trading privileges that the other powers enjoyed in China. In spite of this, Dutch business had been ignoring the promising Chinese market completely. It was becoming increasingly difficult to catch up with competitors from other countries. Heldring appealed to the leading businessmen in his country to co-operate in establishing the foundation for a Dutch business presence. One of the main elements he believed was essential to success was a Dutch bank in Shanghai. Heldring knew that some people at least would take notice of what he wrote, because his father was on the managing board of the Nederlandsche Handel-Maatschappij (NHM), which with the Nederlandsch-Indische Handelsbank (NIHB) was one of the two great colonial banks of the Netherlands Indies. Both banks opened branches in China in the opening years of the twentieth century. The development of *indirect* investments in China by the NIHB and the NHM will be discussed in the chapters on the JCJL, Havenwerken, and the NSC. This chapter will

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[75] Heldring, *Oost-Azië*, 74-75.

[76] Ibid. The book also covered opportunities in Japan and the situation in the Netherlands Indies.

focus exclusively on the *direct* investments by these banks, i.e., their branch offices in China.

The oldest and the largest of the two Dutch banks in China was the NHM.[77] It was formed in 1824 on the initiative of King William I of the Netherlands as an international trading company—intended in part to function as a renewed Dutch East India Company.[78] Within a few years it had developed into one of the pillars under the Dutch Cultivation System in Java, by which the Dutch colonial government produced agricultural produce for the European market. The NHM acted as a broker between the colonial producer and the market in the Netherlands. In the 1860s the Dutch colonial economy was liberalised and privatised, and the NHM was forced to look for new ways to retain its prominent position in the Netherlands Indies. The company gradually became an agricultural producer itself—especially in sugar—as it acquired its own plantations and mills. However, in the early 1880s its management decided that the future of the sugar trade was too uncertain and instead chose banking as the company's new primary activity.[79] From 1880s, the NHM developed very rapidly into a major colonial banker. The plantation business remained an important secondary activity—in 1913 contributing almost 20 per cent of the NHM's total profits[80]—until the economic depression of the early 1930s and the subsequent collapse of sugar prices.

The NHM played a prominent role in the Dutch colonial economy, and to control its extensive interests the company developed into a large bureaucracy. Within the organisation, corporate knowledge was concentrated in three places. In the first place in the regional management in Batavia (modern Jakarta), which was close to the actual operations. In the second place in the managing board in Amsterdam, which consisted of three or four persons and was the central governing body of the NHM.[81] In the third place in the supervisory board in Amsterdam, which appointed the managing board. Consequently the managing board was the main controlling element in the company: because of its intermediate function between supervisory board and local management, it had access to more strategic information than either of the other parties.[82] However, the extent of its influence was somewhat compromised by the

[77] NHM (its English name was 'Netherlands Trading Society') in 1964 it acquired the Twentsche Bank and changed its name to Algemene Bank Nederland. In 1991 ABN and AMRO merged into ABN AMRO Bank.

[78] The king decided to establish the company in March of 1824. Although the company began operating before the end of this year, it was not until February of 1825 that it was formally incorporated. William (Willem) I accounted for ƒ4 million of the ƒ37 million worth of original shares. He was the largest shareholder and used his influence to shape the new company according to his wishes, one of which was that NHM take over the old VOC branch in Guangzhou so as to participate in the tea trade: Nederlandsche Handel-Maatschappij (NHM), *Gedenkboek der Nederlandsche Handel-Maatschappij, 1824-1924* (n.p. 1924), 8-13.

[79] The NHM gradually developed into a global firm with branches in the Netherlands and large sugar interests in Dutch Surinam. However, until World War I the company's main interests remained strongly concentrated in the Netherlands Indies.

[80] G.M. Verrijn Stuart, *Het Bankwezen in de Nederlandsche Koloniën,* (2nd ed; Wassenaar 1934), 103.

[81] In 1918 the membership was expanded to five.

[82] Chairmen of the managing board in the 1900-1941 period: B. Heldring (1900-1907), J.T. Cremer (1907-1912), C.J.K. van Aalst (1913-1934; on the board since 1902), D. Crena de Iongh (1934-1939; on the board since 1925), E. Heldring (from 1939). Other board members: A. Muller (1900-1921), E.D. van Walree (1913-1918), J. Bierens de Haan (1918-1933), C.H. Guépin (1918-1923), F.P.J. Vester (1918-

fact that it was located in Amsterdam rather than Batavia.[83] As a result its ties with and influence on managers in Batavia were less secure, which made it easier for the supervisory board to influence the managing board.

The supervisory board consisted of experienced Dutch businessmen, often directors of shipping or trading companies.[84] Until 1921 the Dutch souvereign had the right to appoint a royal representative as chairman of the supervisory board.[85] However, the ownership of the royal family was diminished through extensive issuing of new shares and by 1921 royal influence had long ceased to affect the functioning of the supervisory board.[86] The other members of the supervisory board were appointed by the other shareholders.[87] There were no further direct connections between this board and the—mostly Dutch—shareholders, who were numerous and anonymous. Given this construction, the fact that the managing board shared control with the supervisory board, instead of having full control, did not mean that ownership interests played a major role. The main interest of the two boards was similar: to promote growth of the company. These aims were to be achieved primarily through banking and secondarily though the production of sugar in Java.

As a bank the NHM did not confine itself to export trade but financed trade within the Netherlands Indies as well. Also as a sugar producer the NHM was interested in the export trade, because sugar was the main export product of the Netherlands Indies. To increase its involvement in international trade, especially in the sugar trade, the company established a branch office in Singapore. Subsequently it noticed that in order to compete successfully at an international level, it needed branch offices in the same places where its main competitors were established: in the large commercial centres of South and East Asia.[88] A promising target country for the company was China, the second largest market for Java sugar behind British India.[89] In the 1820s the NHM had tried to export tea from Guangzhou, but had not succeeded in making this enterprise function on a profitable basis.[90] Now, however, the situation was changing fundamentally: for the first time China was not just exporting but also importing consumer goods in large quantities. Along with

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1929), J.C.A. Everwijn (1922-1929), M. Taudin Chabot (1929-1946), A.A. Pauw (1930-1946), F.H. Abbing (1930-1938), and J.C. baron Collot d'Escury (1934-1948).

[83] The head office and corporate seat had been in Amsterdam since 1831. In 1940 the formal seat was moved to Batavia because of the war in Europe; in 1942 it was moved to Paramaribo. Very probably the NIHB seat, also in Amsterdam, followed the same route in 1940 and 1942.

[84] A. Taselaar, *De Nederlandse Koloniale Lobby: Ondernemers en de Indische Politiek, 1914-1940* (Leiden 1998), 61-62. Sometimes the supervisory board also included former members of the managing board, such as J.T. Cremer. The chairmen of the supervisory board (until 1921 named royal delegates) between 1900 and 1941: H.L.M. Luden (1889-1903), H.P.G. Quack (1904-1914), J.T. Cremer (1914-1918), L.P.D. op ten Noort (1918-1924), S.P. van Eeghen (1924-1934), H.C. Rehbock (1934-1938), P.E. Tegelberg (1938-1954). Some of the persons who acted as member of the supervisory board between 1902 and 1941 were J.B. van Heutsz (1910-1921; former Governor-General of the Netherlands Indies); H. Colijn (1922-1923 and 1926-1933; former cabinet Minister and director of Royal Dutch, and future Prime Minister); and J.H. Hummel (1924-1937; also on the supervisory board of the JCJL).

[85] C. te Lintum, *De Nederlandsche Handel-Maatschappij in Haren Tegenwoordigen Werkkring* (Amsterdam 1924), 22.

[86] Until 1929 he still had the right to appoint the members of the managing board.

[87] There were always at least ten persons on this board.

[88] Introduction to inventory 2.20.01 NHM, ARA The Hague, p. 291.

[89] A. Kraal, *Indonesië en Suiker* (Jakarta and Groningen n.d.), 3; and Brugmans, *Chinavaart*, 86.

[90] These attempts at trading in Guangzhou did not result in major direct investments: the NHM made use of the old VOC branch office.

kerosene and cigarettes, refined sugar was among the very few foreign industrial products for which there was a demand at the ordinary household level. The country was itself a sugar producer, but consumer preference was shifting from unrefined to refined sugar.[91] Most refined sugar was produced in Hong Kong by two British companies, Jardine and Swire.[92] To run their refineries effectively and keep production costs low, they required a stable supply of good-quality unrefined sugar. Because Chinese sugar was grown by many, relatively small producers, it was less suitable to their requirements than Java sugar, which was produced in great quantities on large estates and which was of a more stable quality.[93] In the early twentieth century half to two-thirds of China's imported sugar came from Java.[94] For the NHM, as one of Java's largest producers of unrefined sugar,[95] it was only logical to relate investments in China to the sugar trade. Ernst Heldring's book confirmed that great opportunities were waiting to be seized in China and that by 1899 it was getting time to consider seriously expanding the NHM's activities to that country.

The question was how and when should the managing board decide to invest in China? Jardine and Swire, in conjunction with the British bank HSBC, already dominated China's sugar imports.[96] The Dutch company would have to find local clients and partners, but where could it recruit dependable personnel with local experience and contacts? Had the company regarded sugar rather than banking as its main interest, it would have been an option to refine sugar in Java and sell it in China through an agency firm in Shanghai. But what it really wanted was to invest in banking, not sugar production. Therefore the obvious first step to take was opening a banking office in Hong Kong or Shanghai.[97] In 1900 Balthazar Heldring, who was interested in taking this step, became chairman of the managing board. For the time being he was baulked by his two colleagues, P. Hartsen and A. Muller, who were very sceptical about the risks involved and the decision to enter China was postponed.[98] Still, in the next few years three events took place that led to the establishment of the branch office.

The first event was the Boxer War of 1900 between China and the foreign powers. This war is traditionally referred to in misleading terms such as 'Boxer disturbances' or 'allied intervention', which distract from the fact that North China and Manchuria were the scene of large-scale military violence. After China was defeated and Beijing was under foreign occupation, the foreign powers forced the

[91] S. Mazumdar, *Sugar and Society in China: Peasants, Technology, and the World Market* (Cambridge MA and London 1998), 383. On the Chinese sugar market: Osterhammel, *Britischer Imperialismus*, 172-182.

[92] They sold their sugar to Chinese distributors. Between 1916 and 1929, Swire distributed its sugar by itself in China: Ibid. 178-179.

[93] Mazumdar, *Sugar*, 383-384.

[94] Osterhammel, *Britischer Imperialismus*, 174.

[95] By the mid-1920s the NHM controlled some 40 per cent of the Java sugar trade: L. De Bree, *De Nederlandsche Handel-Maatschappij* (Batavia 1924), 62. Also Verrijn Stuart, *Bankwezen*, 147-153. In 1902 NHM owned fourteen sugar companies and had close ties with twenty-two more: De Bree, *Handel-Maatschappij*, 29.

[96] HSBC financed the sugar imports of the two British sugar refineries in Hong Kong: annual report of the Hong Kong NHM managing director for 1919, ARA The Hague, 2.20.01 NHM, 5092 jaarverslagen agentschap Hong Kong 1906-1939.

[97] At the time NHM's main Chinese business relation was the Deutsch-Asiatische Bank. If the Dutch bank would establish itself in Shanghai, it could possibly attract part of the DAB's business.

[98] E. Heldring to E. van Walree n.d. 1902, ARA The Hague, archief geslacht Heldring, 234.

imperial government to pay an indemnity to cover their damages. Under this arrangement the Chinese also had to pay a sum to the Netherlands for the damage to the Dutch legation building and for the costs of sending a warship to participate in the invasion of China. This so-called Boxer Indemnity, to be paid to the allied powers, was enormous: including interest, it amounted to almost one billion Haiguan taels, which was about ten times the total annual revenue of the Chinese central government. China was expected to pay the entire sum in thirty-nine years, and a transferring procedure was devised for this purpose. The Chinese government was to pay the indemnity in monthly instalments to the foreign banks in Shanghai, which would form a committee for this purpose. These banks would then transfer the money to the foreign governments.[99] Each government was allowed to appoint a bank to collect its share of the instalments, and consequently each appointed a bank of its own nationality. The Netherlands did not have a bank in Shanghai, and was represented by the Russo-Chinese Bank simply because two of its Shanghai branch managers were Dutch.

It was clear that the first Dutch bank to open a branch in Shanghai would automatically be appointed by the Dutch government to handle the Dutch share of the Boxer indemnity. The Dutch share amounted to *ƒ*1.4 million, a mere 0.17 per cent of the entire indemnity.[100] Financially this was not sufficient to justify the establishment of a bank office in Shanghai. Nevertheless, the weakened Chinese government was now subjected to strong influence by the foreign powers. The council of foreign envoys and the foreign-managed Maritime Customs of China already controlled some of China's basic state functions, and at that moment it seemed quite possible that the Shanghai bankers' committee would develop into a body with great influence on China's finances. Around 1900 foreign banks were playing an important and highly profitable role as capital suppliers to the Chinese government.[101] There was every chance that in the future other tasks besides the handling of the indemnity might be assigned to the bankers' committee—which included all major foreign banks. Therefore it was an appealing prospect for the NHM to join this committee on behalf of the Dutch government.[102]

The second event that stimulated the NHM's first investment in China was that in 1900 the Dutch government became interested in creating a shipping line between its colony and East Asia. The creation of the Java-China-Japan Lijn will be described in the next chapter, but it is relevant to note here that one of the people involved in setting up this new enterprise was Ernst Heldring. Another person involved was a friend of Heldring's: E.D. van Walree, the Dutch consul in Shanghai. Heldring and Van Walree had been classmates at the Openbare Handelsschool, the secondary

[99] On the Boxer Indemnity: F.P. van der Putten, 'De Bokserindemniteit en China's Financiële Afhankelijkheid, 1901-1913' (unpublished MA thesis; Leiden University 1994).

[100] Van der Putten, 'Small Powers and Imperialism', 130 n.51.

[101] On Chinese railway bonds issued by foreign banks: R.W. Huenemann, *The Dragon and the Iron Horse: The Economics of Railroads in China, 1876-1937* (Harvard 1984), 242-243. China was forced by the foreign powers to finance various railways and to pay indemnities for wars that had preceded the Boxer war. Foreign banks supplied China with the money to meet this forced expenditure. The interest rates and repayment regulations were very favourable to the banks, while foreign diplomatic influence and foreign control of the customs service minimised risks for the foreign investors.

[102] C. van Aalst (NHM Singapore) to NHM Amsterdam 19 Sept 1901, ARA The Hague, NHM, 2631. He argued that participating in government loans or infrastructure projects required joining the bankers' committee.

school both had attended in Amsterdam. Heldring had lodged at Van Walree's place when he visited Shanghai around 1898, and the two shared the same passion for introducing Dutch business to East Asia. As consul, Van Walree had given strong support to the shipping plan. The Dutch government was prepared to subsidise the new shipping line, if Dutch business would participate. It was clear that one of the main objectives of this company would be to capture the shipments of Java sugar to China, and here lay an opportunity for the NHM to wrest this trade from British influence. In 1902 the NHM took a bold step by investing some ƒ1.5 million guilders in this new East Asian shipping company, the JCJL. This made the NHM a three-quarter majority owner, and greatly improved its potential for playing a role in China's sugar imports. The advantages were great, yet risks were limited because there was firm government backing and the JCJL was not formally tied to the NHM organisation.

Finally, the third event that led to the opening of a branch office in Shanghai was that in 1901-1902 there were some personnel changes within the NHM. In 1901 Van Walree, who continued to exchange letters with Ernst Heldring about their plans for China, resigned from the consular service. He returned to the Netherlands, where he met Ernst's father, and was immediately recruited to work for the NHM. For the present, he was stationed in Singapore, but the aim was to send him to Shanghai later.[103] Now the company had someone in its service with knowledge of the situation in China. In the following year, Hartsen resigned from the managing board and was replaced by C. van Aalst. The latter had been the managing director of the Singapore branch office, and favoured expansion into China. Ernst was informed by his father about the situation on the company's managing board, and used his knowledge to instruct Van Walree on how the board could be stimulated finally to give permission to up shop in Shanghai.[104]

At last, in early 1903, Van Walree was instructed to establish a branch office in Shanghai; he was given a working capital of 1.5 million guilders.[105] Although at the time Hong Kong was the main port through which Java sugar and other Java products entered the interior China trade, the board believed that there would be too much competition in Hong Kong.[106] Shanghai was a better chance: not only was the Java-Shanghai trade promising, little developed, and open to newcomers, but also was the indemnity bankers' committee was located in that city. The aim of the managing board was gradually to build up experience and expand the firm's business

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[103] Minutes of the meeting of the managing board of the NHM 10 April 1901, ARA, 2.20.01 NHM, 1983. Although Van Walree was not an experienced banker, he was very familiar with the Shanghai business scene. Ernst Heldring suggested to his father that the managing director of a new Shanghai branch might be M. Speelman, a Dutchman who worked as the managing director of the Russo-Chinese Bank in Shanghai, but the NHM chairman believed that this would harm the relations between his company and the Russian bank: E. Heldring to E. van Walree 14 and 21 Dec. 1901, ARA The Hague, archief geslacht Heldring, 234.

[104] E. Heldring to E.D. van Walree 22 Aug. 1902, ibid. He suggested that Van Walree ask the Singapore managing director to submit to the NHM managing board a report about the desirability of the Shanghai office. Heldring warned Van Walree that the report should not betray the fact that the latter was behind it. At this time Van Walree had already submitted a similar report on his own behalf, and Heldring had already spoken about the matter with several of the board members: minutes of the NHM managing board meeting of 29 Oct. 1902, ARA, 2.20.01 NHM, 1983 notulen directievergaderingen.

[105] Introduction to inventory 2.20.01 NHM, ARA The Hague, p.291.

[106] C. van Aalst 17 Feb. 1903, ARA The Hague, NHM, 9472.

in Shanghai. When the branch was opened, Van Aalst told Van Walree to be cautious.[107] It was hoped that eventually the firm would be able to participate in Chinese government loans, and that the JCJL would succeed in diverting the trade in sugar and other Java products away from Hong Kong.

Within a few years Van Walree came to the conclusion that in the near future at least Shanghai would not develop a large trade with the Netherlands Indies, therefore a second branch office was opened in Hong Kong in 1906 in order not to miss out entirely on this business. Although Van Walree remained in Shanghai only until 1907, he later became member of the NHM managing board.[108] During the first twenty years after opening its Shanghai branch, the NHM became more deeply involved in China through indirect investments. It did so by participating financially in several enterprises that were active in China: the Holland-China Handelscompagnie (HCHC, the main Dutch trading firm in China, established in 1903),[109] the Deutsch-Niederländische Telegraphen Gesellschaft (a German-Dutch telegraph company established in 1904),[110] the Nederlandsche Maatschappij voor Havenwerken (1912), the Nederlandsch Syndicaat voor China (1919), and the Longhai Railway Administration (1921).

Overall Corporate Interest: The NIHB

The activities of the Nederlandsch-Indische Handelsbank were very similar to those of the NHM, although it had a different background.[111] The NIHB was established in 1863 as a subsidiary of an investment firm, the Algemeene Maatschappij voor

[107] Report C.J.K. van Aalst on East Asia 17 Feb. 1903, ARA The Hague, 2.20.01 NHM, 9472.

[108] He was on the board from 1913 until 1918. From 1920 to 1925 he was on the managing board of the Twentsche Bank, and from 1929 to 1950 he was on the supervisory board of the Koninklijke Nederlandsche Stoomboot-Maatschappij (where his friend Ernst had been on the managing board since 1899): J. de Vries (ed), *Herinneringen en Dagboek van Ernst Heldring (1871-1954)* III (Utrecht 1970), 1817.

[109] The HCHC (also Holland-China Trading Company) was created in 1903 by a merger between the Holland-China Syndicate and Hotz s'Jacob & Co. The NHM took an interest of 60,000 guilders in the HCHC: minutes of the NHM managing board meeting of 3 Oct. 1903, ARA, 2.209.01 NHM, 1984 notulen directievergaderingen. In 1948 the HCHC was acquired by Internatio, another Dutch trading firm. Directors of the HCHC were F.B. s'Jacob until 1917 and thereafter W. Kien. Its head offices were in Rotterdam and London, and its local offices in Shanghai, Hong Kong, Tianjin, and Guangzhou: Baart, 'Aktiviteiten'.

[110] The Deutsch-Niederländische Telegraphen Gesellschaft AG (DNT) was a German-Dutch joint venture to lay and operate a telegraph cable between the Dutch and German Asian colonies and the US Pacific cable. Several Dutch and German firms participated, among them the NHM. The DNT cable also extended to Shanghai. However, during the First World War, China regarded its assets on Chinese territory as enemy property and confiscated them. After the war the Chinese government returned the confiscated assets to the company's owners; the company itself was dissolved. Jorma Ahvenainen, *The Far Eastern Telegraphs: The History of Telegraphic Communications between the Far East, Europe and America before the First World War* (Helsinki 1981) 175-178; Baart, 'Aktiviteiten'; W.J. Oudendijk, *Ways and By-Ways of Diplomacy* (London 1939), 322-323.

[111] In 1950 the NIHB (which also called itself 'Netherlands India Commercial Bank') changed its name to Nationale Handelsbank. In 1960 the NHB was acquired by the Rotterdamsche Bank (which between 1911 and 1947 was named Rotterdamsche Bankvereeniging). In 1964 the RB merged with the Amsterdamsche Bank into AMRO Bank. In 1991 AMRO merged with the Algemene Bank Nederland into ABN AMRO Bank.

Handel en Nijverheid.[112] It was the Algemeene Maatschappij's aim to participate in any type of company, and if the opportunity presented itself even to create new firms. Because its directors believed that there was a great need in the Netherlands Indies for a bank to finance plantation enterprises, they set up the NIHB for this purpose. The Algemeene Maatschappij took a majority interest and issued the remaining shares on the Dutch and Netherlands Indies financial market. From the beginning most shareholders were Dutch, and ownership was dispersed over a large number of persons.[113] The Algemeene Maatschappij found itself in very low water in 1864 and was subsequently dissolved. The result was that the NIHB became an independent firm without a dominant majority shareholder.

Just as in the NHM, corporate knowledge was concentrated in three places in the NIHB's organisation: with the nine-person supervisory board and the managing directors, both in Amsterdam, and the managing director of the regional head office in Batavia.[114] Again as in the NHM, the shareholders were not directly represented in any of these places, and control was shared between management and supervisory board. Once more this construction was geared for the same corporate interest as that of the NHM: growth.

Originally the NIHB was engaged primarily in financing colonial—mainly sugar—plantations. However, after a crisis in the sugar trade in 1884, the NIHB transferred its plantation interests to a new subsidiary, Nederlandsch-Indische Landbouw-Maatschappij.[115] This allowed the company to retain an important interest in Netherlands Indies sugar production, while it switched its main activity to banking, or more specifically to financing trade. By 1900 it was in a position similar to the NHM: it was expanding its branch network beyond the Netherlands Indies in order to finance intra-Asian trade.[116] Because of its interest in sugar production, it was especially attractive for the bank to concentrate on sugar exports, for which China was a major destination. When its main rival, the NHM, took a lead by setting up branches in Shanghai and participating in the JCJL, the NIHB responded by opening an office in Hong Kong in 1906.[117]

The NIHB was much smaller than the NHM and, for the time being, was not able to follow the NHM's ambitious policy of participating in Shanghai's financial world and in shipping between Java and China. In spite of the fact that the NIHB did not own shares in the JCJL, its managing director, T.J. van Haren Noman, was a member of the managing board of the shipping company. He did not formally represent his bank, but his involvement in the shipping company obviously ensured close relations

[112] The Algemeene Maatschappij, created in 1863, was largely owned by French investors. About the establishment of the NIHB see I.J. Brugmans, *Begin van Twee Banken, 1863: Uitgegeven ter Gelegenheid van het Eeuwfeest van de Rotterdamsche Bank en de Nationale Handelsbank* (n.p. 1963).

[113] Ibid. 109-110. Of the initial ƒ5,389,750 worth of shares that were issued, ƒ3.5 million was taken by Algemeene Maatschappij, ƒ1.5 million by external investors in the Netherlands and the remainder by external investors in the Netherlands Indies: Ibid. 108-109.

[114] The supervisory board also appointed two representatives in the Netherlands Indies. Two long-term managing directors of NIHB during 1908-1941 were T.J. van Haren Noman (until 1918) and G.A. Dunlop (from 1922); some others were H.G. Schadd, G.H. de Marez Oyens, and C. Woldringh.

[115] Verrijn Stuart, *Bankwezen,*153-163.

[116] The first foreign branch was created in 1901 in Singapore; Hong Kong was the second. The bank also operated branches in the Netherlands, but these were of limited importance: ibid. 126.

[117] New expansion was made possible when the bank issued new shares in 1905 for the first time since the sugar crisis of 1884: Ibid. 171.

between the JCJL and the NIHB. Apparently the NIHB was only interested in acquiring part of the financing of the Hong Kong import trade, and not afraid that it would not be able to compete with long-established British firms. During the 1910s the bank attracted large amounts of new capital from external investors, and consequently the difference in size between the two banks grew smaller.[118] The NIHB decided to spread its wings in China and opened new branches in Shanghai (1919), Shantou (1924), and Xiamen (1924).[119] In other words, initially the bank's main interest in China was limited to financing the Netherlands Indies trade in Hong Kong, but gradually its scope widened. From 1912 it participated, like the NHM via its head office rather than via its Chinese branches, in Harbour Works, the NSC, and Longhai. By the 1920s there was no important difference between the profile of Chinese direct and indirect investments of the two banks.

Banking in China

The NHM Shanghai branch was located on the Bund, the riverfront of the International Settlement's business district. The NHM's office consisted of Van Walree, eight employees, and one compradore. The compradore, who himself had a seven-person staff, was contracted for relations with Chinese clients.[120] The other China branches of Dutch banks were similar in size. Their managing directors reported to the NHM or NIHB regional head offices in Batavia.[121]

Banking in China was divided into a Chinese and an international sector. The Chinese sector was dominated by Chinese *qianzhuang* or 'native banks', which financed domestic trade. Foreign banks did not succeed in penetrating this sector. The international sector was dominated by the large foreign banks, which financed international trade by selling export bills and providing remittance service for importing or exporting companies, or for Chinese working in the Netherlands Indies. The banks could earn money from this through exchange profits or commission.[122] Other activities engaged in by the foreign banks were to give short-term loans ('chop loans') to the native banks, provide credit to international firms, accept deposits, and buy and sell silver—on which Chinese currency was based, and the gold value of

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[118] In 1903 the capital of the NHM amounted to ƒ45 million, while the NIHB had only ƒ7.2 million. From 1920 the figures were ƒ80 million and ƒ55 million respectively: Verrijn Stuart, *Bankwezen,* 99 and 122.

[119] The Shantou branch was closed in 1931: Brugmans, *Twee Banken*, 172.

[120] Annual report of the Shanghai NHM managing director for 1903, ARA The Hague, 2.20.01 NHM, 5168 jaarverslagen agentschap Shanghai 1903-1939.

[121] Information on banking in China presented in this section is based on the annual reports by the branch office general managers sent to Amsterdam. Annual reports NHM branch offices, ARA The Hague, 2.20.01 NHM, 5168-5172 (Shanghai 1903-1946); 5091-5094 (Hong Kong 1906-1946). Annual reports NIHB branch offices, ARA The Hague, 2.20.03 NIHB, 1047-1050 (Hong Kong 1913-1917); 1117-1118 (Hong Kong 1927-1939); 1108-1109 (Shanghai 1927-1948); 1110 (Xiamen 1927-1948); 1107 (Shantou 1927).

[122] S. Nishimura, 'International Banking in China, 1890-1913' in: A. Teichova, Ginette Kurgan-Van Hentenryk, and Dieter Ziegler (eds), *Banking, Trade and Industry: Europe, America and Asia from the Thirteenth to the Twentieth Century* (Cambridge 1997) for general information on banking in Shanghai. For additional data on the banking activities of NHM and NIHB: Baart, 'Aktiviteiten'. Other useful works are F.H.H. King, *The History of the Hongkong and Shanghai Banking Corporation* (4 vols; Cambridge 1987); B. Barth, *Die deutsche Hochfinanz und die Imperialismen: Banken und Aussenpolitik vor 1914* (Stuttgart 1995); and D. Broetel, *Frankreich im Fernen Osten: imperialistische Expansion in Siam und Malaya, Laos und China, 1880-1904* (Stuttgart 1996), for the development of respectively British, German, and French banking activities in China.

which changed frequently. One special activity open to the foreign banks in Shanghai was to circulate their own bank notes. Finally there were the large government operations: foreign banks could lend money to the Chinese government, or issue Chinese government bonds on Western capital markets.

The Hong Kong branch office of the Nederlandsche Handel-Maatschappij, 1937 (reproduced by kind permission of ABN AMRO Bank)

Most foreign banks were located in Shanghai and had entered China only after 1895. In 1903 the largest foreign banks in Shanghai were the Hongkong & Shanghai Banking Corporation (HSBC, British), the Yokohama Specie Bank (Japan), the Deutsch-Asiatische Bank (German), the Banque de l'Indo-Chine (French), the Russo-Chinese Bank (Russian), and the International Banking Corp. (US). During World War I many Japanese banks established branches in Shanghai and Japan became the largest foreign banking nation in China.[123] Despite this influx, until the 1930s the most important bank in China remained the HSBC, which dominated all aspects of foreign banking.

The Dutch banks specialised in financing trade with the Netherlands Indies, but were also involved in trade with British India, the British Straits Settlements, and the US. For all of the China branches of the two Dutch banks, by far the most important source of income were exchange profits on the export bills and remittance service required by international trading companies. Their main clients were trading firms in Shanghai that specialised in trade with the Netherlands Indies. In particular in the important sugar trade the Dutch banks managed to become the dominant financiers.

[123] Osterhammel, *Britischer Imperialismus*, 22.

After the First World War, which caused a serious weakening in the position of the Deutsch-Asiatische Bank, the NIHB and the NHM became and stayed the main banks for German trading firms in China. Although the NHM and the NIHB were each other's main competitor in China, there was enough business for them both to survive. Their background and interests were so similar that the one did not have a major competitive advantage over the other. Consequently, their competition was not very intense.

The range of activities operated by the NHM was somewhat wider than that of the NIHB. During the 1900s and 1910s the NHM Shanghai branch handled the Boxer indemnity and from 1909 it circulated its own bank notes. In spite of the NHM's initial hopes of providing financial services for the government, neither this bank nor the NIHB ever worked directly for the Chinese government. The main reason why the government business did not develop into a major activity alongside financing foreign trade, was that by the time the two Dutch banks were properly established in China, there was hardly any government business left to do. In the 1890s there had been several major indemnity and railway loans—largely forced onto China by the foreign powers—which were handled by the main British, German, French, and Russian banks in Shanghai. After the imposition of the Boxer indemnity in 1901, the central government in China was financially exhausted. The main sources of revenue were already used to guarantee repayment of the older loans, and China had little left to offer in return for fresh loans. There were no more large foreign loans after 1901, except for the 'reorganisation loan' of 1913. It was guaranteed by taxation of salt, the last possible source of state revenue that could be used for such a purpose. The reorganisation loan was arranged by the main powers—Britain, Germany, Russia, France, and Japan—to be provided by their banks; the smaller powers were unable to influence this arrangement. After 1916 there was no longer a central government capable of obtaining new major loans, and after 1928 the Guomindang government did little business with the foreign banks.[124]

The Dutch banks stuck to financing trade, and the financial results were good for both banks. By 1909 the NHM Shanghai branch had already succeeded in attracting *ƒ*4 million worth of local deposits.[125] Annual net profits usually ranged between a few hundred thousand and half a million guilders. For instance, in 1918 the NHM's total profit was 12.7 million guilders, to which the two China branches contributed *ƒ*790,000 (6.2 per cent). In 1924 total profit was 6.5 million guilders, of which *ƒ*192 (3 per cent) was produced in China.[126] Table III shows that both of the NHM branches continued to produce a profit until 1940. A similar complete record of the NIHB profits is no longer available; however, insofar as the annual branch office

[124] The Longhai Railway loan of the early 1920s, in which the NHM and the NIHB were involved indirectly through the NSC, was not a new loan. Its conditions went back to an agreement signed in 1903 between China and a Belgian firm. The NSC was asked to participate by the Belgians because they were unable to raise sufficient capital.

[125] The largest deposits were by the Shanghai Langkat Maatschappij and the Asiatic Petroleum Company. Annual reports NHM Shanghai branch 1909 and 1911, ARA The Hague, 2.20.01 NHM, 5168 jaarverslagen agentschap Shanghai 1903-1939.

[126] Total company profits in: W.M.F. Mansvelt, *Geschiedenis van de NHM, 1824-1924* II (Amsterdam 1924), appendix VIII.

reports for this bank survive, they indicate that its branches operated profitably.[127] Although it operated more branches, the size of the NIHB's business was less than half that of the NHM. Because of its smaller size, the NIHB's profits usually ranged between tens of thousands and some two hundred thousand guilders.[128]

The Shanghai branch office of the Nederlandsch-Indische Handelsbank, 1937 (reproduced by kind permission of ABN AMRO Bank)

Whenever the silver price fluctuated in an unexpected direction or if trade intensity decreased, the branch offices had to accept a strong decrease in income. But they were flexible enough to survive difficult periods in China's foreign trade, such as the economic depression of 1907, the collapse of the rubber boom in 1910, the revolution of 1911-1912, and the entire 1920-1941 period. In the 1930s the basis for Dutch banking in China began to destabilise first when the sugar trade showed signs of waning, and later when political tensions in Europe caused the Dutch banks to lose German firms as their clients. The money invested in banking was put mainly in short-term deals, usually with foreign firms. The office buildings did not represent any large investment; and it was relatively easy for the banks to withdraw from China.

[127] Annual reports NIHB branch offices, ARA The Hague, 2.20.03 NIHB, 1047-1050 (Hong Kong 1913-1917); 1117-1118 (Hong Kong 1927-1939); 1108-1109 (Shanghai 1927-1948); 1110 (Xiamen 1927-1948); 1107 (Shantou 1927).

[128] For an indication of NIHB profits and losses see also Baart, 'Aktiviteiten', 248.

Table III. Net profits of NHM branch offices in Shanghai and Hong Kong, 1903-1940.[129]

		Shanghai (Shanghai Taels; from 1934 in Yuan)	Hong Kong (HK dollars)
1903	(Taels:)	50,000	-
1904		25,000	-
1905		66,000	-
1906		26,000	-/- 27,000
1907		28,000	-/- 165,000
1908		103,000	-/- 143,000
1909		82,000	-/- 21,000
1910		38,000	-/- 12,000
1911		33,000	-/- 40,000
1912		114,000	7,000
1913		n.a.	25,000
1914		-/- 116,000	7,000
1915		225,000	120,000
1916		182,000	102,000
1917		60,000	131,000
1918		223,000	36,000
1919		102,000	9,000
1920		-/- 979,000	3,000
1921		425,000	415,000
1922		53,000	364,000
1923		59,000	220,000
1924		104,000	72,000
1925		142,000	110,000
1926		99,000	64,000
1927		175,000	107,000
1928		26,000	152,000
1929		230,000	156,000
1930		284,000	975,000
1931		305,000	811,000
1932		-/- 285,000	326,000
1933		539,000	21,000
1934	(Yuan:)	113,706	31,000
1935		107,706	321,000
1936		257,706	109,000
1937		230,323	86,000
1938		36,562	217,000
1939		2,783,214	388,000
1940		2,187,969	366,000

Sources: annual reports NHM Shanghai branch 1903-1933, ARA The Hague, 2.20.01 NHM, 5168-5172 jaarverslagen agentschap Shanghai 1903-1940; annual reports NHM Hong Kong branch 1906-1946, ibid. 5091-5095 jaarverslagen agentschap Hong Kong 1906-1946

[129] In order to ensure that these figures are accurate and useful, they are listed just like they appear in the branch office reports. Expressing these values in guilders involves many difficulties, due to the lack of information on how these figures were calculated, and due to the volatile relationship between Chinese currency, which was silver-based, and the Dutch guilder, which was gold-based.

The foregoing has shown that the NHM and the NIHB shared the same main local interest in China: they wanted to expand their banking activities and support their sugar producing activities. To achieve this they offered financial services to support China's growing international trade, in particular the Java sugar trade. As a result of the inaccessibility of China's government and internal trade sectors, the NHM and the NIHB did not attempt to stimulate activities outside the large treaty ports. Inevitably China's foreign trade was affected by domestic events such as bad harvests and disrupted transport routes into the interior, but there were few direct linkages between the banks and the Chinese economy. The two banks managed to participate in the dynamic treaty port trade without becoming deeply involved in China.

Political Risks and Response

1903-1941

From 1903 until the late 1930s, the China branches of the NHM and the NIHB did not see their activities threatened by any political risks. But this did not mean that their activities were immune from political factors: political considerations prevented the Dutch banks from entering the Chinese government business. Before 1916, the banks missed the only opportunity to participate in a large government loan because the 1913 reorganisation loan was reserved by the strongest powers for their own banks. Between 1916 and 1928 the lack of an efficient central government made it impossible to obtain government contracts, and after 1928 the Guomindang government was not interested in working with Western banks. These political developments prevented the diversification of the Chinese banking activities of the NIHB and the NHM, but posed no important threat to their main local interest. Foreign trade was conducted mainly in Shanghai and Hong Kong, and continued almost uninterrupted up until late 1941.

The main problem, from the perspective of these banks, was that the civil wars of the 1920s negatively affected China's domestic trade, which in turn was bad for international trade. But the bankers remained very optimistic, even after anti-foreign movements—which organised strikes, boycotts, and demonstrations against foreign business—gained enormously in strength in 1925-1926. The managing director of the NHM Shanghai wrote in his annual report for 1927:

> 'Having experienced the troubles of the past year I am even more convinced about the future of China and the prospects of this branch, that whatever may happen to China and whoever may govern Shanghai, this place will continue to grow.'[130]

Indeed, the bank actually profited from the anti-foreign movements of the 1920s, which were aimed at the British and the Japanese much more than at other nationalities. Because in 1925, as a British firm, Swire was boycotted by Chinese companies and consumers, the JCJL looked for new agents in Shantou and Xiamen. Until 1928, when the JCJL established its own offices, the NIHB acted as the shipping line's agent in these treaty ports. This represented an extra income, which

[130] Annual report NHM Shanghai branch 1927, ARA The Hague, 2.20.01 NHM, 5171 jaarverslagen agentschap Shanghai 1903-1939.

was very welcome to the two newly opened NIHB branches. Another effect of the anti-British boycott of 1925 was the weakening of the British sugar industry in Hong Kong, which was dominated by HSBC. Much of the sugar trade moved to Shanghai where the sugar industry was still young and not controlled by established British firms. This made it easier for the NHM and the NIHB to expand further into this trade. The anti-Japanese movement had equally positive effects for the Dutch bankers. The 1928 Jinan (Tsinan) incident, in which Chinese and Japanese forces clashed in the capital of Shandong province, caused a new wave of anti-Japanese boycotts, resulting in the disappearance from the market of Formosa sugar. At the same time Java sugar increased its share, which again strengthened the position of the Dutch banks.

After 1928 the main factor affecting foreign trade was not civil war but the severe economic depression that hit China. As before, the greater part of the 1930s did not present any great political risks to Dutch banking. Even when the war between China and Japan in 1937 hit many parts of the country, international trade continued in the treaty ports, and the Dutch banks pursued their own work. Only in the first months of the war were the banks troubled by a decrease in business. In 1938 and 1939 both profits and prospects were good. Trade adapted to the war, and so did the banks. Japan occupied all Chinese ports and tried to cut connections with the interior, but did not succeed in preventing large-scale smuggling. The NHM branch in Hong Kong even witnessed an increase in the number of Chinese business relations wishing to trade with the Netherlands Indies.[131]

The one major political risk of the entire 1903-1941 period arose only at the very end, and was not a direct result of events within China. It was the possibility of war looming between the Netherlands and Japan that made the future of Dutch firms in China uncertain. The NHM and the NIHB chose to accept this risk and stay in China as long as possible. There was little they could have done except to withdraw completely. As long as their competitors were intent on staying, the Dutch banks had to dig in their heels as well or else they would have had to give up everything they had built up over the past decades. Their main local interest was still to defend their position in the financing of China's foreign trade. For several years it was uncertain whether Japan would enter World War II, until December 1941 in fact. As a part of their surprise offensive against the Western Allies, on 8 December 1941 Japanese forces attacked Hong Kong and the Western enclaves in the treaty ports. The British crown colony resisted until Christmas Day, but the treaty ports fell into Japanese hands almost without resistance.[132] It was impossible for the Dutch banks in China to withdraw once the Japanese attack had been launched, and by the end of 1941 their possessions had been seized by Japan and the few European employees who were still in China were treated as enemy civilians.[133]

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[131] Annual report of the Hong Kong NHM managing director for 1938 and 1939, ARA The Hague, 2.20.01 NHM, 5094 jaarverslagen agentschap Hong Kong 1906-1939.

[132] Osterhammel, *Weltgesellschaft*, 322.

[133] In 1945 both banks reopened their offices in Hong Kong (the NHM on 31 March 1945; the opening date of the NIHB branch is unknown) and Shanghai (both banks on 10 Dec. 1945). On 18 December 1946 the NIHB reopened also its Xiamen branch, but closed its Xiamen and Shanghai branches again on 18 August 1949 and 31 August 1950 respectively. The NHM's Shanghai branch ceased operations in 1950, but was not allowed to close by the PRC government until 10 January 1955. The NHM and the NIHB continued doing business in Hong Kong after 1949.

Conclusion

The two Dutch banks, the NIHB and the NHM, occupied very similar positions in China, and shared the same main local interest: to participate in the financing of China's foreign trade, especially the trade in Java sugar but later also expanding into financing other trade with the Netherlands Indies. This interest was not seriously threatened until the late 1930s, when it became increasingly likely that a war would break out between Japan and the West. However, this risk was not directly related to Japanese imperialism in China. Although Japan's aggressive policy towards China was one of the main causes of the political tensions between Japan and the Western powers, it was not the Japanese position in China in itself that undermined Dutch banking activities there. Therefore the hypothesis formulated in the introduction is only correct to the extent that political risks were unimportant before 1916. The three sub-questions regarding civil war, Chinese nationalism, and Japanese imperialism cannot be answered, because they were irrelevant. The only important risk was a possible Dutch-Japanese war. This risk could be neutralised only by withdrawing completely from the Chinese market. The banks did not opt for this because it was contrary to their main local interest.

CHAPTER 3

SHIPPING: JAVA-CHINA-JAPAN LIJN

> 'No standing still in a part of the world which breathes revitalisation from every angle—an awakening after centuries of quiet tranquility.'
>
> P.J. Roosegaarde Bisschop,
> chief representative JCJL, 1905.[134]

Overall Corporate Interest

Although the NHM was a large investor in the Java-China-Japan Lijn (JCJL), it had not instigated setting up the company. In the 1880s and 1890s several attempts were made by Dutch and British entrepreneurs to establish a regular shipping connection between the Netherlands Indies and China.[135] These were quickly abandoned because of bad financial results, but various Dutch businessmen and government officials continued to see the possibilities for such a shipping line. The eventual establishment of this steamship company in 1902 was the outcome of the strategy of Dutch colonial policy.[136] In early 1900 Minister of Colonial Affairs J.T. Cremer learned that a Danish shipping firm had plans to open a regular line between the Netherlands Indies and China.[137] Cremer, who had a strong preference for seeing a Dutch firm controlling this route, approached L.P.D. Op ten Noort, who was on the managing boards of the Stoomvaartmaatschappij 'Nederland' (SMN) and the Koninklijke Paketvaartmaatschappij (KPM).[138] Minister Cremer asked him whether a Dutch shipping line between Southeast and East Asia could be established, and confided in him that he was willing to subsidise such an enterprise.[139] Op ten Noort subsequently gathered a small group of prominent Dutch businessmen, consisting of banker A.D. de Marez Oyens, shipping manager B. Ruys, and Ernst Heldring of the shipping company KNSM, to investigate this matter.[140] Van Walree, then still consul in Shanghai, gave his support to this group by writing a detailed report on Dutch shipping opportunities in the Far East.

In June 1900 Op ten Noort's group informed the Dutch government that several companies were willing to participate in the establishment of the new company, if the Dutch government was willing to give financial support. It then took the Dutch government and parliament two years to decide whether and how support could be given; eventually it was agreed that the new firm would receive *ƒ*3,750,000.- stretched out over the first fifteen years of its existence.[141] Should the company make more than a certain amount of profit, this would be used to repay the government subsidy. In return the Dutch government had the right to block certain important

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[134] Annual report 1904, Nedlloyd Utrecht, KPJCL, 233 verslagen hoofdagent Hong Kong 1903-1923 en 1925.

[135] For details Brugmans, *Chinavaart*, Chapter 2.

[136] Ibid.

[137] Cremer had previously worked for the NHM and the Deli Company. He would later become chairman of the managing board of the NHM.

[138] Ibid. 34.

[139] E. Heldring to E.D. van Walree 28 May 1900, ARA The Hague, II, 2.20.58.02 KJCPL, 389, 50a.

[140] Brugmans, *Chinavaart*, 32-33.

[141] Paid half by the mother country and half by the Netherlands Indies.

decisions, and obtained guarantees that two-thirds of the ships would be built in the Netherlands, and that at least thirteen round-trip voyages to East Asia would be made from Java each year.[142] Official support was solid in the early years of the Java-China-Japan Lijn: even though the Danish firm was willing to establish the shipping link to China without any financial aid, the Dutch government preferred the expensive incorporation of a new Dutch shipping enterprise.[143] This attitude was a reflection of the general colonial policy of the Netherlands in this period, which strongly favoured Dutch over foreign business in the economic development and integration of the Netherlands Indies. For the NHM, too, the reason to support the new shipping firm was to protect its interests in the Netherlands East Indies.

When the JCJL came into existence on 15 September 1902, its largest shareholder by far was the Nederlandsche Handel-Maatschappij. More than 75 per cent of the shares was held by this company; the main motive behind the decision of the NHM to invest was that it wanted to improve exporting opportunities for its sugar producing activities. Most of the remaining company shares were owned by three Dutch shipping companies: the KPM, the SMN, and the Rotterdamsche Lloyd (RL).[144] The direct business interest of these three shipping firms was that JCJL would enable them to expand their service. The SMN and the RL were engaged in shipping between the Netherlands and the Netherlands Indies, while the KPM was the major operator of inter-island traffic within the Indies. Their market positions were strengthened by the fact that they could now sell tickets for passengers and goods from the Netherlands or any port in the Indies destined for East Asia. Their tickets were valid on JCJL ships, and vice versa.[145] After 1902 new shares were frequently issued to attract new capital to build the new ships needed to expand the company's operations. These share issues brought in a large number of external shareholders who were not involved in the company's management.

Managerial knowledge was concentrated in three places in the firm: with the supervisory board in Amsterdam, with the managing director also in Amsterdam, and with the 'chief representative'—or regional manager—in Hong Kong. The supervisory board, which represented the interests of the major shareholders, consisted of Op ten Noort (chairman, representing the KPM and the SMN), Ruys (for the RL), A. Muller (vice-chairman; for the NHM), T.J. van Haren Noman, and finally Ernst Heldring.[146] The last saw his dream of expanding Dutch finance and

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[142] Ibid. 40-48. The decisions which the government could influence were related to the appointment of the top management, the emission of lending bonds, and the liquidation of the corporation. Official involvement in the company ended in 1918, after the fifteen-year period of state subsidy was completed. Until 1918 there were two delegates appointed by the Dutch and Netherlands Indies governments to maintain contact with the JCJL. The company was profitable enough to start repayments even before 1918 and to have returned the entire sum by the end of that year: Ibid. 105.

[143] Ibid. 35-41.

[144] Two million guilders in 2000 shares were outstanding. Forty shares were owned by the founders, the rest by a syndicate consisting of the NHM (1510), the KPM (200), the SMN (150), and the RL (100): Ibid. 53. The NHM also owned shares in the KPM and the SMN.

[145] Agreements to this effect were concluded in 1905 and 1906: Ibid. 66.

[146] During the company's first thirty years of existence, the supervisory board called itself managing board (*raad van bestuur*), and formally there was no supervisory board. In 1933 the name of the board was changed to supervisory board: Ibid. 158-159. Because the board actually functioned like the supervisory board of other large firms—the members not being employed full-time by the firm and primarily appointed to represent the main shareholders—the term supervisory board is used here to designate the *raad van bestuur* until 1933. Banker A.D. de Marez Oyens of the study group did not actively participate in the

shipping to East Asia come true with the almost simultaneous establishment of the first Chinese NHM branch and of the JCJL. Although he was only thirty-two years old in 1903, he had played a role in both events. In 1935 Heldring became chairman, replacing Muller who himself had succeeded Op ten Noort in 1923.

The supervisory board members combined functions in several companies, some of which were also active in China. From 1939 Heldring also acted as chairman of the managing board of the NHM. Ruys was the only board member who was not at some point in his career closely associated with either the NHM or the NIHB.[147] Muller was then on the managing board of the NHM. Later he would also be on the supervisory boards of Havenwerken and the NSC. Van Haren Noman was managing director of the NIHB. Although he did not officially represent his bank, his membership of the board did ensure close relations between the NIHB and the JCJL. Like Muller, Van Haren Noman would later join the supervisory board of Havenwerken. Among the members of the supervisory board during the later part of the 1902-1941 period were O.C.A. van Lidth de Jeude and D. Crena de Iongh. Both names will reappear later as supervisory board members of Havenwerken, while Crena de Iongh was also chairman of the NHM managing board from 1934 until 1939.[148] The JCJL supervisory board was clearly fully controlled by the firm's major shareholders.

The members of the supervisory board, although in many cases very familiar with the shipping business and even with doing business in Asia, fulfilled very demanding full-time tasks with other firms and convened only once a month. Day-to-day management was delegated to a managing director in Amsterdam,[149] the legal seat of the firm. In the first few years, office space and staff in Amsterdam were hired from the KPM. The close operational relationship between the JCJL and the KPM was far from being irrational:[150] just as the JCJL was created specifically for shipping between the Netherlands Indies and East Asia, the KPM had been established in 1888 by the two steamship firms SMN and RL to run shipping in the Indonesian archipelago. In a way, the East Asia line was an extension of the KPM's existing inter-island lines.[151] The function of managing director of the JCJL was assigned to the KPM's managing director, J.H. Hummel.[152] In other words, at the outset the

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establishment of the JCJL. Van Haren Noman stayed on the managing/supervisory board until his death in 1918, Op ten Noort until his death in 1923, Muller until his death in 1935, Ruys until his resignation in 1947, and Heldring until after 1952. Hummel and Roosegaarde Bisschop stayed with the firm until their deaths in 1937. The period under investigation, 1902-1941, was dominated by the people who had been involved in the firm from the beginning.

147 For data on the managerial relationship between the NHM and the JCJL: Taselaar, *Koloniale Lobby*, 58-62 and 537-549.

148 Ibid. 59-61.

149 Initially his title was 'administrator' (*administrateur*), which was changed to managing director (*direkteur*) in 1918. To indicate that his position was comparable to the managing director or managing board of other companies, the term managing director will be used here also for the years before 1918. Until 1933 the managing director also functioned as the secretary of the supervisory board. In 1933 the managing director replaced the *raad van bestuur* as the highest executive organ.

150 Later Hummel would become chairman and Roosegaarde Bisschop would be member of the managing board of the KPM. Moreover, Hummel would also be on the supervisory boards of the SMN and the NHM: Taselaar, *Koloniale Lobby*, 542 and 546.

151 On the KPM see J.N.F.M. à Campo. *Koninklijke Paketvaart Maatschappij: Stoomvaart en Staatsvorming in de Indonesische Archipel* (Hilversum 1992).

152 Formally also *administrateur*.

Java-China-Japan Lijn was run from Amsterdam by people who were very familiar with the industry but not exclusively committed to this firm. The supervisory board and the managing director were not in personal contact with the company's managers and ship officers, customers, and competitors.

Initially control was completely vested in the hands of the supervisory board, but it was not long before local management also became a very influential factor. In Asia the firm was managed by a regional manager whose official title was chief representative (*hoofdagent*).[153] In 1902 P.J. Roosegaarde Bisschop was appointed to this position. He had formerly worked for the Scheepsagentuur, a Dutch shipping agency in Southeast Asia, but was now to devote all his time and energy to the JCJL. Bisschop would eventually remain with the company for thirty-five years—until his death in 1937. Like Van Walree he was a former school friend of Ernst Heldring. It is Bisschop who must have the credit for building up and maintaining the actual shipping business of the JCJL. He has been characterised as a straight-from-the-shoulder person, not diplomatic in his dealings with others but a hard worker who regarded the company as his own interest.[154] As the company grew, Bisschop emerged as the only person with detailed knowledge of its operations.[155] The balance of power within the organisation stabilised in 1913 when Bisschop was transferred to Amsterdam to become managing director. He succeeded Hummel who became member of the supervisory board.[156] It was easier for the supervisory board to control Bisschop once he was in Amsterdam, while Bisschop himself had to delegate many operational matters to P.H.J.G. Jonckheer, the new chief representative in Hong Kong.[157] Despite his exile to Amsterdam, Bisschop remained well-informed of operational conditions in Asia. He continued to make visits to Asia to inspect business personally.

On the whole, between 1902 and 1941 control of the firm may be said to have been shared between the large shareholders (via the supervisory board) and management (via Bisschop, first as chief representative, later as managing director).[158] The main interest of the large shareholders was maintaining shipping between Java and East Asia. The main interest of Bisschop and his staff in Asia lay in to expanding the firm.

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[153] In 1934 the function of chief representative was renamed representative; from then on there were two people holding this job simultaneously (in Dutch the word *vertegenwoordigers* rather than *agenten* was now used, since the latter word was already used for the non-employed commercial representatives). The term chief representative will also be applied to the years after 1933.

[154] Brugmans, *Chinavaart*, 56.

[155] Relations between management in Amsterdam and local personnel in Asian ports were a delicate matter; interference from Europe was generally not welcomed by the local managers: J.H. Warning to F. Dankers 10 Feb. and 5 Mar. 1985, private collection F. Dankers.

[156] Brugmans, *Chinavaart*, 56-57.

[157] His successors as chief representative were P.H.J.G Jonckheer (1914-1919), G.J. Otten (1919-1927), T. de Meester (1927-1933), J.A.J.W. Nieuwenhuys (1933-1938), C.F.J. Quarles van Ufford (1933-1937), A.L.W. van Dobben (1938-1940), and J.H. Warning (1938-1940). When Germany occupied the Netherlands in 1940, the two representatives Van Dobben and Warning replaced the director as the highest managing organ: Brugmans, *Chinavaart*, 164.

[158] He was succeeded as managing director in 1937 by C.F.J. Quarles van Ufford, an employee of the firm since 1910 and chief representative since 1934.

International Shipping in China

In 1902-1903 the first challenge awaiting Bisschop was to build an intra-Asian shipping organisation almost from scratch. Ships and money were provided from the corporate centre in the Netherlands, but it was Bisschop's task to select crews, agents, and compradores, conclude supply and maintenance contracts, open offices, and devise operational routines—in other words to create a new enterprise.[159] By September 1903 Bisschop had put together his organisation and for the first time a JCJL ship departed from Batavia to make her voyage around East Asia. In the first twelve months that the JCJL was operational, it already managed to vouchsafe one voyage in every four weeks, dutifully complying with the demands of the Dutch government.[160] The new shipping line was in business and its service would continue until December 1941.

Batavia was the homeport from where the JCJL's ships began each voyage. Via various ports in the Netherlands Indies and China the ships would reach Japan and from there return to the Netherlands Indies, again via China. The exact route of the ships changed frequently in the next decades, reflecting the commercial and political changes in the Far East. Gradually more JCJL routes developed and co-existed simultaneously, and the number of departures per route also increased. In the late 1920s—just before the great depression—there were seven routes, several of which were exclusively to China.[161] The frequency of departures was about once every forthnight on most routes. This section deals only with JCJL activities in China, and leaves aside the other countries with which the chief representative also had to concern himself.

Hong Kong was chosen as the location of the JCJL's Asian headquarters because it was situated more or less at the centre of the firm's operational territory, and labour and technical facilities were considered cheap there.[162] Bisschop managed the entire business from the British Crown Colony, at the beginning assisted only by three Dutch and four Chinese employees.[163] For all other ports he contracted trading firms to act as shipping agents. The Holland China Handelscompagnie (HCHC) became the agent in Shanghai, while in the local absence of Dutch trading firms Swire represented the JCJL at Xiamen and Shantou. Agents were also appointed in several other Chinese ports, but until the 1920s JCJL ships would usually visit only Hong Kong, Shanghai, Shantou, and Xiamen. The NHM was designated to act as financial agent wherever this bank had a branch office, elsewhere the NIHB fulfilled this task, if possible.[164] In Hong Kong, later also in other Chinese cities, the company did its business mostly through a Chinese compradore. Right from the outset in 1902, Sum Pak Ming was compradore for the JCJL in Hong Kong. In the early years especially his task was crucial, for he actually contracted and paid the money for the cargo to be shipped by the firm in advance. In later years, as knowledge about local business conditions and the availability of financial services increased, the shipping company

[159] Annual report 1902, Nedlloyd Utrecht, KPJCL, 235 jaarverslagen der JCJL 1902-1923. From the beginning its ships were newly built for JCJL by firms in the Netherlands and in Britain.
[160] Ibid. 63.
[161] Brugmans, *Chinavaart*, 132-133.
[162] Annual report 1903, Nedlloyd Utrecht, KJCPL, 233 verslagen hoofagent 1903-1923 en 1925.
[163] Brugmans, *Chinavaart*, 56-57.
[164] Ibid. 70.

would depend less on him. Nonetheless, Sum Pak Ming would work with the JCJL almost until the Second World War.[165]

Bisschop had to carve out a niche for the JCJL in the Java-China shipping route. By far the most important trade to be captured by any firm interested in entering Java-China shipping was the sugar trade.[166] If the JCJL could secure and hold a large part of the sugar shipped from Java to China, then the company would be in a strong position with respect to its competitors. Demonstrating clearly the importance of sugar transports, in 1908 this commodity accounted for 60 per cent of all freight shipped by the JCJL from Java to East Asia. In 1918 this figure was 59 per cent, and in 1928 sugar accounted for 76 per cent.[167] Because of the sugar trade, Hong Kong was the most important Chinese destination for the JCJL. Hong Kong was also the primary Chinese port for passenger shipping.[168] After sugar transports, passenger transport was the second basis upon which a regular line between the Netherlands Indies and China could be built. Most passengers were 'coolies', Chinese contract labourers, from South China, either on their way to Southeast Asia to work on plantations or in mines, or on their way back home. With this in mind, the JCJL always used ships for its China-bound journeys that were specially designed to carry both freight and passengers.[169] One characteristic typical of these ships was the extended 'fourth class accommodation': the deck space reserved for the coolies. Apart from them there also were the overseas Chinese living permanently in the Netherlands Indies and travelling to China for business or to visit relatives. Still, cargo contributed much more to company profits than passengers, especially in the early years. In the period 1903-1913 cargo accounted for 88 per cent of total revenue.[170] This stresses the importance of sugar for the company.

While sugar could be carried on the journeys to China, and passengers could be taken in both directions, unfortunately for the JCJL there was not a single dominant cargo freight for the return voyage from China to Java. The main Chinese products exported to the Netherlands Indies were Formosan tea, Manchurian beans, products from the Kailan Mining Association (KMA), and cigarettes. Tea from Formosa at first was shipped to Java via Xiamen, later the JCJL would ship it directly from Formosa. In the bean trade, the JCJL managed to create a virtual monopoly. Just like the beans, KMA products came from North China and included firebrick, coke, and clay. The KMA, a British-Chinese joint venture, was the largest mining company in China.[171] This firm also operated China's largest glass factory and its glass was also carried to the Netherlands Indies by the JCJL. In the 1920s the JCJL shipped many cigarettes for the British-American Tobacco Company and its Chinese rival, the Nanyang Brothers Tobacco Company. After the Netherlands Indies raised the import duty by 50 per cent and BAT responded by building a cigarette factory in Java, the JCJL supplied this factory with Chinese tobacco.[172]

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[165] Ibid. 59-60.
[166] See also this book's chapter on the NHM and the NIHB.
[167] Brugmans, *Chinavaart*, 138.
[168] Ibid. 89.
[169] Ibid. 90-91.
[170] Ibid. 88.
[171] Osterhammel, *Britischer Imperialismus*, 53-54.
[172] Annual report 1923, Nedlloyd Utrecht, KPJCL, 233 verslagen van de hoofdagent 1903-1923 and 1925.

From the Indies to China, sugar was far and away the dominant cargo. The problem was that, as a seasonal crop, sugar was not shipped throughout the year and other cargoes were needed when not enough sugar was traded. One relatively stable and important cargo were Royal Dutch/Shell products from Borneo, such as candles, lubricants, and paraffin wax. The oil company used its own tankers for kerosene shipments from Sumatra and Borneo to China. After it merged its candle-making activities with those of Lever Brothers as Candles Ltd in 1922, Royal Dutch/Shell closed its Balikpapan candle factory and continued to supply the Chinese market from the former Lever Brothers' factory in Shanghai. The JCJL was compensated for the loss of its candle trade by an increase of paraffin exports from Balikpapan to China.[173] Another link between the JCJL and Royal Dutch/Shell was that from the 1920s, the JCJL used Royal Dutch/Shell fuel oil for its oil-fired steamers—although part of the fleet still used coal, which was supplied by the Kailan Mining Association or the Mitsui Trading Company (Mitsui Bussan Kaisha) of Japan.[174]

It was not difficult for the JCJL—with its year-round regular schedule and its ties with the NHM—to capture a large part of the Javanese shipping contracts for sugar.[175] The initial problem with competition came from Swire and Jardine, the main buyers of Java sugar in Hong Kong, which were very well established in the treaty port trade and owned shipping firms of their own which they used to bring their unrefined sugar from Java.[176] Under different circumstances, competing with their ships would have been very difficult since there were no other important refineries in China. However, soon after the JCJL went into business, Swire chose to co-operate rather than compete with the newcomer. Probably the fact that the Dutch sugar growers—lead by the NHM—preferred to work with the JCJL helped Swire to make up its mind. From then until the Second World War, Swire let the JCJL ship most of its supplies of sugar to Hong Kong.[177] The British refinery ordered its sugar in advance of the annual sugar season, against a reduced tariff. The JCJL guaranteed the delivery of the order, but if Swire booked further orders during the sugar season, current market prices were charged for the shipping. Part of the agreement was also that JCJL ships would use the new Swire dock in Hong Kong, which was completed in 1909.[178] In later years Swire's competitor, Jardine, also contracted the JCJL for its Java sugar supplies. Profiting from steady relations with the main suppliers and buyers of Java sugar, the JCJL obtained a comfortable foothold for further expansion in Java-China shipping.

In passenger shipping the JCJL enjoyed also a strong position The major destinations for Chinese labourers going to the Netherlands Indies were the tin mines on the islands of Belitung (Billiton) and Bangka, and the Deli tobacco plantations in

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[173] Annual report 1922, ibid.

[174] Annual report 1925, ibid.

[175] In 1906 Bisschop already reported that the JCJL practically controlled all Java sugar shipping to East Asia: annual report 1906, ibid.

[176] E.D. van Walree, 'Nota van den Nederlandschen Consul te Shanghai E.D. van Walree, Betreffende het Denkbeeld om bij eene Eventueele Totstandkoming van eene Stoomvaartverbinding tusschen Nederlandsch-Indie en China en Japan deze Lijn Aanstonds naar San Fransisco door te Trekken' 1901, private collection L. Blussé.

[177] At the latest from 1911: report for 1911, Nedlloyd Utrecht, KJCPL, 233 verslagen hoofdagent 1902-1915.

[178] Brugmans, *Chinavaart*, 80.

Sumatra. The mining enterprises made extensive use of the JCJL's transport service to carry their labour force to and from China. In the Chinese ports the company worked hand in glove with boarding houses, organisations that provided the prospective labourers with accommodation in the harbour and credit for the journey.[179] Apart from dominating sugar and passenger shipping, the JCJL was also in the forefront in the shipping of the other main products in Chinese-Netherlands Indies trade.

In the 1930s the role of these other products became more important as shipments of sugar and coolies decreased in size. The world-wide economic depression seriously affected Javanese sugar producers and the Chinese sugar market. In the Dutch East Indies, other products replaced sugar as the top export commodity. In China there was less internal trade and the Chinese import tariff for sugar was doubled in 1932.[180] As a result, sugar was out of reach of many Chinese. In addition to this, the passenger shipping business also shrank. The Dutch colonial government in Batavia decided to restrict Chinese immigration, while the Banka and Belitung tin-mines replaced part of the labour force by machines.[181] As a result Bisschop and the supervisory board were forced to reduce the number of shipping movements.

The Java-China-Japan Lijn entered the shipping industry with strong official and NHM support in 1903, and soon became the market leader in shipping between the Dutch East Indies and China. This did not mean the elimination of competition on this route, both in cargo and in passenger shipping. Various non-Dutch shipping companies at one time or other experimented with regular shipping between China and Java. Several firms also entered the business during those months when the demand for sugar ships was at its peak, trying to capture the most profitable element in the JCJL's business. Two Japanese companies, the Osaka Shosen Kaisha and the Nanyo Kisen Kaisha, proved to be tough competitors for the Dutch firm. Both shipped between Java and Japan, and once they also included Chinese ports in their routes they threatened the JCJL's Java-China trade. Apart from the Japanese, there were Chinese, Indies-Chinese, German, Norwegian, Danish, British, Portuguese, Australian, and American shipping companies, all vying for a slice of the cake.

The main worry for Bisschop always remained how to 'organise' competition. He argued that since a monopoly would be impossible to achieve, the most preferable situation would be one in which the competition would maintain a regular route, and stay within the limits set by the Java-China-Japan Lijn.[182] During his years in Hong Kong, Bisschop became very experienced in dealing with competitors. During such negotiations Bisschop acted first and only afterwards asked for approval from his superiors in Amsterdam.[183] When in 1912 the Japanese Nanyo Kisen Kaisha was established and entered the Chinese shipping business, the supervisory board of the JCJL instructed Bisschop to come to an agreement with the new Japanese competitor, rather than regard it as the enemy. Bisschop obeyed, but not before severely attacking the Japanese firm by offering price discounts. Only after this show

[179] J.H. Warning to F. Dankers 10 Feb. 1985, private collection F. Dankers.
[180] Brugmans, *Chinavaart*, 146.
[181] Ibid. 153.
[182] Annual report 1909, Neddloyd Utrecht, KJCPL, 233 verslagen hoofdagent 1903-1915.
[183] Brugmans, *Chinavaart*, 78-79.

of strength did Bisschop negotiate with the Japanese.[184] In most other cases, rivals were either pushed out of the market, or forced into an agreement with the JCJL.

Although undoubtedly the company held a strong market position, this did not mean that it also had a very stable basis of existence. Both sugar and contract labourers were uncertain commodities in the sense that demand for them was easily influenced by numerous political, financial, and economic factors. Moreover, sugar was a seasonal crop. During the summer months when most Java sugar was exported, shipping space was at such a premium that the JCJL had to charter ships. It was difficult to prevent competitors from entering the sugar trade during the busy season and abstracting part of the turnover and profit that the JCJL needed to finance its activities during the quiet season. This problem was partly offset by the sugar contracts with Swire booked in advance of the sugar season, but continued to exist throughout the period described here.

The fundamental characteristic of shipping was the fact that in the end the tariff, not the amounts of goods and number of persons shipped, was conclusive.[185] When there was great demand for shipping in Asia and ships were hard to come by, the JCJL benefited enormously. This situaton was most accute towards the end of the First World War. When the reverse situation occurred, business was difficult and there was not much the company could do about it. Bisschop's strategy for dealing with this was to persuade competitors to join in tariff agreements. However, this worked only to a limited extent, as newcomers continually entered the business. Furthermore, with the Japanese competitors it was often difficult to come to a lasting agreement.[186] From the beginning Bisschop's view was that '[...] the Japanese with their notoriously unfair idea of trade have always secretly dodged the agreements.'[187] During the 1920s and 1930s JCJL observers noted that this behaviour was a result of pressure exerted by the Japanese authorities.[188]

Another strategy employed, not by the management in Asia but by the Amsterdam head office, was to create large financial reserves. If tariff fluctuations could not be controlled, the company could try to minimise their impact. From the beginning, it was the policy of the company to keep substantial portions of the annual profits within the organisation. During the profitable years of the First World War, a large variety of special reserve funds was created. The advantage of this was that management would have sufficient financial freedom to carry out its policy even in times when no profits were made. This again shows that the controlling shareholders NHM, KPM, RL, and SMN were seriously interested in the continuity and growth of the JCJL, rather than in short-term financial gains. The problem was that the shareholders who were not directly represented on the supervisory board were not primarily interested in the long-term future of the firm. They demanded that much of

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184 It is not inconceivable that this incident helped convince the supervisory board that it would be desirable to transfer Bisschop to Amsterdam, where it was easier to control him.

185 Ibid. 128.

186 In 1925 the supervisory board stated that Japan was the only country that did not join in tariff agreements: Ibid. 136.

187 Annual report 1904, Nedlloyd Utrecht, KPJCL, 233 verslagen van de hoofdagent te Hong Kong 1903-1915.

188 For instance in the chief representative's annual report for 1928, ARA The Hague, II, 2.20.59 KPM en KJCPL verslagen agenten 1924 en 1926-1931, 429 verslag 1928.

the reserves be used to create higher profits or given to them as a dividend.[189] In the 1920s the JCJL decided to give in to this demand, and to liquidate many of the reserve funds created during World War I.[190] The company's dividend policy reflects the cyclical nature of the shipping industry. In years of economic depressions in the Far East—1907, 1921-1925, 1930 and probably also the years which followed—the JCJL paid no dividend to its shareholders. This contrasts with the second half of the 1910s, when dividend was exceptionally high and reached a maximum rate of 30 per cent of the nominal share value for the year 1918.[191]

Despite depressions and its unpredictable nature, trade in the Far East generally grew during the first three decades of the century. In the early 1920s the JCJL operated a special line to the United States called Java-Pacific Lijn, and it was decided that Java was the more appropriate centre of the company's activities. In 1921, therefore, the Asian head office was moved from Hong Kong to Batavia.[192] The Hong Kong office was appointed as the local head office of the Holland-Oost Azië Lijn—part of the Vereenigde Nederlandsche Scheepvaartmaatschappij, in which the JCJL participated financially.[193] But within just one year, the JCJL opened a second Chinese branch office in Shanghai and also moved the Holland-Oost Azië Lijn agency to this new office.[194] Other branch offices were established in the late 1920s in Xiamen and Shantou, which remained relatively important to shipping, and briefly also in Formosa. The JCJL fleet grew from three ships when the company was established to eighteen in 1929, totalling 119,000 tons.[195] After 1929 the company's total shipping tonnage decreased slighty.

Beginning in 1903 the JCJL gradually expanded its agency system in China to include Guangzhou, Macao, Fuzhou (Foochow), Keelung (in Formosa), Hankou, Qingdao (Tsingtao), Yantai (Chefoo), Niuzhuang (Newchwang, now Yingkou), Harbin, and Dalian (Dairen). During the opening decades of the twentieth century, as the experience of the JCJL shows, the pattern of international trade in China changed from being strongly concentrated in Hong Kong to a more even division between southern and northern sea ports. But Hong Kong with its excellent natural harbour remained the most important Chinese harbour for international shipping, Shanghai occupying a second position.[196]

In the beginning of the twentieth century Shanghai was not much of a harbour in the eyes of JCJL personnel. The fact that the Huangpu (Whangpoo) River was too

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[189] According to an article in *Neerlands Koopkracht: Financiëel en Oeconomisch Nieuwsblad voor Nederland en Koloniën* (10 June 1926), the JCJL reserve consisted of 20.5 million guilders, of which 16 million was related to World War I risks and thus unnecessary: 'Java-China-Japan Lijn: Nog Steeds Maar Weer Geen Dividend', ibid. 700-703. Until 1918 there had been the necessity to use surplus money to repay the government subsidy, but by the end of 1918 the entire sum was repaid.

[190] Annual report 1926, ARA The Hague, 2.30,58.02 KJCPL, 285 jaarverslagen 1902-1930.

[191] Dividend record: 1902 5%, 1903 5%, 1904 5%, 1905 5%, 1906 4.5%, 1907 nothing, 1908 3%, 1909 5%, 1910 5%, 1911 6%, 1912 8%, 1913 8.5%, 1914 6%, 1915 7%, 1916 9%, 1917 20%, 1918 30%, 1919 25%, 1920 15%, 1921 nothing, 1922 nothing, 1923 nothing, 1924 nothing, 1925 nothing, 1926 5%, 1927 6%, 1928 7%, 1929 4%, 1930 nothing: annual reports, Nedlloyd Utrecht, KPJCL, 235 jaarverslagen JCJL 1902-1923; and in ARA The Hagua, 2.30.58.02 KJCPL, 285 jaarverslagen 1902-1930. Dividend for the years 1931-1941 is not known.

[192] Annual report 1919, Nedlloyd Utrecht, KJCPL, 235 jaarverslagen JCJL 1902-1923.

[193] Ibid.

[194] Annual report 1921, ibid.

[195] Brugmans, *Chinavaart*, 61 and 154.

[196] Osterhammel, *Britischer Imperalismus*, 69.

shallow to allow JCJL vessels to approach the city was a real stumble-block. The firm lost much time and money because of the need to transfer of freight to and from lighters.[197] This particular problem was partly solved by the work of Havenwerken. However, also after the harbour improvement works carried out between 1908 and 1916, Shanghai remained poorly equipped as a port. A 1923 report by Chief Representative G.J. Otten, Jonckheer's successor, complained that the Yangzi River near the Huangpu was too shallow and that wharfs and warehouses were inadequate. According to the author, Shanghai's abundant cheap labour force and the uncertainty about China's economic future were the main reasons why necessary investments in harbour modernisation were not made.[198]

JCJL's ship ' Tjikembang' seen from the Bund, Shanghai, June 1937 (reproduced by kind permission of the Maritiem Museum, Rotterdam)

In spite of these problems, the JCJL was among the largest foreign shipping firms in Shanghai. Partly as a result of this, the Netherlands was entitled to a seat in the Whangpoo Conservancy Board during the 1920s.[199] Shanghai became an increasingly important destination for international shipping in the wake of the economic development of East and North China. Eventually the JCJL also became interested in direct shipping to ports further north than Shanghai. During the 1920s Manchuria developed quickly and became a major market for sugar as well as an important area of bean production. Dalian became an important destination in the

[197] Annual report 1904, Nedlloyd Utrecht, KPJCL, 235 Jaarverslagen der JCJL 1902-1923.
[198] Annual report 1922, Nedlloyd Utrecht, KPJCL, 233 verslagen van de hoofdagent 1903-1923 en 1925.
[199] The five largest shipping nations in Shanghai were entitled to this. The Netherlands obtained the right in 1917 and lost it in 1928.

1920s.[200] In 1926 the chief representative declared that this city had the best harbour in China.[201] Another port in the north was Qinhuangdao (Chinwangtao), the Kailan Mining Association's own sea port, where JCJL ships conveniently stopped *en route* to or from Dalian. In Qinhuangdao the ships could take aboard coal, firebrick, coke, and other KMA products.

The JCJL expanded both in volume and geographically to keep up with the development of trade between China and the Netherlands Indies. Ons snag was that the nature of the business in which the JCJL operated was cyclical; the company depended strongly on the prevailing economic fluctuations. In response, the company tried to exert influence on parts of its market environment, by trying to regulate competition, supply, and demand. Relations on the Netherlands Indies side with sugar producers and employers of coolie labour were strong. This was not the case in China where the Dutch shipping company did not become highly integrated into the Chinese economy—apart from its offices it did not own FDI in China at all. The result was that it could not influence supply and demand on the Chinese side of its shipping route. In spite of this the JCJL retained its dominant position on the Java-China route until 1941. Its main local interest in China was almost identical to its main overall interest, because China played a central role in the firm's activities. The company's aim was to defend and enlarge its market position in East Asian shipping, in particular between China and the Netherlands Indies, and this remained so throughout the 1903-1941 period.

Political Risks and Response

1903-1916

Because the JCJL was an international shipping company, its operations remained confined to Chinese coastal waters and the large treaty ports. Therefore the Dutch company was not deeply involved in Chinese society. Still, from the beginning the board was aware that anti-foreign sentiments in the Chinese public opinion were to be taken seriously. Among the inhabitants of South China whose relatives were working as contract labourer in the Netherlands Indies rumours frequently circulated about a supposedly anti-Chinese attitude among Dutch colonial officials and employers. It was believed by many that Chinese workers were treated as slaves, and that generally speaking people of Chinese descent were the victim of a wide range of discriminatory measures imposed by the Dutch colonial government. [202] In 1905 the policy of the US government against Chinese immigrants sparked off a widespread boycott of American consumer goods in China, causing a serious decline in sales.[203] The JCJL was afraid that either an incident in the Netherlands Indies or the rumours spread by rival firms would result in a similar boycott of Dutch products and companies. Because its ships sailed under the Dutch flag and were highly visible in China's main ports, this would make the JCJL an obvious target.

[200] Annual report 1920, Nedlloyd Utrecht, KPJCL, 233 verslagen van de hoofdagent 1903-1923 en 1925. This particular case did not develop into a major problem for JCJL.

[201] Annual report 1925, ibid.

[202] Yen, *Coolies and Mandarins*.

[203] D. Mckee, *Chinese Exclusion Versus the Open Door Policy, 1900-1906: Clashes over China Policy in the Roosevelt Era* (Detroit 1977).

Interestingly, the firm's managers themselves actually also believed that Dutch colonial policy was discriminatory and unfavourable towards Chinese coolies. The Netherlands Indies government always found it difficult to administer the large Chinese ethnic minority, one of the reasons being the strong relations maintained between the Indies Chinese and China. Its worries were not eased by the fact that the Chinese government's standpoint was that all persons of Chinese descent were Chinese citizens, wherever they were living. A strong fear which permeated colonial administrative circles, was that 'radical' political movements might extend their influence from China to the Netherlands Indies, thereby undermining Dutch colonial rule. As a consequence, the authorities tried to control the movement of Chinese to and from China as much as possible—for example, by levying high immigration dues, issuing very strict medical regulations, or demanding that every Chinese visitor carried a passport. At times, this handicapped the JCJL's ambitions to increase its passenger transportation. In their reports Bisschop and later chief representatives repeatedly complained about the 'harassment of our passengers'.[204] Roosegaarde Bisschop also firmly believed that Chinese competitors were quite capable of fanning anti-Dutch sentiments in order to improve their market position. In 1906 he accused a Chinese shipping firm, Wee Bin & Co., of attempting to organise a boycott campaign against the JCJL in Xiamen. The Dutch company responded by bypassing the Xiamen tea traders and going to Formosa to get tea directly from there.[205]

In 1908, on a rare occasion when the company came in direct contact with the Chinese authorities because it needed permission to recruit and ship contract labourers from Fuzhou to Deli, the coolie matter led to a problem. China refused to give any such permission, as long as the Dutch did not grant China permission to open consular offices in the Netherlands Indies.[206] During the 1911 revolution, articles appeared in the Chinese press that demanded action against the Dutch Billiton Company's efforts to recruit workers in China. In the end, the Billiton Company had to cease recruiting in China and the JCJL had less passengers.[207] After 1911 Sino-Dutch tensions over overseas Chinese eased, because the Dutch government decided to allow China to set up semi-official consulates in the Dutch colony.[208] Furthermore, the whole situation improved because the new government of Yuan Shikai was confronted by too many domestic troubles to address matters outside China actively.

1916-1928

From 1911 until 1921, the JCJL remained untroubled by acute political risks, either resulting from conflicts in Sino-Dutch diplomatic relations or any other type. This absence of political risks is one of the explanations for the fact that the company turned down an offer from Chinese investors who were interested in taking a financial interest in the firm.[209] The JCJL chief representative noted that this offer should be seen in relation to a general desire among Chinese businessmen to gain

[204] Annual report 1911, Nedlloyd Utrecht, KPJCL, 233 verslagen hoofdagent 1903-1923 en 1925. See also J.H. Warning to F. Dankers 10 Feb. 1985, private collection F. Dankers, 11.
[205] Annual report 1905, Nedlloyd Utrecht, KPJCL, 233 verslagen hoofdagent 1903-1923 en 1925.
[206] Brugmans, *Chinavaart*, 79.
[207] Ibid. 82.
[208] Yen, *Coolies and Mandarins*, 201-202. See also de Beukelaer, 'Chinese Consuls'.
[209] Annual report 1921, Nedlloyd Utrecht, KPJCL, 233 verslagen van de hoofdagent 1903-1923 en 1925.

influence in foreign organisations—a desire he considered 'vague and unspecified'. Since the Chinese lacked the 'ability, integrity, and organisation' to create large enterprises by themselves, he believed it would be irresponsible to give such people a leading role in any large business hierarchy,[210] as long as they were not capable of setting up similar companies by themselves. The management of the JCJL saw no need to invite Chinese capital purely as a measure to limit political risks by creating an interest in the firm's health among Chinese investors.

Precisely in the same year, 1921, new political risks began to emerge for the Dutch shipping line. On the initiative of nationalist and communist activists, port workers in Hong Kong and Shanghai formed trade unions which grew increasingly militant. In the July of 1921, a stokers' strike was averted by the large shipping companies by conceding a wage increase. This did not last long and in the January of the following year, a general harbour strike was organised in Hong Kong by the Seamen's Union, to support Chinese sailors' demands for higher wages.[211] Although this caused serious delays, the JCJL managed to keep its business going by bringing in extra personnel from the Philippines.[212] Only after the strike spread outside the harbour and threatened to turn into a general strike, the shipping firms decided to give in and pay a 15 per cent increase in sailors' wages. In spite of this settlement, further strikes erupted in Hong Kong in the following years. To be prepared to deal with new actions by the Seamen's Union, the JCJL and the other foreign shipping firms established the 'Hongkong Foreign Ship-Owners and Agents Association'.[213]

During the same period, Chinese popular organisations also began to participate in activities that were politically motivated. In late 1921 the Xiamen Citizens' Association launched a boycott against Swire, the cause being a dispute over whether certain Swire property was part of the British concession quarter of Xiamen. The boycott spread to Shantou, and was not settled until Britain agreed to give in to Chinese demands over the concession boundary. Meanwhile Swire was immobilised and could do no business in Xiamen or Shantou, therefore the JCJL lost its agents in those ports. The Dutch company had to appoint other merchants to take over the agency from Swire temporarily.[214]

The civil wars in China during the early 1920s did not bother the JCJL very much. Even the notorious pirate attacks on coastal shipping in South China did not cause the Dutch company much trouble. The only significant threat remained the growing agitation against foreigners. Nevertheless, JCJL Chief Representative G.J. Otten saw no reasons for great concern:

> 'Sooner or later the situation in China will become more settled and from the moment industrialisation takes off, there will be no limits to the opportunities for expansion of trade between the Netherlands Indies and China for a long time to come. Consequently the main opportunities of the JCJL's future development will have to be found in both directions of Indies-Chinese trade.'[215]

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[210] Annual report 1921, ibid.
[211] Ibid.
[212] Brugmans, *Chinavaart*, 117.
[213] Annual report 1922, Nedlloyd Utrecht, KPJCL, 233 verslagen van de hoofdagent 1903-1923 en 1925.
[214] Brugmans, *Chinavaart*, 118-119.
[215] Annual report 1922, Nedlloyd Utrecht, KPJCL, 233 verslagen van de hoofdagent 1903-1923 en 1925.

But the strikes against foreign shipping lines that occurred in Hong Kong between 1921 and 1924 proved to be only the prelude. On 23 June 1925 British and French troops killed fifty-two Chinese demonstrators in Guangzhou. This triggered a massive strike among Chinese employees of foreign businesses in the Hong Kong area and a boycott throughout large parts of the country, of which British products were the main target. Chinese seamen's organisations played a leading role in these actions,[216] and the harbour of Hong Kong was hit hard by the strike. Much international trade moved from the British colony Hong Kong to the International Settlement in Shanghai. The British sugar refineries in Hong Kong also suffered; by 1928 the situation had become so difficult that Swire had to shut its refinery temporarily and to abandon its sugar distribution network in the interior of China.[217] Jardine's sugar refinery fared worse and went out of business permanently.[218]

As long as the British were the main target of anti-foreign agitation, the JCJL did not experience any serious problems. Like the Dutch banks, the shipping line benefited from the fact that part of the sugar trade moved to Shanghai in order to circumvent the strike in Hong Kong. The level of sugar imports in Shanghai shot up to reach about the same level as that of Hong Kong.[219] This heralded the collapse of the old hegemony of Hong Kong in sugar distribution, and new importing firms emerged in Shanghai, such as the Chinese-owned Minhua Refinery.[220] This was good for the JCJL, because it meant that it now was less dependent on the British firms in Hong Kong. Nor did the trend stop at Shanghai: also Dalian, Shantou, and Xiamen imported more Java sugar from 1925. The fact that Java sugar entered China by way of new ports and importers stimulated its demand. Sugar had always been the primary cargo on China-bound ships, but by 1928 over three-quarters in weight of all cargo for China consisted of this product.[221]

During a visit to China, Otten observed how the upsurge in anti-foreign sentiment affected trade. In his annual report he predicted that although emergent nationalism in China would cause many more instances of friction with the foreign interests, he was not worried about the future of the JCJL:

> 'The strange thing, however, is that in spite of this [strengthening of Chinese nationalism], trade with this enormous country of some 400 million inhabitants is growing, and very probably will continue to do so, in spite of the civil wars and the nationalistic upheaval. Japan foresees very accurately that China will become the major power of East Asia, and its current policy is aimed at all costs at preventing offending this large consumer of its industrial goods. The other major powers have also said goodbye to the so-called 'gunboat policy', and now occupy themselves with extensive, fruitless

[216] Osterhammel, *Weltgesellschaft*, 239.
[217] Osterhammel, *Britischer Imperialismus*, 180.
[218] Chief representative's annual report 1928, ARA The Hague, II, 2.20.59 KPM en KJCPL verslagen agenten, 429 verslagen 1928.
[219] Brugmans, *Chinavaart*, 138.
[220] Annual report 1925, Nedlloyd Utrecht, KPJCL, 233 verslagen van de hoofdagent 1903-1923 en 1925. Major sugar importers in Shanghai were the Mitsui Bussan Kaisha, Gim Moh Chan, and Djit Hin Hang.
[221] In 1908 and 1918 the figures were 60 per cent and 59 per cent respectively: Brugmans, *Chinavaart*, 138.

> conferences in Peking, with a government which has almost no influence over the warring generals in its territory.'[222]

Meanwhile Swire, which had resumed its agency work for the JCJL in Xiamen and Shantou, was once again unable to function in these treaty ports. In 1927 and 1928 the JCJL therefore opened its own offices in Xiamen and Shantou respectively.[223] J.H. Warning, then JCJL manager in Xiamen, would later refer to China in this period as 'a kind of "Wild West".' He characterised his attitude toward the unstable situation as: 'Continuously adapt to the current circumstances and as much as possible be prepared for "anything" to happen'. As an example of the ability of the company men to adapt, he described how the JCJL had two motorboats in Xiamen. One showed the Dutch and company flags, the other had a Chinese flag. The purpose was always to have at least one boat ready to reach JCJL ships which were moored in the river near the city, if a boycott were to be declared against the company.[224] Although there was always the possibility that the JCJL would become the target of a strike or boycott, its managers never believed that the Dutch government could provide any protection. They thought that diplomats and consuls were not trained to understand trade and shipping. 'The pace [at which diplomats moved] was not impressive, but they were co-operative people.'[225] For its survival the company relied on its capacity to adapt rather than on official support.[226]

1928-1937

In 1930 the dreaded possibility of a boycott aimed directly at the JCJL materialised. After the company's newest ship, the 'Tjibadak', returned to the Netherlands Indies from a trip to China, a female Chinese passenger reported to the authorities that during the voyage she had been raped by a Dutch crew member.[227] Via the Netherlands Indies and Singapore press this news reached China where it was regarded by many as evidence that Chinese were still maltreated in Dutch Southeast Asia. Calls for a boycott against the JCJL were published, but the boycott took effect only in Xiamen. The management of the company took the matter very seriously and responded swiftly. Even though the Dutch colonial authorities were still investigating the case, and the chief representative was convinced that the charge was exaggerated, he immediately took disciplinary measures against the crew member involved.[228] Shortly thereafter this person was discharged, and the chief representative publicly declared that the employee had committed a serious offence, and apologised on behalf of the company—which satisfied the Chinese associations in the Netherlands

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[222] Annual report 1925, Nedlloyd Utrecht, KPJCL, 233 verslagen van de hoofdagent 1903-1923 and 1925. He was referring to the two conferences that were held in Beijing in 1925 on China's tariff autonomy and foreign loans. Former NHM top manager E.D. van Walree attended the debt conference (held at the Dutch legation), where he presented a paper on China's foreign debts: Oudendijk, *Ways and By-Ways*, 356.
[223] Brugmans, *Chinavaart*, 135.
[224] J.H. Warning to F. Dankers 10 Feb. 1985, private collection F. Dankers.
[225] Ibid.
[226] Ibid.
[227] Telegram chief representative (Batavia) to managing director (Amsterdam) 29 Nov. 1930, ARA The Hague, II, 2.20.58.02 KJCPL, 389, 72 boycott Amoy tegen JCJL 1930.
[228] Chief representative (Batavia) to managing director (Amsterdam) 9 March 1931, ibid.

Indies.[229] Although he went through these motions, he was convinced that the Seamen's Union was behind the Xiamen boycott. Not primarily because of the 'Tjibadak' case itself, but in order to force the JCJL to pay more for the local tallymen's service. The local JCJL manager was of the same opinion: since the JCJL was seen locally as the 'No.1 shipping company', it was extra-vulnerable as a target for union demands against the foreign shipping firms in general.[230] He suggested that the solution was for the firm to establish friendlier relations with local unions.[231]

JCJL's ship 'Tjibadak' at the time of its completion, Van der Giessen's Scheepswerven, Krimpen aan den IJssel (Netherlands), April 1929 (reproduced by kind permission of the Maritiem Museum, Rotterdam)

The measures taken by the company did not immediately lead to the end of the boycott. In an attempt to help the JCJL, the Dutch minister in Beijing, J.W. Oudendijk, approached the new Guomindang government in Nanjing (Nanking), from which he obtained the assurance that it would end the boycott. This does not seem to have helped much, because some weeks after Oudendijk's action, the 'radical rabble'—as the local manager put it—in Xiamen still denied having received any orders from Nanjing about ending the boycott.[232] A few months were to elapse before the Xiamen boycott began to lose intensity; the reason for this is unknown.

[229] Chief representative (Batavia) to managing director (Amsterdam) 15 Dec. 1930 and 16 Jan. 1931 , ibid.
[230] Xiamen representative to chief representative (Batavia) 9 Dec. 1930, ibid.
[231] Xiamen representative to chief representative (Batavia) 16 April 1931 , ibid.
[232] Xiamen representative to chief representative (Batavia) 9 Dec. 1930 , ibid.

The entire affair did not have any serious effects for the Dutch shipping firm, which lost only one shipload of cargo, to its Japanese rival the Osaka Shosen Kaisha.[233]

Counter of the passenger department of the Java-China-Japan Lijn branch office in Shanghai, July 1937 (reproduced by kind permission of the Maritiem Museum, Rotterdam)

The 'Tjibadak' affair was the only direct confrontation between the JCJL and Chinese nationalism. After 1930 the main focus of disapprobation in Chinese public opinion shifted from the European to the Japanese imperialists. Although Japan's invasion of Manchuria in 1931-1932 and its attack on the Chinese-administered parts of Shanghai disturbed trade routes in China—Hong Kong now again increased in importance in relation to Shanghai[234]—there were some distinctly positive effects for the JCJL. In 1932 the chief representative was able to report that under the duress of Sino-Japanese tensions, Japanese shipping lines were less competitive and consequently he had been able to raise shipping tariffs.[235] During the 1930s Chinese businessmen generally preferred non-Japanese to Japanese ships to carry their goods.[236]

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[233] Chief representative's annual report 1930, ARA The Hague, II, 2.20.59 KPM en KJCPL verslagen agenten 1924 en 1926-1931, 432. The threat of a repetition of this case in 1932 was averted by the quick response of the company: a crew member was reported to have approached a bathing passenger, again on the Tjibadak. What the company's reaction entailed is unknown: Hong Kong representative's annual report 1932, ibid. 455.

[234] Brugmans, *Chinavaart*, 140.

[235] Chief representative's annual report 1931, ARA The Hague, II, 2.20.59 KPM en KJCPL verslagen agenten 1924 en 1926-1931, 433.

[236] Brugmans, *Chinavaart*, 78.

1937-1941

In 1937 the outbreak of the Sino-Japanese War again affected trade routes. When Japan occupied the Chinese coastline connections between the Chinese seaports and the interior of the country deteriorated, which made it more difficult for passengers to reach the JCJL ships. But the company also profited from the fact that its Chinese competitors disappeared, and that many Japanese ships were requisitioned by the Japanese armed forces. As a result, freight rates again went up. Furthermore, it did not take the JCJL long to find out that movement between the seaports and the interior was still feasible. To stimulate passenger shipping, the company sent its compradore staff into the interior to escort prospective passengers to the coast. The fact that shipping on the Yangzi was restricted by the Japanese did not affect the JCJL, because it did not participate in inland shipping. Thus, in spite of the war, Java-China shipping by the JCJL grew after 1937.[237] As with Dutch banking in China, the only major political risk of the late 1930s was that war would break out between Japan and the Netherlands, but this risk did not relate directly to the fact that Japan replaced the Nationalist government as the main ruler of China. In 1940, when the Netherlands were occupied by Germany, the head office of the JCJL was moved from Amsterdam to Batavia. The company continued it operations, and responded to the threat of war with Japan by withdrawing its European staff from that country—not China—in 1941.[238] To end its shipping routes to Japan and Japanese-occupied China would put the company out of business. Nevertheless, by early December—some days before Japan launched its war against the US, Britain, and the Netherlands—the company's management was concerned enough to withdraw its ships from Japanese-controlled waters.[239] As a result no JCJL ships fell into Japanese hands at the outbreak of the war, but even so all shipping business in East Asia became impossible from December 1941 onwards. The company's offices in China were captured by the Japanese army.

Conclusion

The main local interest of the JCJL in China was to defend its position as the main shipping line between China and the Netherlands Indies, consequently the company was active only in the largest treaty ports. The hypothesis regarding the main political risks between 1903 and 1941 is largely incorrect. From the point of view of the JCJL, in the years from 1903 to 1931 there was one important political risk, namely an anti-Dutch boycott generated by Chinese nationalism. Only after 1925 was this risk seen as a major threat. After 1931 the rise of Japanese influence and the fighting after 1937 did not cause serious risks. On the contrary, it reduced the risk of Chinese anti-Dutch nationalism. Only at the end of the 1930s did the possibility of a Japanese-Dutch war produce a new and fundamental threat to the JCJL's main interest.

The JCJL's response to Chinese nationalism was a passive one. The offer made in 1921 by Chinese business relations to take a financial interest in the company was an opportunity to limit the risk of a boycott. Once a boycott might be triggered by

[237] Ibid. 157.
[238] Ibid. 165-166.
[239] Ibid. 166.

events in the Netherlands Indies, the shipping company would have allies among the Chinese. But the JCJL perceived the risk of bad management—which its leaders associated with Chinese influence—as much more serious than the risk of a boycott. In 1921 there had never been an anti-Dutch boycott, but bad management would endanger the JCJL's ability to compete with other shipping lines between China and Java. When an actual boycott against the JCJL did occur in 1930, the company responded alertly. In order to satisfy Chinese organisations and media, the Dutch crew member involved in the 'Tjibadak' affair was discharged even though his superiors believed that the accusations against him were exaggerated. Whether the JCJL's directors would have been willing to make more fundamental changes, such as permanent co-operation with Chinese businessmen or the Chinese government, in order to limit the effects of similar incidents in the future is not clear. Soon after the 'Tjibadak' affair, in 1931, Japan's foreign policy diverted Chinese attention away from the Netherlands Indies and the Dutch shipping line.

The company's response to the risk of a Dutch-Japanese war around 1940 was also passive. In this case there was not much the JCJL could do except abandon its activities in East Asia altogether—which was contrary to its main overall and local interests. The Japanese military dominated the Chinese coastline, and no government was able to offer effective protection should Japan decide to attack Dutch possessions. Co-operating with the Japanese was no solution in the event of war. The only available strategy for the JCJL was to divert its ships to Java as soon as war seemed imminent, and this is what the company did in December 1941.

CHAPTER 4

PETROLEUM: ROYAL DUTCH/SHELL

> 'We were the first Europeans in China, and now in Hankow [...] Not a single Dutchman! Not one! And that in the Yangtsze valley with its 150 million inhabitants and its unlimited opportunities in every field of commerce and industry! Where are we then? Does Holland still exist? Fortunately it does! Five miles below Hankow there is a magnificent example of Dutch energy; the installations of the Asiatic. Admittedly, the British flag flies over them, but that was inevitable; Holland [having no concession quarters in the treaty ports] was unable to offer a single square centimetre of land to her spirit of enterprise. [...] I made a pilgrimage to the establishment of the Asiatic [...] The only organisation in the world to prove a match for the Octopus [i.e., Standard Oil] was an enterprise managed by Dutchmen. And so in the end I spent an enjoyable day.'
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> H. Colijn, former Dutch war minister, October 1913.[240]

Overall Corporate Interest

The history of Shell begins on 28 May 1890.[241] On that day 'Royal Dutch' ('de Koninklijke') was created as a limited liability company rested in The Hague, with shares listed on the Amsterdam stock exchange.[242] The company was founded by a diverse group of Dutch investors including various bankers.[243] Royal Dutch initially was a typical colonial firm, created to exploit petroleum deposits that had been discovered in Sumatra, a situation which gave the company the rather simple dual structure that is characteristic of 'free-standing' firms:[244] all assets and operations were concentrated abroad, while the head office was located in the home country. The shareholders were represented by a supervisory board that did not consist of petroleum experts and that gathered only periodically at the head office in The

[240] Gerretson, *Royal Dutch* IV, 126-127.

[241] In full 'Koninklijke/Shell Groep van Maatschappijen' or 'Royal Dutch/Shell Group of Companies'.

[242] Its formal name was 'NV Koninklijke Nederlandsche Maatschappij tot Exploitatie van Petroleumbronnen in Nederlandsch Indië' or 'Royal Dutch Company for the Working of Petroleum Wells in the Netherlands Indies', but for practical reasons it was always referred to as *de Koninklijke* (in the Netherlands) or Royal Dutch (internationally).

[243] The main founder was the entrepreneur A.J. Zijlker, who died shortly after the company was established. In setting up the enterprise he was assisted by several Dutch bankers, mainly Tiedeman & Van Kerchem, Dunlop & Van Essen and the Boissevain Brothers. Most of the initial shareholders were also the members of the supervisory board, and as such they played an important part in the early history of the Royal Dutch.

[244] Mira Wilkins, 'Hosts to Transnational Investments', 32.

Hague.[245] The managing director was on the other side of the world, in the jungles of Sumatra, supervising the extremely strenuous job of finding and producing petroleum. Because of this great geographical distance, the members of the supervisory board did not have any detailed operational knowledge. However, in the earliest years the company's activities centred on finding oil, which was a scope narrow enough to be controlled from the Netherlands.

In 1900 when Royal Dutch celebrated its tenth anniversary, the company had already grown into a concern that integrated exploration, production, refining, transport, and marketing. Pertinently, the company did most of its distributing across the border: in the British Straits Settlements, in British India, in Japan, and in China. After 1900 the supervisory board members no longer had the time or the expertise required to manage this integrated and multinational oil company effectively. Moreover, the frequent issuing of extra shares to finance the expansion transformed the original investors in minority shareholders, a development which in turn weakened the power base of the supervisory board.[246] Around 1900 the connection with the mother country was improved when the managing director was relocated from Sumatra to The Hague.[247] Nevertheless, the widening of the gap between ownership and control of the firm was accelerated even more under the leadership of Henri W.A. Deterding, the chief executive manager from 1901 until the end of 1936.

As a young accountant he worked for a very brief period with the Twentsche Bank before being hired by the NHM and stationed at the bank's sub-branch in Penang. This was a part of the British Straits Settlements in the Malacca Straits, located close to Sumatra. There Deterding came into contact with the men of Royal Dutch who came to Penang to sell their oil and who needed the NHM's financial

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[245] The first supervisory board consisted of H.D. Levyssohn Norman (chairman, member of parliament), N.P. van den Berg (director—from 1891 president—of the Nederlandsche Bank; formerly with NHM, NIHB, and president of the Javasche Bank), D. Cordes (chairman of the Chamber of Commerce; representing Amsterdam commercial circles), G.A. de Lange (formerly of Tiedeman & Van Kerchem; representing this company and the Nederlandsch-Indische Handelsbank), G.C.B. Dunlop (of Dunlop & Van Essen; representing this firm and Boissevain Brothers), D. de Ruiter Zijlker (member of parliament and brother of A.J. Zijlker), W.J.E. Hekmeijer (formerly chemist at the Netherlands Indies laboratory in Batavia). The group represented by De Lange was important in financing firm that was the predecessor of Royal Dutch, and the group represented by Dunlop was the syndicate that arranged the floatation in 1890. Eventually it was Cordes, who was very familiar with the Amsterdam financial world, who became important as the company depended more and more on successful share issues. After a few years Cordes succeeded Levyssohn Norman as chairman of the supervisory board: Gerretson, *Royal Dutch* I, 95-101 and 175. From the inclusion of politicians and technical specialists among the board members and from the application for permission to use 'royal' in the name, it would seem that the creators of the Royal Dutch aimed at a company that would be closely identified with the national interest and that would appeal to a wide audience of potential stock owners.

[246] By 1913 the point was reached at which Royal Dutch had become too large to attract sufficient capital from the Amsterdam capital market alone. In this year the company was registered on the London stock exchange: W. Wennekes, *De Aartsvaders: Grondleggers van het Nederlandse Bedrijfsleven* (Amsterdam 1993), 355. In 1898 an 'oligarchic clause' was added to the company's articles of association, which gave the supervisory board the right to appoint its own successors: Gerretson, *Royal Dutch* II, 80. This right was reserved for the holders of preference shares that were subsequently issued. The supervisory board appointed these holders. But a few years later the supervisory board had already lost much of its influence over the managing board.

[247] A few years later, in 1902, the Royal Dutch managing board was created when Deterding moved to London to run the APC. A. Capadose and H. Loudon were appointed managing directors to represent Deterding in The Hague: Gerretson, *Royal Dutch* II, 303. Deterding remained chief member of the board.

support for their trade. He decided that the young oil company offered better career opportunities than the well-established colonial bank, and entered Royal Dutch's service to co-ordinate its marketing efforts in Asia. Deterding's personality combined a capacity for brilliant strategic thinking and boundless ambition, and the oil industry offered the ideal environment in which to develop his commercial talent fully. He made Royal Dutch into one of the world's largest and influential companies, with operations on a scale that in every respect far surpassed any other Dutch enterprise at the beginning of the twentieth century.[248] In 1901, five years after joining the firm, Deterding became chief managing director. After another five years he consolidated his power by making the Royal Dutch managerial hierarchy—with himself at the top—fully autonomous from the shareholders and the supervisory board. He did this by taking over "The 'Shell' Transport and Trading Company, Ltd" (Shell Transport and Trading, STT), a British company that was larger than Royal Dutch.[249] The outcome of the merger was not only that Deterding became more powerful within the organsation, but also that now his company was the second-largest oil company in the world surpassed only by Standard Oil.

To combine the activities of the two companies into a single organisation, Royal Dutch and STT divested themselves of all of their assets. These were transferred to a new organisation, the Royal Dutch/Shell Group of Companies, commonly referred to as Shell. This new concern, which officially came into existence in 1907, was owned 60 per cent by Royal Dutch and 40 per cent by STT, both of which now acted exclusively as holding companies.[250] Royal Dutch took a 25 per cent interest in STT,[251] the ownership of which was less diverse than that of the Dutch firm.[252] In this situation the managing board of Royal Dutch could theoretically govern Shell as if STT did not even exist. But as it turned out, Deterding and his Dutch fellow directors were not interested in trying to suppress British influence. Instead Shell was managed as if the Dutch and British sides were equally influential. 'The Dutch, instead of exercising the control which they had won, seemed deliberately to be rejecting it.'[253] Shell has consistently presented itself to the outside world as a company with two nationalities: Dutch and British. Whatever causes and considerations there may have been for STT to retain its autonomy, a major effect was that the shareholders and the supervisory board of Royal Dutch were now almost

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[248] As manager of the Penang sub-branch Deterding became acquainted with J.B.A. Kessler, then managing director of Royal Dutch, and used his position to help Royal Dutch finance its sales operations: K. Beaton, *Enterprise in Oil: A History of Shell in the United States* (New York 1957), 28. Penang was part of the British Straits Settlements (Singapore, Malacca, and Penang), which had close commercial relations with Sumatra.

[249] For the history of STT see S. Howarth, *A Century in Oil: The 'Shell' Transport and Trading Company, 1897-1997* (London 1997).

[250] The reason why STT as a larger firm obtained only a minority share is related to the financial problems of STT and the financial success of Royal Dutch.

[251] After M. Samuel, the company's main founder, gave up his special controlling position in Shell in 1919, Royal Dutch decided that this 25 per cent interest was no longer necessary and it was gradually sold to the public. By late 1951 Royal Dutch had reduced its interest in Shell to a single share: Beaton, *Enterprise in Oil*, 52-53. Samuel's control and Royal Dutch's 25 per cent interest were devised in 1906 to guarantee that after the take-over Shell would continue to exist as an independent British conern.

[252] Unlike Royal Dutch shares, STT shares were not quoted on the stock exchange: Gerretson, *Royal Dutch* II, 99. For the original shareholders of Shell in 1897: R. Henriques, *Marcus Samuel: First Viscount Bearsted and Founder of the 'Shell' Transport and Trading Company, 1853-1927* (London 1960), 164.

[253] Ibid. 499.

completely without managerial control.[254] Deterding shifted the centre of corporate control from Royal Dutch to the top managerial level of Shell—consisting of himself and a group of directors that was half Dutch and half British.[255] The continued issuing of new shares on the stock market and a policy of keeping shareholders satisfied by paying high dividend rates ensured the autonomy of Shell's managerial leadership from shareholder influence.[256]

By acquiring STT, Royal Dutch transformed into Shell. To a great extent—but not entirely—Deterding surrendered Dutch predominance in return for almost complete managerial power.[257] How did this affect the relevance of Shell to its Dutch economic environment? To answer this question it is necessary to identify the basic differences in interests between the Dutch and British sides of the company. At the time of the merger in 1906-1907, Royal Dutch was a production company that diversified into distribution. STT on the other hand was a distributing firm that diversified into production. The new concern, Shell, was nowhere incorporated as a firm; instead it consisted of two companies that worked closely together. In The Hague a Dutch company was established named 'NV Bataafsche Petroleum Maatschappij' (BPM), which controlled all assets related to production. In London a British company was established with the name 'Anglo-Saxon Petroleum Company, Ltd', that controlled all assets related to distribution.[258] In an organisational respect, the take-over was not extremely disruptive to activities of the two managerial hierarchies that constituted Royal Dutch and STT before 1907. The Dutch hierarchy lost its distribution assets, but this was offset by gaining STT's production assets. The British hierarchy also had to cede its less important activities but strengthened its main competence.[259]

In short, organisationally the two fundamental components of Shell were made up of Royal Dutch/BPM (the Dutch managerial hierarchy based in The Hague) and STT/Anglo-Saxon (the British managerial hierarchy based in London). Although both the BPM and Anglo-Saxon were owned 60 per cent by Royal Dutch and 40 per cent by STT, in practice the BPM was managed by Royal Dutch and Anglo-Saxon by STT. Turning to the matter of the connection between Shell and the Dutch economy,

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[254] The function of the supervisory board now was only to appoint the managing directors. As Deterding did not retire until late 1936, the supervisory board did not have to exercise its most important power for three and a half decades from 1901.

[255] Deterding remained chief executive director of Royal Dutch, but he acquired several new positions, among these non-executive board member of STT and chief executive director of the Asiatic Petroleum Company. What he did in these functions was difficult for the Royal Dutch supervisory board to monitor or influence.

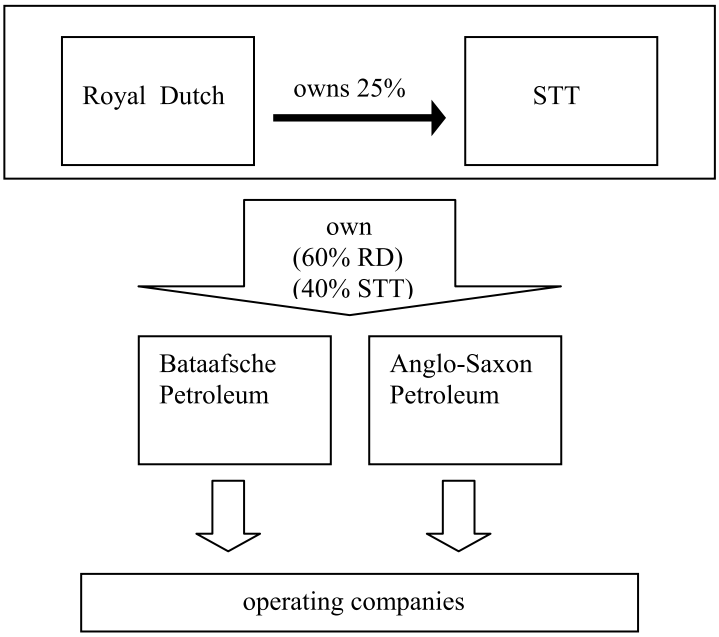
[256] According to director Robert Waley Cohen, who was from STT but also Deterding's closest colleague, the interests of the Dutch and British leaders of Shell were fully identical: Beaton, *Enterprise in Oil*, 54-55.

[257] While according to the company's 'articles of association', the right to appoint supervisory and managing directors had to remain in Dutch hands, this did not mean that the managing directors necessarily had Dutch nationality: Gerretson, *Royal Dutch* II, 79.

[258] Ibid. 346-348. The BPM was later renamed NV Shell Petroleum; Anglo-Saxon was later incorporated into The Shell Petroleum Company, Ltd (formerly the Asiatic Petroleum Company). This joint-venture for Asia pre-dated the Royal Dutch/STT merger and was maintained as a separate holding company alongside the BPM and Anglo-Saxon.

[259] Real integration—below the top level—between the Royal Dutch and the Shell hierarchies did not begin to take place until the 1950s: A. De Geus, *The Living Company* (Boston 1997), 164. See also Howarth, *Shell*.

it may be concluded that whereas the fortunes of both production and marketing activities were closely related and 60 per cent of the profits of both the BPM and Anglo-Saxon were destined for the Dutch parent company, it was the production side rather than its distribution counterpart that originated in and was integrated into the Dutch economy. But it is equally relevant to keep in mind that Deterding and managing board of Royal Dutch always retained the right to appoint two-thirds of the members of all of Shell's boards of directors. Even though STT managed Anglo-Saxon and its distribution subsidiaries, Deterding and other Royal Dutch directors were on the board of STT itself and also on that of its largest subsidiary, the Asiatic Petroleum Company. As such they were closely involved in the making of strategic decisions for the British managerial hierarchy. Under these circumstances it was very unlikely that the general course followed by STT/Anglo-Saxon would run counter to the interests of Royal Dutch/BPM.



Ownership structure of Shell in 1907.[260]

Knowledge of the way the company functioned was strongly concentrated within the managerial structure: at the top managing directors who were the only ones to oversee the geographical and organisational diversity of the concern, and at the level of the middle managers who had detailed knowledge of operations. The shareholders and the supervisory board of Royal Dutch had virtually no operational knowledge. Control therefore was shared between higher and middle managers—both groups

[260] Not included in this chart is the APC, which in 1907 was the only operating company directly owned by Royal Dutch (40 per cent) and STT (26.7 per cent). The remaining 33.3 per cent was owned by Rothschild of Paris.

having the same basic interests. The consequence of these organisational characteristics was that the main overall interest of Shell formed a combination of the interests of the two main managerial hierarchies: growth in oil production for the Dutch side and growth in oil distribution for the British side. Achieving a balanced growth in these two directions may therefore be seen as the highest strategic aim of Shell's managing directors in the first decades after 1907.

The Petroleum Trade in China

The early twentieth century was a period of transition from an old situation in which lamp oil was the major petroleum product, to a new world in which a whole range of important products were made from petroleum. This included fuel oil and lubricating oil, but the most important new oil product was petrol (gasoline). The division between old and new petroleum products is reflected not only in technical changes in oil production, such as an increased importance of refining technique, it is also cogently reflected in the geography of marketing. Whereas petrol was largely confined to the Western markets, where most motor cars were to be found, lamp oil typically became a product for the non-Western countries. Lamp oil, or kerosene, was marketable only where people used oil lamps—that is, where electricity had not yet been introduced. The electrification of the population centres in the Western countries limited kerosene sales in those parts of the world. But paradoxically the production of kerosene was growing. The exploding demand in the US for petrol stimulated its production, but as a consequence of the underdeveloped state of oil refining large amounts of kerosene were produced as a by-product of petrol.[261] The oil companies looked for places outside the West to sell their surplus kerosene, and at this point China—then already a moderately important but still underdeveloped market for kerosene—came into the picture. With an estimated population of some 400 million and being not yet electrified, the Chinese market was one of the few places in the world where very large kerosene sales could possibly be created.[262]

Bringing Shell's specific characteristics into this picture reveals further elements of relevance. In the first place the company's primary production sites were in the Netherlands Indies, to which China practically was next door. Even before the problem of the kerosene surplus loomed, Royal Dutch regarded China as a major market because of its proximity to the oil wells. Around 1900 Royal Dutch was using China and some other Asian countries to create profits as dividend for the shareholders, while profits made in Southeast Asia were used to finance production costs.[263] Both Royal Dutch and STT already had considerable distributing interests in China before their merger. A related fact was that Shell was the only major oil

[261] R.W. Hidy and M.E. Hidy, *History of Standard Oil Company (New Jersey) I: Pioneering in Big Business, 1882-1911* (New York 1955), 264. Around the turn of the century, Royal Dutch could convert crude oil into kerosene only by simultaneously producing also petrol and gas oil: Gerretson, *Royal Dutch* IV, 31.

[262] Although probably to a lesser extent than anticipated, China indeed became one of the most important markets for kerosene. In 1924 China was responsible for 6.5 per cent of the world's kerosene consumption: 'China's Erdölhandel, 1913-1924', Shell The Hague, SIPM, 190A historisch archief, 91 correspodendentie China. In 1931-1937, when its kerosene-consumption was much lower than before 1930, China took on average 2.7 per cent of world-wide consumption: Osterhammel, *Britischer Imperialismus*, 146. About the 1920s see also Charles E. Kern, 'Chinese Buy Cupful but Burn Enormous Quantity of Kerosene', *The Oil and Gas Journal* (23 Sept. 1926) 156-157.

[263] NHM Batavia to NHM Amsterdam 5 Dec. 1901, ARA The Hague, 2.20.01 NHM, 2631.

company to operate large oil fields in Asia. In the second place, after 1906, Shell became one of the world's largest petrol producers. The focus on petrol production and the great volume involved made Shell one of the companies most interested in finding a large outlet for its kerosene. During the 1910s much of the attention of the company shifted from Asia to the Americas, when Shell acquired new production interests first in Mexico and Venezuela, and later in the US itself, where it benefited greatly from the petrol boom.[264] The North American market was increasingly used for the expansion of turnover and profits, and the strategy mapped out for East Asia was subordinated to this. Production of petrol in the Netherlands Indies was increased to feed the large demand in the Western world, and the existing distribution interests in China were exploited as an outlet for surplus kerosene from the Netherlands Indies. From 1915 Shell also operated refineries in the US from which the surplus kerosene also was exported to China.[265] Such surplus kerosene was sold by the Netherlands Indies and US production subsidiaries to the Chinese distribution subsidiary, which then had to recover its purchasing and distribution costs by coming up with an effective marketing strategy.

Therefore, at the time of the take-over of STT, the primary interest in China for Royal Dutch was that it served as an outlet for kerosene from the Netherlands Indies and soon thereafter from the United States. This meant that distribution operations in China had to meet the capacity offered by the refineries elsewhere, that at least a minimal profit had to be made from them, and that the flow of kerosene into China had to be stable and controllable in order to obtain maximum production efficiency at the refineries. There was also a secondary interest. Under the 1906 merger arrangement, the distributing organisation in China was part of Shell's British managerial hierarchy, the Anglo-Saxon Petroleum Company. The main interest of Anglo-Saxon was more limited than Shell's overall interest, and lay in continuing and enlarging its distributing operations around the world. As long as it did not run contrary to the objective of maintaining a kerosene outlet suited to Netherlands Indies production, the sales management in London and China probably favoured a policy of expansion. Logically, such expansion could be achieved by matching it with increased sales volumes. Here again a certain rate of profit was needed to recover the initial investments and to decrease the production costs of petrol, but profit maximisation was not the main requirement.[266] Shell strove towards achieving controllable and increasing kerosene sales in China.

Because from the outset kerosene marketing in China was very important to Royal Dutch, a large organisation was created to be responsible for this task. Investments began in 1897 when the first oil storage tank installations were built, which were then still operated by agents. A directly controlled sales organisation was created from 1906, when the first branch office was opened. By 1913 it had acquired

[264] The petrol demand initially was too large to be met by the near monopolist Standard Oil. This enabled Royal Dutch, which had access to large petrol supplies from Sumatra, to enter the European and US markets. Royal Dutch Sumatra crude was exceptionally suited to petrol production: up to 30 per cent of the refinery output consisted of petrol.

[265] Beaton, *Enterprise in Oil*, 97.

[266] Until the separation of New York Standard from the rest of Standard Oil, this company also did not necessarily have to make a profit on its sales in China. The mother company reaped such high profits from pipe transport across the US, that the main objective for New York Standard was to create a growing demand in China in order to stimulate the pipage volume in the US: Hidy and Hidy, *Standard Oil*, 549.

the basic structure it would keep for the following decades. The marketing subsidiary for China and other Asian countries was called 'Asiatic Petroleum Company Ltd' (APC).[267] The board of directors consisted of Deterding who was joined by four other directors from the STT and Royal Dutch boards.[268] The management in China reported directly to the top management of the Shell group. Close monitoring from London was possible through the carrying out of a detailed and extensive correspondence. The take-over of STT in 1906 led to a new policy being developed for China. At the core of this new policy was the decision to enter up-country distribution. Going up-country meant extending operations beyond the boundaries of the treaty ports on the coast and along the rivers and taking its business to the interior of China. At the beginning of the twentieth century, foreign activity in China was still largely confined to the larger coastal cities. After 1908 Shell's distribution system in China consisted of two main elements. The first of these was the network of tank installations and branch offices, first created in 1897 and in 1906 respectively. In the second place there was the up-country agency network, the foundations for which were laid between 1908 and 1913. Although 1906 marked the beginning of directly controlled distribution operations, 1908 was even more significant, because only by adding an up-country network to the existing treaty port network did Shell acquire the opportunity to dominate petroleum marketing in China. Taking a plunge, the company changed its primary activity in China from importing to wholesale distribution. To understand the revolutionary character of the policy adopted by Shell in 1908, it is necessary to have an understanding of the activities of Royal Dutch and its chief competitors until that year.

In 1897, when Royal Dutch made its first direct investments in China, the Chinese kerosene market was already partly developed and the two main petroleum companies active in China were STT and the Standard Oil Company. Standard Oil was the largest petroleum concern in the world and the main importer in China. At

[267] The agreement to establish the APC was concluded on 27 June 1902: the APC was to be a British company with £600,000 worth of shares issued to the three shareholders Royal Dutch, Shell, and Rothschild. The board of directors would consist of M. Samuel (chairman), Deterding (managing director), and Fred Lane (deputy managing director). They would be assisted by a secretary (J.Y. Kennedy) and an assistant-manager (R. Waley-Cohen). When the company came into being on 29 June 1903 it obtained twenty-one tank installations, three tankers, and two refineries from Royal Dutch. It obtained from Shell thirty-one installations, twelve tankers, and two refineries. The APC was to manage distribution in East, Southeast, and South Asia and in East Africa: Henriques, *Marcus Samuel*, 402-404.

[268] From 1903 until about 1930 Rothschild of Paris was also represented on the board, as it owned one-third of the shares. During the 1930s Anglo-Saxon acquired Rothschild's APC shares. The APC was also responsible for marketing in other Asian countries; from 1913 it did this through its subsidiaries APC North China and APC South China. During the 1920s and 1930s the boards of the APC, APC-NC, and APC-SC were entirely or mostly manned by the same people: W. Samuel (chairman of APC-NC and APC-SC; also on Shell board), H.N. Benjamin (STT), R. Waley Cohen (STT), A.S. Debenham (STT), A. Agnew (STT), F. Godber (STT), G. Legh-Jones (STT), H.W.A. Deterding (Royal Dutch and STT), J.C. van Eck (Royal Dutch), and J.B.A. Kessler (Royal Dutch and STT). These people were also on the boards of STT or Royal Dutch or both. At most times there were five men on the APC-NC/SC boards, the chairmen and two others being British. The managing board of Royal Dutch had the right to put three Dutchmen on these board, but chose to leave marketing in China in the hands of STT people. In 1946 the APC was renamed The Shell Petroleum Company; in 1955 it took over all assets of Anglo-Saxon, thus becoming the sole holding company for all downstream subsidiaries. After the Second World War, APC-North China was renamed Shell Company of China Ltd. Its assets were handed over to the People's Republic of China during 1952-1953: A. Shai, *The Fate of British and French Firms in China, 1949-54* (London 1996). APC-South China was renamed Shell Company of Hong Kong Ltd.

first kerosene was produced only in the US and in the late 1870s Standard Oil was the first company to ship large quantities of kerosene to China.[269] Its kerosene was packed in tins, which were shipped from the American East coast via the Atlantic and Indian Oceans to the Far East. As was the case with many Western products when they first appeared in China, kerosene was initially sold only to the Westerners in Hong Kong and Shanghai. But soon a demand was created among the Chinese population. The prominent trading house of Jardine acted as Standard Oil's agent in China, and was with its knowledge of local conditions initially very useful for enlarging the demand for kerosene in China. Jardine sold kerosene to Chinese traders, who took the product into the country and sold it on to regional wholesalers. The oil finally reached its consumers via local retailers. As with all other imports, kerosene distribution in China was completely in Chinese hands. But being a general trader, and as such not interested exclusively in the oil business, Jardine's interests were not always compatible with those of Standard Oil. Consequently, as the importance of the Chinese market grew, the American petroleum firm wanted more direct control. In 1893 Standard Oil decided that it no longer needed the services of Jardine, and began to establish sales offices and warehouses ('godowns') in the treaty ports which would enable it to make deliveries directly to Chinese merchants.[270] Even before the end of the century, a sub-office was opened as far inland as Chongqing (Chungking) in Sichuan (Szechuan) province.[271]

In the meantime Russia had developed into the world's second kerosene producing country. Russian oil came from the Caspian Sea region and was shipped to Asia via the Black Sea and the Mediterranean. STT—or its predecessor—was the main trader involved in this practice. From 1892 STT shipped Russian oil to China via Suez. Unlike Standard Oil, STT used tanker ships which could transport kerosene in bulk. In the treaty ports STT oil was handled by the German trading firm Arnhold, Karberg & Co. This firm was more than just an agent: Arnhold was one of the founders and original shareholders in STT.[272] Because the German firm was itself a shareholder in STT,[273] its interest in the oil company went beyond that of a regular agency firm and for the time being the need to follow the American example of establishing sales offices was not felt very strongly. In the largest Chinese ports, STT built oil tank installations and tin factories which were managed by Arnhold Karberg. Chinese traders preferred lamp oil in tins, not in bulk, and therefore STT packed its product in tins after it had been unloaded from the tanker ships. Standard Oil continued to rely on its shipments of tinned oil until 1911, when it also erected storage tanks.[274]

[269] Osterhammel, *Britischer Imperialismus*, 48.
[270] Anderson, *Standard-Vacuum*, 15.
[271] Hidy and Hidy, *Standard Oil*, 750.
[272] Henriques, *Marcus Samuel*, 164.
[273] Arnhold, Karberg & Co. was a German company that was run from London, and was largely owned and controlled by British subjects. In 1914 a British firm 'H.E. Arnhold' was created that took over the Chinese business of Arnhold, Karberg: Chang, 'British Business in Hankow', 57-58.
[274] 'Extracts from Mr Bunje's Report Dated 5.6.1939; Subject: Royal Dutch in the Far East', Shell The Hague, SIPM, 190A historisch archief, 91 correspondentie China. The reason why Standard waited so long was that tins could be sent on regular ships, that could bring other products on the way back. There was no return cargo for oil tankers: Hidy and Hidy, *Standard Oil*, 262. By 1913 New York Standard had already invested—since 1893—$20 million: Chronology, Shell The Hague, SIPM, 190A historisch archief, 92 China.

While competition between Standard Oil and STT in China increased, in the Netherlands Indies, Royal Dutch was established as one of the first companies to exploit the newly discovered Southeast Asian oil fields. Production began in 1892 and Royal Dutch oil was subsequently marketed, via agents, in Sumatra, Singapore, and Penang. As early as 1894 the Dutch firm expanded its horizon beyond Southeast Asia and began exporting tinned kerosene to China, using the German trading house of Meyer & Co. as its agent.[275] In 1896 when Henri Deterding joined Royal Dutch, his first task was to define a coherent marketing strategy. China was the nearest major market for kerosene and he decided to launch a major challenge to the better established positions of American and Russian oil there. Imitating the STT strategy of using bulk carriers and tank installations, Royal Dutch made its first direct investments in China by building tank installations: in 1897 in Hong Kong and Shanghai; in the following year in Shantou, Xiamen, Fuzhou, Hankou, Zhenjiang, and Tianjin (Tientsin).[276] The installation in Hong Kong was the largest and best-equipped in China.[277] These installations were owned by Royal Dutch, but operated by its agent Meyer & Co. As a result of these investments, Royal Dutch conquered a segment of the Chinese kerosene market. By 1900 it was the third largest oil importer in China, behind Standard Oil and STT.

In order to compete with the still very powerful Standard Oil, Deterding and STT Chairman Marcus Samuel made an agreement to join forces with regard to distribution in Asia. On 2 July 1903 STT and Royal Dutch combined their Asian distribution assets into a joint venture: the Asiatic Petroleum Company. This new company was managed by Deterding,[278] and continued to pursue the strategy of STT and Royal Dutch: agents were contracted and tank installations built in a growing number of Chinese treaty ports.[279] A new step was taken in 1906 by establishing the first Chinese APC branch office in Hong Kong. This was the beginning of the APC's directly controlled Chinese sales organisation, that would soon undertake steps to develop an up-country sales network. The only important competitor left in China was Standard Oil.

So far the kerosene trade was still carried on mainly along traditional lines. The fact that Standard Oil and the APC were setting up representative offices and storage facilities in the treaty ports had no impact on the distribution process within China itself. The Western petroleum companies could bring their kerosene to China, but they could not do much to influence either the price or the size of the market. Large

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[275] Only British and German trading firms were well enough established in the treaty ports to be able to handle large quantities of kerosene. Dutch companies in China such as the NHM were very disappointed that Royal Dutch did not work with a Dutch agent. See for instance the remarks made by NHM director Van Aalst: 'C.J.K. van Aalst over Oost Azië 17 feb. 1903', ARA The Hague, 2.20.01 NHM, 9472.

[276] Gerretson, *Royal Dutch* II, opposite p.173; Beaton, *Enterpise in Oil*, 33.

[277] 'The Petroleum Trade in the Far East', *The Petroleum Review* (3 Dec. 1904), 451.

[278] The predecessor of the APC was the Eastern Oil Association established 10 August 1899, which also combined Shell and Royal Dutch distribution interests and was also managed by Royal Dutch. When the APC was formed, Deterding moved to London to concentrate on managing this joint venture and became 'director-general' of Royal Dutch. After 1910 Deterding's top position in Royal Dutch was renamed to 'general managing director'.

[279] APC agency contracts 1903-1905: Arnhold, Karberg & Co. (various places); Meyer & Co. (various places); Dodwell & Co. (various places); M.W. Grieg & Co. (Fuzhou); Bradley & Co. (Shantou); Lauts & Haesloop (Shantou); Pasedag & Co. (Xiamen); Douglas Lapreik & Co. (Xiamen): Chronology, Shell London, Group Archive, GHS/2B/24 China and Hong Kong.

Chinese distributors bought the oil in the treaty ports and then sold it to regional wholesalers throughout the country, which was the customary way to sell any foreign product in China. The problem in the eyes of the foreign oil companies was that the large distributors co-operated to obtain the lowest possible price from the foreigners, and also that they speculated on the price differential between kerosene and vegetable lamp oil. After a bad harvest vegetable oil would be more expensive, and kerosene prices would also go up. The Chinese distributors tended to hold on to their kerosene supplies until selling prices were high, which kept consumers' demand for kerosene down in the long run. To supply the regional wholesalers in the interior directly was a possible solution, but not one with which any foreign firm had much experience. The reason Shell rather than Standard Oil took the first step towards changing the old system by entering the up-country market was because Standard Oil kerosene had a larger market share, which it could easily defend because it was of better quality than any competing brand.[280]

The first Western companies that ventured beyond the treaty ports did so not to sell but to buy. From the 1860s pioneering merchants travelled in the interior provinces of China to purchase wool, braid, musk, rhubarb, bristle, and hides.[281] By the end of the nineteenth century, German trading houses such as Melchers & Co., Siemssen & Co., Carlowitz & Co., and Arnhold, Karberg & Co had emerged as the pioneers among the larger foreign companies and were routinely exporting as well as importing directly in the interior.[282] They chose to specialise themselves in up-country trade because, as relative latecomers in China, they wanted to bypass the large British houses, such as Jardine, Swire, and Dodwell & Co., which were dominating trade in the main coastal treaty ports.[283] The fact that one of these German trading firms, Arnhold, had close ties with STT may have helped to convince Shell's management that direct distribution in the interior was feasible.[284]

While the Germans had already set an example for running up-country business in the lower Yangzi area, creating an organisation that covered the entire country was still a very new phenomenon in 1907. The only example for Shell to follow in the distribution business was BAT, which had been engaged in setting up its network for cigarette distribution since 1905.[285] In 1910 Standard Oil also initiated up-country marketing,[286] and in the following years, Shell, BAT, and Standard Oil expanded their up-country networks. During the next few decades these were regarded by foreign businessmen and diplomats in China as the most successful foreign-controlled marketing operations in that country. Not only were these three the first to cover more or less the whole country, they also were the largest. During the 1910s-

[280] Also in subsequent years it was Shell that did most of the pioneering work in China's interior: Interview with Mr Bell 22 Aug. 1939, Shell The Hague, SIPM, 190A, 91.

[281] Allen and Donnithorne, *Western Enterprise*, 37-39.

[282] Ibid. 44-45.

[283] Chang, 'British Business in Hankow', 21-24.

[284] From 1987 until 1910 one of the Arnhold directors was non-executive member of the STT board of directors: Jacob Arnhold 1897-1900, Philipp Arnhold 1900-1905 and 1906-1910, Harry E. Arnhold 1905-1906. It is possible that Philipp resigned already before his death in 1910.

[285] Cochran, 'Commercial Penetration', 159.

[286] Chu-Yuan Cheng, 'The United States Petroleum Trade with China, 1876-1949' in: E.R. May and J.K. Fairbank, *America's China Trade in Historical Perspective: The Chinese and American Performance* (Cambridge MA 1986), 215.

1930s other Western firms followed their example, but none achieved the same geographical spreading or financial proportions.[287]

Shell used not only the Yangzi and China's other navigable rivers, it also embraced the recently built railways to reach regional wholesalers directly. The reason Shell was so keen to initiate this new policy in 1907-1908, very shortly after the acquisition of STT's interests by Royal Dutch, was that via STT the firm owned newly developed oilfields in Dutch Borneo. Before 1907 Royal Dutch had exported its 'Crown' brand kerosene from Sumatra to China, and STT had brought to China kerosene purchased in Russia and—only recently—its own Borneo kerosene which was called 'Cross'. In 1907 the sales of Russian oil in China were terminated, because by then Shell owned both Sumatra Crown oil and Borneo Cross oil and had sufficient self-produced oil for the Chinese market. The problem was that Borneo oil was not particularly suited to kerosene production; after refining at Balikpapan it was impossible to prevent discolouring of the product without spending an inordinate amount of money.[288] Sumatran oil on the other hand yielded a reasonably good type of kerosene which did not require much processing. Consequently in China the quality of Cross was regarded as below that of Crown, even though Crown was cheaper to produce than Cross. But Crown itself was of lower quality than Standard Oil's product, which was called 'Devoes'. Selling both Cross and Crown on the same market would hardly affect the position of Devoes. It would only affect the position of Crown that had been carefully been built since 1894. And so it was decided to market Cross in the interior of China as a cheap, low quality kerosene, and Crown would continue to be sold in the large coastal cities where it occupied a position that was second to Devoes but still good.[289] This policy created a completely new outlet for Borneo kerosene and a bypass around the mighty Chinese distributors in the treaty ports. The older and more fundamental problem of uncontrollable sales and the new problem of selling Borneo oil could then be solved.

It transpired that matters did not evolve entirely according to this plan: after a few years of high Borneo oil sales, especially in 1913-1915, imports from Borneo fell again and Shell had to find other ways to dispose of its Borneo oil. The quality of Cross was not good enough even for the up-country market, where new problems

[287] Other pioneers in up-country distribution following a few years behind BAT, Shell, and Standard Oil were Brunner Mond (later ICI) from 1914 and Taikoo Sugar (subsidiary of Butterfield & Swire, later Swire) from 1916. Possibly large German chemical producers such as BASF, Bayer, and Hoegst, were engaged in up-country distribution before 1914 (and again from 1925 as IG Farben). In collection networks the major firms following behind the German export firms were the International Export Company (subsidiary of the Union Cold Storage Company, later Union International) from 1907 and BAT (to collect tobacco for its factories) from 1915: Chang, 'British Business in Hankow', 81-92. In 1938 a manager of Stanvac told a Japanese businessman that its own and Shell's capital investments in China were about equal and that their investment was 'unquestionably larger than that of any other foreign interest whose field of operation embraces all China and [...] the only interest which might approach that figure is that of certain utilities whose field of operation is very circumscribed': Notes on Mr Ely (Shell Japan) and Mr Meyer's (Stanvac Japan) talk with Messrs Masayuki Tani and Shunkichi Nomura on 21 Nov. 1938 at the Tokyo Kaikan, PRO London, FO 371, 23499, F1498. In other words: the only foreign company in China that came close to the value of the oil interests was the American & Foreign Power Company, which controlled Shanghai's power and light facilities: Wilkins, 'American Multinational Enterprise', 282.

[288] R.J. Forbes and D.R. O'Beirne, *The Technical Development of the Royal Dutch/Shell, 1890-1940* (Leiden 1957), 343-354.

[289] Gerretson, *Royal Dutch* III, 195-196.

emerged when Standard Oil launched its own cheap up-country brand 'Eagle' to compete with Cross.[290] This was so successful that after a few years Shell decided to take Cross off the market and to use Crown to fight Eagle.[291] The Borneo oil problem was then addressed by mixing it with Sumatra oil under the Crown brand. Although this had a negative effect on the quality of Crown, the company found this acceptable as long as it hovered in the region of Eagle's quality. In the next few decades Crown oil became Shell's most widely sold brand in rural China. It was distributed both in tins and unpacked, the unpacked version being the cheapest and Shell's main weapon in its fight against locally made vegetable oils. Although the repositioning of the Crown brand brought two favourable developments—it created an outlet for low-grade Borneo kerosene and a relatively cheap alternative to vegetable lamp oils—it also exposed Shell to attacks from Standard Oil. The American firm now had its cheap Eagle to compete with Crown, and it could keep the price of its unchallenged Devoes high and make profits from it to finance a price war. Shell thought up a new strategy and neutralised this threat by positioning 'Dragon' kerosene in the Devoes price segment. Dragon was not a new product; it was a popular brand imported from Sumatra by the Sumatra Lankat Company, a subsidiary acquired by Shell in 1910. In addition, Shell introduced 'Fish', a new high quality brand, but Devoes was so well-known and valued so highly by the Chinese that neither Dragon nor Fish could ever attain the same level of popularity. In later years Shell never succeeded in selling a brand of lamp oil that was considered to be quite as good as Standard's Devoes by Chinese consumers.[292] Still, even though kerosene marketing in China did not quite work out according to the original plans of 1907-1908, Shell did reach its original goal: Borneo oil was sold cheaply in the interior in conjunction with Sumatra oil, and the original market position in the large cities was retained. Perhaps benefiting from Devoes' popularity, the more Shell expensive brands were increasingly sold also up-country during the 1920s. The power of the Chinese intermediary traders was largely eliminated and from about 1910 the Chinese market was successfully exploited as Shell's outlet for surplus kerosene.

The first up-country installations were established in 1907 along the large rivers and main railway lines.[293] But the real break with the established tradition of treaty port trade came in 1908, when all agency contracts with Arnhold, Meyer, and the other European treaty port merchants were cancelled. From then on Shell sold directly to local Chinese distributors, both in the treaty ports and up-country. In the years which followed Chinese agencies were established throughout China; at first in the larger trade centres, subsequently expanding into the countryside to include

[290] In other countries Eagle was named 'Petrolite'. It was made from cheap Kansas and Texas petroleum.

[291] Gerretson, *Royal Dutch* IV, 113.

[292] Eventually the pricing agreements with Standard Oil during the 1920 offered Shell another chance. Yet another high quality brand was launched, this one called 'Sycee'—Dragon and Fish now occupying a middle-position on the market, together with Standard Oil's competing Tiger and Nonpareil. It was agreed with Standard Oil that Devoes and Sycee would always be sold against the same price. But again the Devoes brand proved so strong that in practice dealers were forced to sell Sycee at a lower price.

[293] Interview with Mr Bell 22 Aug. 1939, Shell The Hague, SIPM, 190A historisch archief, 91 correspondentie China. Also 'Extracts from Mr Bunje's Report Dated 5.6.1939; Subject: Royal Dutch in the Far East', Shell The Hague, SIPM, 190A historisch archief, 91 correspondentie China. Also Gerretson, *Royal Dutch* III, 196.

smaller market towns as well. More tank depots were also built across the country. In 1913 two separate subsidiaries into which these assets were put were created by the APC.[294] The 'Asiatic Petroleum Company (North China) Ltd' was the larger of the two. It was responsible for Central, East, and North China, and Manchuria—its eight-storey main office building being located on the Bund, Shanghai, along with the NHM branch office and many other corporate offices. Its smaller sister organisation, the 'Asiatic Petroleum Company (South China) Ltd' was based in Hong Kong and managed sales in South and West China. The two head offices in Shanghai and Hong Kong comprised various departments: marketing, marine transport, engineering, accounting, and legal matters.[295] Smaller branch offices were opened in the major treaty ports.[296] In the years after 1913, although the system was gradually expanded, its organisation was not changed fundamentally. During the 1920s and first half of the 1930s the network was geographically at its widest—the APC had to retreat from Manchuria in 1935 as a result of the Japanese occupation.

Geographically the Chinese kerosene market was located largely in the eastern half of the country, where most of the people lived. The major sub-markets within China were North China (the provinces Shandong, Henan, Shanxi, and Zhili/Hebei), Manchuria (Fengtian/Liaoning, Jilin, Heilongjiang), South China (Guangdong, Guangxi, Fujian), and the Yangzi area. The latter was the largest in terms of population, and could be divided into the lower Yangzi area (Jiangsu, Zhejiang, Anhui), the middle Yangzi area (Jiangxi, Hubei, Hunan), and the upper Yangzi area (Sichuan). By 1927 the company had invested 3.5 million pounds (about ƒ42 million) in the Yangzi provinces, of which £2 million (ƒ24 million) went into buildings and installations.[297] Turnover in the same area amounted to at least Y13 million annually. According to data collected by the British legation, Shell's business was the largest British interest in the Yangzi area—the second largest British distribution firm along the Yangzi being BAT with an annual sales value of Y1.8 million.[298] While it is true that the more remote and sparsely populated parts of China did not elicit enormous sales promotions by Shell, only the provinces Gansu, Ningxia, and Tibet stayed completely outside its distribution system.[299]

The main regional distributing centres for petroleum in the 1920s were, in order of importance: Tianjin (for the North China market), Hankou (for the middle Yangzi), Zhenjiang (lower Yangzi), Qingdao (North China), Dalian (Manchuria),

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[294] According to Anderson a third subsidiary was created specifically for Yunnan province, named the Compagnie Asiatique des Petroles: Anderson, *Standard-Vacuum*, 218 n4. If this really was an organisation independent of the two British APCs, the reason must have been that Yunnan was regarded as part of the French sphere of influence. At the beginning of the century Yunnan was thought to be easily accessible from Indochina. However, relevant documents in Shell's archives made no mention of a French subsidiary for any part of China; it seems that after all the company decided to market in Yunnan from its Hong Kong base. In 1914 a Hong Kong subsidiary called Staff Buildings Ltd was created to own Shell's Chinese offices. Later subsidiaries were added to this subsidiary: 'APC (Staff Buildings Ltd) Soochow' for Suzhou, 'APC (Staff Buildings Ltd) Chinkiang' for Zhenjiang, etc.

[295] 'The Chinese Market for Petroleum', *The Petroleum World* (Jan. 1931), 5-8.

[296] In 1926 *The Oil and Gas Journal* reported that the size and strategy of the APC and New York Standard distributing in China were the same: Charles E. Kern, 'Chinese Buy Cupful but Burn Enourmous Quantity of Kerosene', ibid. (23 Sept. 1926), 156-157.

[297] Macdonogh (Shell London) to British Foreign Office 17 Jan. 1927, PRO, FO 371, 12431, F471.

[298] British Envoy Lampson Beijing to British Foreign Office 28 March 1927, PRO, FO 371.

[299] Osterhammel, *Britischer Imperialismus*, 144-150.

Shanghai (lower Yangzi), and Changsha (middle Yangzi). The secondary petroleum ports were Niuzhuang (Manchuria), Chongqing (upper Yangzi), Jiujiang (Kiukiang, middle Yangzi), Wuhu (lower Yangzi), Nanjing (lower Yangzi), Suzhou (Soochow, lower Yangzi), Hangzhou (Hangchow, lower Yangzi), Ningbo (Ningpo, lower Yangzi), Fuzhou (South China), Shantou (South China), and Guangzhou (South China).[300] Shell had tank installations in these places and also in other towns such as Wuzhou, Xiamen, Yantai, Haimen, Wenzhou, Yichang (Ichang), Gaoqiaosha, Xidu, Lingjiaqiao, Pukou, Bengbu, Dongzhou, Anqing, Nanchang, Shashi, Changde, and Weixian.[301] However, the country's primary distribution centre was Hong Kong, where all imported petroleum arrived in 9,000 ton tanker ships. Transhipped into smaller, 900 ton tankers it was then distributed to Shanghai and the other main ports along the coast and the lower Yangzi basin.[302] The tank installations in the treaty ports were regarded by customs as extra-territorial,[303] which meant that Shell could store large oil deposits in many places while not having to pay import duty until the moment of shipment to the distributing agents.

The following characteristics were typical of these treaty port installations. Such constructions were built near the harbour, on a plot of land leased by Shell in perpetuity. This was usually outside the city—and the foreign concession quarter if the city had one—as kerosene was considered too dangerous to be stored in a residential area. On the plot of land several large cylindrical storage tanks, warehouses, an office building, living quarters for the staff, a tin factory, a filling shed, a railway that connected to a main railway line, and a pipeline to the place where Shell tankers could be loaded or unloaded were built.[304] Often an identical Standard Oil installation was located next to Shell's. The installation was manned by a European manager and Chinese packers. From these installations, oil was transported—if possible—by train to 25 ton storage tanks along the main railway lines. The total tankage capacity in the Yangzi, including Shanghai, and Northern areas amounted to 384,000 tons by 1939.[305] Shell owned a large number of trucks and several ships which it used to transport petroleum; it even had its own wharfs in Shanghai. At the treaty port installations and the railway tanks the kerosene was put into tins, which were often packed per two in a wooden case. These cases were then transported by truck, boat, or whatever was available to the up-country agency depots. The company also launched an advertising campaign to boost up-country sales. Shell's major brand names were well-known, as was the APC's Chinese name Yaxiya (Ah Sai Ah). An important contribution to the advertising effort was made by the fact that empty oil tins were re-used by the Chinese for many different household and commercial purposes. These tins carried Shell's name and brand logo and could be found throughout the length and breath of China.

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[300] 'China as a Market for Oil', *The Petroleum Times* (13 Aug. 1927), 327-330.

[301] Furthermore in 'Zahkow', 'Kashing', and 'Tsingkiangpu' (old spelling).

[302] Interview with Mr Bell 22 Aug. 1939, Shell The Hague, SIPM, 190A historisch archief, 91 correspondentie China.

[303] Osterhammel, *Britischer Imperialismus*, 144-150.

[304] For instance see the map of Shell's Yichang installation in PRO London, FO 381, 24680, F2674.

[305] Shell Companies in Greater China, *Looking to the Long Term: The Story of Shell in China* (Beijing 1997), 16.

Shell's main office for Central and North China: the Asiatic Petroleum Building at No.1, the Bund, in Shanghai

To manage these storage, transport, and advertising activities, Shell opened offices in the major distributing centres. These offices were staffed with a European office manager, European and Chinese up-country inspectors, and Chinese interpreters and clerks.[306] The regional office managers reported to the main offices in Hong Kong (South China), Shanghai (Yangzi), Tianjin (North China), or Shenyang (Mukden, Manchuria). The Tianjin and Shenyang offices themselves also reported to Shanghai, while Shanghai and Hong Kong reported directly to the managing director responsible for Asian marketing in London. The European staff was usually British—in the early years also Dutch—and was entrusted with the very important task of maintaining relations with the Chinese employees, the Chinese agents in the same province or region, and the local Chinese authorities. The company had to rely on these men for local representation, and the men had to be able to negotiate with Chinese agents and officials directly. In the early twentieth century it was common practice for foreign firms in China to rely on compradores for undertaking all relations with Chinese parties, but Shell was anxious to avoid as many intermediates

[306] By 1934 there were twenty-four sub-branch offices (probably in Harbin, Niuzhuang, Dalian, Andong, Qingdao, Taiyuan, Zhengzhou, Nanjing, Zhenjiang, Wuhu, Jiujiang, Hankou, Chongqing, Changsha, Hangzhou, Suzhou, Ningbo, Xiamen, Fuzhou, Shantou, Guangzhou, Wuzhou, Qiongzhou, Zhangjiang), two intermediate branch offices (Tianjin and Shenyang) and two main offices (Hong Kong and Shanghai): Shell Companies in Greater China, *The Long Term,* 10-12.

as possible. Therefore it was of crucial importance that the European up-country managers and inspectors were highly reliable, which required in an elaborate recruitment policy to be worked out. Most large British firms in China did not pay similar close attention to recruiting and training until the late 1920s, and even Standard Oil was slower in introducing a rigorous personnel policy.[307]

When Shell first established up-country offices, it began recruiting and training British managers in Europe. The easier and cheaper method of recruiting Europeans in China, who were more experienced and familiar with local conditions, was avoided because it was thought that such locally-recruited staff would behave more autonomously and might be more difficult to enthuse with a corporate spirit. The European trainees joined the company after graduation, were trained in Hong Kong or Shanghai and then sent to an up-county office. There they would remain for several years, working as agency inspectors. Eventually they were moved to an office elsewhere in China, where they again did several years of up-country inspection work. Gradually they were promoted to be office manager of a small office, then of a larger office, eventually ending up in Hong Kong or Shanghai. The work was very demanding: long years in China, many of them spent in the smaller Chinese treaty ports where few other Westerns ever came, with little European furlough, and with very many lonely up-country inspection tours that could last for weeks and took them through difficult and sometimes dangerous terrain. But once these British employees had become branch office managers, responsible perhaps for an entire province, they had achieved a certain degree of autonomy. Although their activities were closely monitored by the main offices, they were given space to improve local sales through improving the agency organisation. An important effect of this combination between being part of a strict hierarchy and having great responsibilities was the tendency toward incessant expansion. Each manager tried to improve the sales results for his territory during the years he was assigned to one office, in order to obtain bonuses and to earn a higher rank in Shell's China organisation.[308] The total number of Shell employees in China was six to seven thousand.[309] The large-scale building of tank installations and the long-term career paths of the up-country managers indicate that from the beginning of its up-country operations, Shell intended to stay in China for much longer than just a few years.

Shell's directly owned distribution organisation—its office staff and distribution facilities—functioned as a tool for controlling the Chinese agents, who in turn

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[307] About the British firms see Bickers, *Britain in China*, 173-182. According to Gerretson the Standard Oil training course for China was modelled on Shell's programme: Gerretson, *Royal Dutch* IV, 110. Like the concept of up-country distribution itself, Shell may have learned how to create a dependable organisation from Arnhold or other German agents. As late-comers, in order to create a competitive advantage, the German firms had their staff learn Chinese in order to be less dependent of compradore services. This probably resulted in special training programmes for German up-country personnel. It did not take Standard Oil not long to create its own high-standard recruiting and training programme: 'They [Standard Oil] established schools in New York to train carefully screened personnel. Indeed, Standard Oil's selection process was far more rigorous than that of the US Foreign Service': Cheng, 'Petroleum Trade', 215. For a very informative account of the career of the Western up-country manager see A.T. Hobart's novel *Oil for the Lamps of China* (7th ed; Indianapolis 1934). Although fiction and modelled on the Standard Oil Company of New York, the story perfectly matches the archival information available on Shell. The book also gives a very interesting insight into the agency system.

[308] Gerretson, *Royal Dutch* IV, 111.

[309] Shell Companies in Greater China, *The Long Term,* 12.

supplied local shopkeepers or sold directly to the consumers. Most Chinese consumers bought only a tiny quantity of lamp oil at one time in order to save money. To obtain a large sales volume, it was vital to make kerosene available in the small shops near the consumers' homes and to re-supply these frequently. Shell depended on the Chinese agents to sell oil to as many local retailers as possible, and to establish the optimal flow of supplies. In 1921 Shell Director R. Waley Cohen explained to the British Foreign Office how important the relations with the Chinese agents were:

> 'You may no doubt be aware that we possess in China a very extensive organisation for the distribution of petroleum products throughout the country. This organisation has been built up over some 35 years, and has enabled our European representatives to establish with important Chinese merchants in the interior of the country closer relations than has been usual with foreign firms trading in China. It has been our practise to encourage a considerable esprit de corps among the very large body of Chinese merchants and agents through whom we trade, and there is considerable inter-communication between them. They are men of high standing in the localities [...] there is no firm in China, other than [Standard Oil] which has this extensive organisation throughout the Interior of China, which is constantly being visited by educated Englishmen [...].'[310]

During its pre-1942 history in China, Shell always worked with agents. At first there were the European agents, mainly Arnhold and Meyer, and after their contracts were terminated in 1908 there were two types of Chinese agents with whom Shell dealt. In the first place there were the treaty port agents, who supplied retailers in and around the main cities. These merchants were organised into powerful dealer groups or *bang*. The foreign oil companies were unable to circumvent these dealer groups, and they could not easily control them. For instance in the 1920s in Fuzhou there were 200 kerosene dealers, of whom forty formed a group that traded only Shell products. There were also a Standard Oil group of forty and a group of twenty dealers connected to the Texas Company, which since the 1910s was the third-largest foreign oil company in China. The members of the Shell group obtained Shell kerosene below the normal price. The company could not dictate the selling price of the dealers, as the three main dealer groups made price agreements among themselves.[311] Faced with this situation, the foreign firms were forced to make agreements among themselves to counterbalance the power of the dealer groups. Because distribution in the major cities was well-organised and difficult for the oil companies to control, they directed their attention mainly to the smaller towns and the countryside. From the 1920s electrification slowed down the growth of urban kerosene consumption. Yet still in that era by far the largest part of the population lived in the countryside. There per capita kerosene consumption was low so that a great potential for expansion still existed.

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[310] R. Waley Cohen (APC London) to FO, PRO London, FO 371, F3587/63/23. The thirty-five years mentioned by him are an exaggeration.

[311] Chi Lung-Sing, 'The Chinese Oil Trade on the Foochow Market', *The Petroleum Times* (5 Nov. 1927), 885-886.

Therefore the second group of agents, the up-country agents, were considered by Shell to be the more important group.[312] There were three kinds of up-country agents: main agents, sub-agents, and third-party dealers. Each province was divided into agency districts, each agency district contained one main agency, perhaps also one or more sub-agencies, and several third-party dealers. The main agent always owned a large trading firm. The main agencies were located in the largest commercial centre in the agency district. Sometimes they were owned jointly by several merchants. Agencies in several towns could also be owned by a single firm. The main agent did not usually manage the agency by on his own, and his agency business often came second to his other trading activities. Petroleum distribution was simply incorporated into his existing distribution network for consumer goods. Such an example of a Shell agency being part of a far greater business empire could be found in Shanxi, where the prominent businessman Kong Xiangxi (H.H. Kong) was agent for part of the province. Kong's oil agency was one of his earlier business interests, but even as China's finance minister in the 1930s he continued to be an agent for Shell.[313] The location of a main agency was usually comprised of an office plus a warehouse, managed by a staff of various persons, including an agency manager, an assistant agency manager, an accountant, a statement compiler, a warehouse keeper, and several travelling representatives. The task of the agency was to distribute oil to the retailers in its district. In order to reach villages further away from the main agency town, sub-agencies and third-party dealers were used. The sub-agencies were owned by the main agencies, and the third-party dealers functioned as the main agents' agents. However, the third-party dealers were also under contract to Shell and were as such not substantially different from the main agencies and sub-agencies. Typically the third-party dealers ran a 'grocery and sundry goods business' or were involved in a similar trade in basic consumer goods. They supplied not only the shops in their own village but also in the surrounding market villages. An important part of Shell's sales results depended on the efforts of these agents to establish business relations with local retailers.

Unfortunately no detailed data on the up-country organisation—such as the agents' names and the number and location of the agencies for all China—have been preserved by Shell.[314] A general impression of the geographical reach of Shell's organisation can be obtained from data available on West Zhejiang (lower Yangzi) and Guangxi (Kwangsi, South China). The data on Zhejiang province is based on a surviving collection of reports from the Shell office in Hangzhou.[315] In the late 1920s the western half of Zhejiang consisted of twelve agency districts, the main agencies being those in Hangzhou, Jiaxing, and Shaoxing. The others were along the River Fuchun.[316] Apart from the main agencies there were eleven sub-agencies and sixty-nine third-party dealers spread over these twelve agency districts. The data on

[312] An important source for this section on up-country agents are the reports by Shell up-country manager E.G. Masters for Shandong and Zhejiang in the 1920s, kept at Shell London. Fragmented data in other Shell archives suggest that these reports are fully representative of the entire up-country system during the 1920s and 1930s.

[313] Memorandum by J. Hansard, PRO London, FO 371, 23441, F4407.

[314] According to both the Royal Dutch Petroleum Company in The Hague and STT in London.

[315] Based on the annual trade report for Hangzhou area 1927 and an up-country inspector's diary for 27 Feb.-4 March 1930: Masters papers, Shell London.

[316] These districts were supplied from an installation at 'Zahkou' (old spelling).

Guangxi province in the mid-1930s was compiled by the acting Dutch consul-general for Hong Kong, F.A. van Woerden, when he visited it in June of 1937.[317] Shell's Wuzhou office supervised the 29 agencies that together covered the entire province; the number of sub-agencies and third-party dealers was not mentioned by Van Woerden. If West Zhejiang and Guangxi were representative of the other provinces, then a plausible estimate would be that the interior of each province consisted of some twenty to thirty main agencies and some 100-200 sub-agencies and third-party dealers. The number of retail shops that sold Shell products—the final link between the company and the Chinese consumer—is untraceable.

It was not its maintenance of storage tanks, the operating of river and coastal ships, or the sales to the large urban dealers, but its close relationship with the agents in the interior which gave Shell an active role in the internal distribution system in China. This relationship was extremely important: because the company had to leave the supplying of shops to its agents, it could not come into direct contact with the consumers. The only thing Shell could do to influence trade at the retail level was to select energetic and trustworthy agents and keep these under its thumb as much as possible, hoping that they would represent the company in a satisfactory manner. There were two main components of this relationship between company and agent.

The first one was the up-country inspection tour. To make sure that they maintained the selling prices set by the company and that they did not trade in the competitors' products, the main agents were visited at least twice a month by a company inspector, who usually lodged in the same town for several days.[318] The sub-agents and third-party dealers were visited less frequently by Shell, but representatives from the main agency made frequent visits to them instead. When a Shell inspector visited an agency, he instructed the agency manager about the price and sales policy to be followed. Shell gave the exact price limits for the whole agency district; the limits were usually adjusted every one or two months in response to fluctuations in demand or competition. The inspector also counted the remaining stock and inspected the books; the company had the right to do the same with third-party dealers. He also took the opportunity to collect the agency's sales revenue, and supplied it with advertising materials. Besides the agency itself he visited the local shops where kerosene was sold to interview the shopkeepers and to see how much they had in stock of each brand, and what their selling prices were. After each agency visit, the inspector made up a very detailed report, which included not only sales and stock information, but also assessments of the agency staff and the agency owner plus data about local retailers, large consumers such as bus companies and manufacturing firms, the local Standard Oil agency, and economic and political developments. Van Woerden, the Dutch consular official who visited Wuzhou, was struck by the fact that the Shell office manager was very well informed about the province under his supervision. He noted that the manager's source of information were reports sent to him by his agents and which covered all local economic and political developments. Copies of these reports were not only sent to the Shell South

[317] Report by Dutch Acting Consul-General Van Woerden (Hong Kong) 1 July 1937, Shell The Hague, management 15, directie BPM, China: politieke en economische toestand 1931-1938.

[318] Notes of interview by Mr Polman with Mr Bell 22 Aug. 1939, Shell The Hague, SIPM, 190A historisch archief, 91 correspondentie China. Also extract from 'Kerosene Trade', *The Petroleum Review* (17 July 1915) 58, Shell The Hague, SIPM, 190A, 93.

China office in Hong Kong, but also—Van Woerden remarked somewhat jealously—to the British consulate-general in Guangzhou.[319] Probably he was referring to the sections in the inspectors' reports that dealt with local political developments. Because of his findings, the Dutch Ministry of Foreign Affair made an arrangement with Shell by which the Dutch consulate-general in Hong Kong would also obtain copies of Shell reports.[320]

The second main component of the relationship between the company and the agent was their financial interdependence. An understanding of this topic is crucial to the assessment of Shell's involvement in China. When a new agent was recruited by Shell, he gave the company cash or other guarantee deposits in order to receive a supply of petroleum. In return, Shell sent to the agent about a month's supply of kerosene and other petroleum products. Every four weeks the agent had to transmit to Shell his sales revenue, minus his 8 per cent sales commission.[321] Whenever necessary, Shell sent new supplies to replace the sold ones.[322] At no point did the oil become the property of the agent. Although the agent owned and managed the agency, the oil remained the property of Shell until it was bought by a retailer or a consumer. As a consequence, the company and the agent were mutually dependent. The company entrusted not just its products to the agent, but he was also responsible for its reputation. Established brand names could be severely damaged by an agent's disregard of quality requirements.[323] More importantly the agent should follow Shell's pricing instructions in order to establish the desired balance between turnover and profit. This balance was crucial to Shell's success in China: the price had to be low enough to make kerosene affordable to a desired number of consumers, and high enough to recover at least the distributing costs. The agent depended on Shell for a

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[319] Report by Dutch Acting Consul-general Van Woerden (Hong Kong) 1 July 1937, Shell The Hague, management 15, directie BPM, China: politieke en economische toestand 1931-1938.

[320] Van Woerden asked his superiors for permission to appoint the Shell manager at Wuzhou, E. Jones, a honorary consul for the Netherlands. As such Jones could also be asked to send copies of his agency reports to Van Woerden. Neither the Dutch Ministry of Foreign Affairs nor Shell objected—in fact, the Dutch 'Taihoku' (old spelling) consulate was occupied by a British Shell manager (or agent; in a limited number of places Shell still employed foreign merchants as local agent). Shell did reserve the right to move Jones from Wuzhou to another Shell office. When the Dutch government inquired whether it was possible for the company to station Dutch managers in China—there were none in 1937—who could act as honorary consul, Shell decided to send at least one Dutch trainee to Hong Kong to be prepared for up-country duty. Furthermore, Van Woerden was given permission by Shell to see up-country reports—the Hong Kong manager was to decide which: Dutch Acting Consul-general F.A. van Woerden (Hong Kong) to Dutch Minister to China G.W. Baron de Vos van Steenwijk (Beijing/Beiping) 7 Aug. 1937, Shell The Hague, legal 65, China; internal note Shell London 16 Aug. 1937, Shell The Hague, legal, 65 China; F. Godber (Shell London) to J. de Kok (Shell The Hague) 20 Aug. 1937, Shell The Hague, management, 15 directie BPM, China: politieke en economische toestand 1931-1938; Oppenheim (Shell The Hague) to Dutch Ministry of Foreign Affairs 29 Dec. 1937, Shell The Hague, legal 65, China. This shows that Shell was very willing to maintain good relations with the Dutch government. Indeed, this is how Director F. Godber motivated the sending of a Dutch trainee in a letter to the Hong Kong manager: 'The [Dutch] Government is most responsive in giving all possible assistance in our various difficulties, and it is not very often that we can reciprocate by assisting them': 30 Aug. 1937, ibid.

[321] `Onderhoud met Mr Bell op 22 aug. 1939', Shell The Hague, SIPM, 190A, 91. According to Cheng only 0.1 to 0.2 per cent: Cheng, 'Petroleum Trade', 219.

[322] Interview with Mr Bell 22 Aug. 1939, Shell The Hague, SIPM, 190A historisch archief, 91 correspondentie China.

[323] A notorious problem was that kerosene dealers added cheap oil to expensive brands to increase their profits.

reliable line of supply, a constant quality of the oil, brand support through advertising, and also to keep the market stable. This was possible only if Shell co-operated with Standard Oil and the Texas Company in preventing the establishment of new oil agencies in his territory. The mutual dependence of agent and company arrangement constituted the foundation for Shell's up-country activity in China.

Creating a nation-wide network of agency relations was not cheap. Petroleum was stored at a great number of agency depots. The sales proceeds were remitted only after four weeks. As a result, the initial investments which had to be made by Shell were extremely high, and a sizeable amount of company property remained constantly in agency hands. In assessing the extent of risk involved for Shell, the value of the agency deposit is an important issue: was the value of Shell's agency stock more or less than the value of the deposits given to Shell by the agents? According to various sources, the standard requirement for the agents was to deposit between Y10,000 and Y30,000 in cash.[324] At first sight this seems to have been more that the value of the stock, as the agency claims for looted up-country depots submitted by Shell to the Chinese and Japanese governments suggest that the stock value was usually several thousand yuan, but rarely more than Y10,000. However, there is evidence which suggests that in practice only part of the deposits were in cash.

In February 1927, a message was sent to London by the Hong Kong office: the political situation was uncertain and the South China management reminded the head office that some one million yuan in stock and remittances were in the hands of agencies in troubled southern districts. The fact that this report warned against creating a situation in which this money could no longer be collected indicates that the guarantee submitted by the same agencies did not cover the entire sum.[325] Another company report was more explicit about the value of stock and guarantees. In 1927 Sichuan province was also the theatre of severe political unrest. The Chongqing office informed the Shanghai office that at no Sichuan agency were the cash deposits enough to cover the value of the stock. The agency deposits consisted partly of cash, and partly of guarantee bonds and title deeds: 'We cannot hope to raise cash securities to cover more than a maximum of 25 per cent of the total value of stocks at any but those agencies that can be supplied within a few days from Chungking [Chongqing] and furthermore it would not be economical either for the Company or for the agents to put up such heavy cash securities as would be required to cover the entire value of their stocks.'[326] And the non-cash remainder of the deposit was not regarded by Shell as a full guarantee: 'Guarantee bonds and title deeds cannot be regarded as satisfactory security in instances where they are deposited by agents [since] they merely serve as a deterrent against defaulting without providing us with a definitely realisable asset.' At more normal times this practice may not have caused many problems, but in 1927 the Nationalist army invaded Sichuan and the resulting insecurity worried the company: 'The position at

[324] Cheng, 'Petroleum Trade', 219; Osterhammel, *Britischer Imperialismus*, 145.

[325] Shell Hong Kong to Shell London 8 Feb. 1927, PRO London, FO 371, 12473, F1377. This situation could arise were Shell Hong Kong to stop sending new supplies into the interior. See also the reply of the following day, ibid. which says: 'We never intended you should stop deliveries as naturally this would prevent all collection of outstandings.' This letter explains that it is better to risk losing stock through looting and warfare, than to be unable to collect agency remittances.

[326] Shell Chongqing to Shell Shanghai date unknown, ibid. 12417, F1937.

present is that any agent could repudiate his indebtedness to the Company at any time leaving us with the cash security only to be set off against the debit.' Taking an agent to court to force him to pay was usually not effective in a country where vital state organs were either absent or did not function.[327]

The foregoing suggests that regardless of the official guarantee requirement, in practice the up-country agency stock in many parts of the country were covered only to a limited extent—a quarter or less—by cash deposits. The remainder of the value of the stock was covered by title deeds and guarantee bonds that were mostly useless to Shell if the stock and the sales remittances were lost. These guarantees were helpful in ensuring the agent's loyalty, but were no remedy once the connection between company and agent had been severed. In this sense the risk involved in the kerosene trade was carried not only by the agent but also by the oil company itself. In parts of the country where political instability threatened agency stocks, it was a difficult decision for the company to limit its risks by cutting off further supplies because then the agents involved might respond by retaining their sales revenue and their remaining stock. Withdrawing for a period of several months or longer would severely damage a relationship with local agents that was built on trust and often on many years of close co-operation. Therefore, the agency relations made it difficult for Shell to withdraw from China once it had established itself in the interior.

Shell's agency policy was greatly facilitated by the fact that it co-operated closely with Standard Oil and the Texas Company, the other two main importers of petroleum into the interior. In particular its relationship with the Standard Oil Company was of great importance to Shell's up-country position. Between 1906 and 1941, the carrier of the name Standard Oil Company in China was not always the same corporation. In 1911 the US supreme court ruled that the original Standard Oil Company, which was created in the second half of the nineteenth century, obstructed competition and that it had to divest itself of a large part of its assets, inclusing all its Chinese interests. These were owned by the Standard Oil Company of New York (SOCONY or New York Standard),[328] the largest of the newly independent Standard Oil subsidiaries but still much smaller than its ex-parent. The former parent firm now operated under the name of Standard Oil Company of New Jersey (SOCONJ or New Jersey Standard).[329] Formally New Jersey Standard was no longer involved in the Chinese market, but during the first decade after the formal dissolution of Standard Oil, its relations with New York Standard remained very close.[330] During the 1920s, the two became more independent of one another, but during the 1930s they decided on a partial merger: a new joint venture called the Standard-Vacuum Oil Company (SVOC or Stanvac) was created to manage all Asian production and marketing interests of New Jersey Standard and New York Standard. This study uses the name

[327] An example of the conditions in which such court cases sometimes took place was given by a British consular official in a court case in Chengdu in 1930. On 29 July of that year the high court of Chengdu decided that Shell's local agent owed the company Y76 thousand; within an hour of giving the verdict, the judge fled the city as to be out of the reach of a local general. Ibid. 15453, F134. Of Y2,453,970 claimed by Shell from Chinese agents between 1927 and 1933 in thirty-three cases, Y933,800 was awarded but only Y131,400 could be recovered by the company: Osterhammel, 'Imperialism in Transition', 272.

[328] The Standard Oil Company of New York later became the Socony-Vacuum Oil Company, still later Mobil, and was finally re-integrated into Standard Oil of New Jersey (Exxon).

[329] Later renamed to Esso, Exxon, and Exxon-Mobil

[330] For instance, they shared the same head office building in New York.

'Standard Oil' for the entire 1906-1941 period, a choice which the in Chinese setting indicates either the original Standard Oil group (until 1911), New York Standard (1911-1933), or New York and New Jersey Standard together (1933-1941). This use of the name Standard Oil runs parallel to its general use in China before 1942.

The relationship between Shell and Standard Oil was characterised by close co-operation and a joint domination of the petroleum market. Strong competition between Shell and Standard Oil infused Shell's drive into the interior, an initiative which was immediately followed by Standard Oil. However, the very process of establishing up-country distribution largely ended competition between the two. Temporary market agreements had occasionally existed between the two companies, but always ended in price wars. The most ferocious—but also the last—price war occurred in 1910, when for the first time the two companies had their up-country assets operational. The combination of low prices and up-country distribution produced a strong increase in kerosene consumption. The price war forced smaller competitors out of business, but did not establish either Standard Oil or Shell as the stronger party. At the same time, the two rivals learned that the up-country market was open only to companies with their own distributing operations. These could be maintained only through dependable agency relations, which also had to be cheap in order to keep oil prices low. Only by making mutual agreements about the credit and commission terms they offered their agents could the two oil companies prevent the agents from bargaining for better terms. Therefore, Shell and Standard Oil reached the conclusion that they had access to a great new reservoir of kerosene consumers, but only if they co-operated with each other on agency matters.[331] This co-operation was then extended to the exchange of pricing data and sharing arrangements for large contracts.[332] During the 1920s, when political turbulence threatened to their up-country interests, Shell and Standard Oil made a habit of consulting each other before making any policy decisions, which usually resulted in identical measures.

Close co-operation did not mean a complete absence of competition. Throughout the period 1910-1941, the two petroleum companies continued to compete for local market shares by encouraging their agents to sell more than the agents of the other party. This led to constant fluctuations in market share per agency district, while the overall market share remained very stable. Developments outside China were of greater importance to relations between Shell and Standard Oil inside China than was this mild form of local-level competition. To a large extent the two firms succeeded in keeping other major Western oil companies outside China before attempts were made by newcomers to enter even the most accessible treaty port. This was done through mutually beneficial agreements being concluded between the large companies for dividing certain markets in various parts of the world among

[331] Gerretson, *Royal Dutch* IV, 108.

[332] For instance, in the first half of the 1920s Shell and Standard Oil had an agreement about how to divide kerosene contracts to all Chinese railways, except the South Manchurian Railway, among themselves. And even before this agreement existed, the two took turns to obtain railway supply contracts by underbidding each other, and subsequently offering half of the contract to the other. At the latest by the early 1920s Shell and Standard Oil were making detailed agreements with each other, including about freight allowances and the terms of their agency contracts.

themselves.[333] However, this approach was not always successful. During the First World War, the Texas Company opened offices in the treaty ports and subsequently also built tank installations and even entered up-country selling.[334] Standard Oil and Shell tolerated the entrance of this firm for reasons unknown, but after the Texas Company no other up-country organisations were created. The Texas Company remained much smaller than the two other firms; it operated fewer agencies and extended only to the larger towns. The arrangements of limited competition and general co-operation made between Shell and Standard Oil were also extended to include the operations of the Texas Company.

In 1933 a cartel that was linked to the division of other petroleum markets in the world was formally created for China. The leading Western oil companies agreed that the Chinese market for petroleum products would remain the preserve of Shell, Standard Oil, and the Texas Company and that the existing market shares would continue unaltered. This was referred to as the 'as is' agreement: '[...] under "as is" there is a great measure of freedom to all parties, the only thing which is really called for is co-operation against a common enemy, and respect of each other's trading position.'[335] This was no different from the practice that had prevailed in China for many years, but the important new element was that these rules applied to all large oil companies everywhere in the world. The Chinese market was sealed off from powerful rivals.[336] When New York Standard decided to join forces in the Far East with New Jersey Standard in 1933, and when the Texas Company did the same with Standard Oil Company of California (SOCAL) in 1936, this did not affect Shell's position.[337] In return for co-operation elsewhere, New York Standard and the Texas Company offered half of their Chinese interests to their respective partners, but Shell's market share remained untouched.[338]

[333] The major Western oil companies of this period being primarily New Jersey Standard and Shell, followed by New York Standard, Socal (Standard Oil Co. of Calofornia or California Standard), the Texas Company, Gulf, and the Anglo-Persian Oil Company.

[334] The Texas Company later became Texaco, and was eventually acquired by SOCAL (Chevron).

[335] A. Agnew (Shell London) to De Kok (Shell The Hague) 13 Jan. 1936, Shell The Hague, legal 7, China. The 'as is' agreement had been existing informally since 1928.

[336] In April 1928 the Anglo-Persian Oil Company made preparations for entering oil distribution in China. A representative, E.C. Russell, visited Beijing and Shanghai. There he spoke with British diplomats, informing them that his firm contemplated the establishment of a Hong Kong subsidiary which would be owned jointly with Chinese distribution companies, which would market Anglo-Persian oil throughout the country. Russell believed that opposition from Shell could be eliminated through some sort of agreement. His main worry during these meetings with British officials was related to British government support: apparently he believed that such support was essential to his company's successful entry onto the Chinese market. A possible problem in this respect was that Anglo-Persian was 51 per cent-owned by the British state, and British support in local disputes with other firms might lead to accusations of favouring state interests. Furthermore, as the planned distribution subsidiary would be half-owned by Chinese, the British government would give its support only if the subsidiary was legally British, and if the British financial interest in this firm were 'strong enough'. It was probably because of the 'as is', or Achnacarry, agreement of September 1928 with Shell and Standard Oil Company of New Jersey, that Anglo-Persian ceased its preparations to enter the Chinese market. British Minister M. Lampson (Beijing) to British Foreign Office 27 Apr. 1928, PRO London, FO 371, 13233, F2937; British commercial secretary (Shanghai) to British Minister (Beijing) 18 May 1928, ibid. F3576.

[337] SOCAL later became Chevron.

[338] The organisational situation in China remained the same. New York Standard transferred ownership of its Chinese assets to Stanvac, which was owned half by New York Standard and half by New Jersey

The monopoly of Shell and Standard Oil and their junior partner the Texas Company was never complete. A basic cause was the fact that treaty port merchants always continued to import kerosene and other petroleum products, and to sell these on to Chinese distributors. After all, the treaty ports represented the Open Door and were accessible to exporters anywhere in the world, and the cartel of the 'oil majors' could not control all of the world's oil flows. Chinese distributors who brought imported oil from the treaty ports to the regional wholesalers also continued to operate. But such distributors had great difficulty in keeping their prices down. Shell and Standard Oil had eliminated the intermediate traders, which enabled them to keep their selling prices very low. To compensate for this the Chinese distributors had to limit their operations to regions that were easy and cheap to reach. The largest challenge from a Chinese distributor came from the Guanghua Gongsi (Kwanghwa Company) during the first half of the 1930s. This firm purchased its kerosene from the USSR through the Soviet Neft syndicate. Although the Guanghua/Neft partnership made large investments in distribution equipment and caused the severest price war since 1910, eventually they were driven from the market.[339] In the mid-1930s Guanghua sold its stock and equipment to Shell.[340]

Thanks to its up-country distribution system, Shell gained access to China's gigantic rural market. Through its agreements with Standard Oil and the Texas Company, Shell sealed off this market to potential newcomers, but one important element of competition continued to exist, namely that between kerosene and bean oil. Although Shell kerosene was widely available and the consumers' choice of kerosene was limited to only a few brands, there was little the oil company could do to prevent people from buying bean oil. This was the traditional fuel for oil lamps in China, and because it was produced locally by simple methods it was very cheap. Oil made from soya beans was especially widely used. Soya beans were extensively cultivated in Manchuria, Shandong, and Jiangsu. Apart from these, peanuts were also often used to extract lamp oil from. The lamp oil trade was lively only in winter, when there was little sunlight. China's domestic trade in vegetable oils was well-established, making bean oil widely available and cheap. A side-activity of the kerosene business was the trade in candles and paraffin wax. Like lamp oil, candles could be made from both vegetable and mineral oil, and again the mineral oil variant generally was more expensive and of better quality. Shell exported its Borneo paraffin wax to China where it was partly processed into candles in Shell's Shanghai candle factory, and partly sold to Chinese candle and match factories.[341] Candles were used everywhere in China, and were distributed by Shell through its kerosene agency network. Important though they were, candles were less popular and traded on a smaller scale than lamp oil, and always remained a secondary petroleum

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Standard. The Texas Company transferred ownership of the Texas Company (China) to Caltex, its new joint venture for Asian interests with SOCAL.

339 Osterhammel, *Britischer Imperialismus*, 151-154.

340 British acting commercial secretary (Hong Kong) to British Ambassador Sir A. Cadogan (Beijing/Beiping) 20 Mar. 1936, PRO London, FO 371, 20239, F3438.

341 Paraffin wax occupied a similar place to kerosene in Shell's China strategy: both were originally by-products that were less easy to dispose of than the main product petrol, and both came partly from Borneo. An important difference was that paraffin wax still had to be processed into candles when it arrived in China before it was marketable as a consumer product. Therefore Shell could sell it as a raw material to rivalling candle companies.

product. The kerosene market was the main market, and the consumers' choice between kerosene and bean oil was the main determinant for the size of the kerosene market in China.

Generally speaking, kerosene was more expensive than bean oil, but its burning qualities were also much higher: less smoke, more light, and more stable and reliable. This meant that for many Chinese customers kerosene was a luxury product, not a basic necessity.[342] Still, early on Shell and Standard Oil found out that a substantial part of the up-country consumers was prepared to pay more in order to obtain kerosene. Sales figures rose sharply after 1910, and the fact that still so many Chinese were using vegetable lamp oil meant that there was a potential for sustained sales expansion for many years into the future. Essential to Shell was whether it could market all of its surplus kerosene from Borneo and Sumatra, not how many Chinese still used bean oil. According to F.C. Gerretson, who was once the board secretary of Royal Dutch and later wrote the company's history,[343] 'it can safely be said that the crucial problem in the Chinese market after the Amalgamation [of Royal Dutch and STT] was the uncertainty of supplies and not the inadequacy of the demand, as was the case before 1908'.[344] After 1909 China was able not just to absorb all of Shell's Southeast Asian kerosene, the company even shipped kerosene from its American refineries to China because production in the Netherlands Indies could not keep up with the Chinese demand. Kerosene now was one of China's top import products, cigarettes being the only other industrial product so widely available throughout the interior of China. Mineral lamp oil made up 4-6 per cent of all imports in China, and this remained so until the 1930s.[345]

In terms of size and growth potential the Chinese market was ideal. Unfortunately its stability left much to be desired, which made it difficult for Shell to plan the ideal balance between production and distribution. The bulk of the Chinese population was poor and unpredictable events had a very strong influence on purchasing power. Failed crops, droughts, floods, and warfare caused extreme regional poverty, as a result of which people were not inclined to buy expensive lamp oil—if they bought any lamp fuel at all. Unknown to Shell when it made its up-country investments, the 1920s and 1930s would bring an exceptionally large number of such disasters. An important reason why up-country kerosene sales during the 1920s did not collapse in many parts of the country was that while kerosene had become cheaper after 1908, prices of vegetable oils had risen strongly during the same time.[346] In Europe and the

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[342] Osterhammel, *Britischer Imperialismus*, 147.

[343] He was board secretary in 1920. Moreover, he was also professor of colonial history (Utrecht University, 1925-1954), and poet (under the pseudonym Geerten Gossaert): De Vries, *Herinneringen*, 1724.

[344] Gerretson, *Royal Dutch* IV, 110.

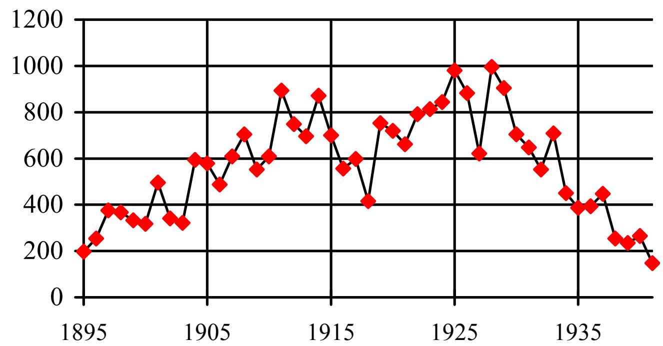
[345] Osterhammel, *Britischer Imperialismus*, 48.

[346] 'China as a Market for Oil', *The Petroleum Times* (13 Aug. 1927), 327-330. At the beginning of the century, the company actually thought about ways to influence the price of vegetable oil. Shell's idea was to co-operate with export companies. If tanker ships and trains could be properly cleaned after they had dropped off their kerosene at the tank installations, they might be filled with vegetable oil which they would then bring to Shanghai and Hong Kong, from where it could be transported abroad. That would create an outlet for vegetable oil in years of good harvests, so that the demand for kerosene would not be ruined at those times. 'But once again an otherwise excellent plan was foiled by the technical difficulty of cleaning the holds adequately—a snag which had always prevented the use of tankers for cargoes other than kerosene': Gerretson, *Royal Dutch* IV, 109-110.

US a very large demand for vegetable oils had been formed, for instance with industrial producers of chemicals, soap, and foods. China developed into an important exporter of vegetable oils, mainly bean oil and peanut oil. Moreover, within China itself the industrial demand for these products was increasing. This great demand for vegetable oil caused its price to soar, making it no longer notably cheaper than kerosene. Fluctuations in vegetable oil prices directly affected kerosene sales. Until the late 1920s these conditions kept the Chinese demand for kerosene high, albeit also very unstable.

The 1930s saw a rapid decrease in this demand. The main reason was that kerosene prices now went up, while bean oil became cheaper. From the late 1920s new standardised kerosene taxes were introduced to replace older irregular ones, possibly resulting in a price increase. Furthermore, China's import duties were raised for the first time since the nineteenth century. On top of this the value of silver—i.e., of Chinese currency—decreased.[347] These developments forced Shell to raise its selling prices. Then in the early 1930s the great depression came, affecting not only the purchasing ability of the Chinese population, but also causing vegetable oil prices to fall. A clear price difference now existed between mineral and vegetable lamp oil, and kerosene was too expensive for many rural consumers. The demand in the large coastal cities, the original and long-time stable bridgeheads of the foreign oil companies, was also diminishing as a result of the increasingly widespread use of electric lighting. Finally complications resulting from the Japanese occupation of large parts of China negatively affected kerosene marketing. Yet, these developments did not render China irrelevant as a kerosene market. As long as electricity was not available in the countryside, new growth opportunities would materialise as soon as the price differential between kerosene and bean oil lessened once again. Moreover, during the 1930s the high selling price caused the value of turnover to remain high.[348]

Imports of kerosene into China, 1895-1941 (horizontal: year; vertical: millions of litres).



[347] Osterhammel, *Britischer Imperialismus*, 323.

[348] For instance, in 1933 Shell stated to be selling more than £2 million worth of kerosene annually in China: British Petroleum Dept to British Foreign Office 1 Aug. 1933, PRO London, FO 371, 17126, F5140.

Source: Chu-Yuan Cheng, 'The United States Petroleum Trade with China, 1876-1949' in: E.R. May and J.K. Fairbank, America's China Trade in Historical Perspective: The Chinese and American Performance *(Cambridge MA 1986), 208-209*

Disappointing as the decrease in kerosene sales during the 1930s may have been for Shell, by this time the company's main interest in China was changing and kerosene selling was becoming less important. During the 1910s China primarily was a kerosene outlet that absorbed oil from the Netherlands Indies and that enabled Shell to maximise sales profits on petrol in the US and Europe. But two developments made this function of the Chinese market less important. Firstly, technological development made it increasingly possible to refine crude oil according to the demands of the market. Whereas in the past kerosene was a by-product of petrol production that Shell had to dispose of somehow, it was now possible to extract much more petrol from crude, which resulted in much fewer by-products such as kerosene. Secondly, by the mid-1920s China was showing a rapidly growing capacity to absorb petroleum products other than kerosene. In the West products such as fuel oil to power machinery, aviation spirit for aeroplanes and lubricating oils had already joined petrol in surpassing kerosene in importance. It seemed not unlikely that the same would happen in China within the next few decades. Motorised transport developed strongly,[349] as did industrialisation. Factories and power plants were built in many cities. In this respect the coming of electricity was favourable to Shell, because fuel oil was used in the electricity plants. Table IV shows how quickly the demand for these products was rising.

Table IV. Petroleum products imported into China, 1925 and 1935.

	1925 (millions of litres)	*1935 (millions of litres)*	*change*
kerosene	979	387	-/- 60%
petrol	33	155	+ 370%
lubricants	27	39	+ 44%
fuel oil	92	377	+ 310%

Source: Chu-yuan Cheng, 'The United States Petroleum Trade with China, 1876-1949' in: E.R. May and J.K. Fairbank, America's China Trade in Historical Perspective: The Chinese and American Performance *(Cambridge MA 1986), 208-209.*

China was now perceived by the oil companies as an important growth market for petrol and fuel oil. Some day the US and European markets would be saturated, and although they would remain the largest markets for a long time to come, expansion would have to be sought elsewhere. In 1936 petrol and fuel oil imports combined represented the same value as kerosene imports.[350] Capitalising on assets, Shell used its existing kerosene distribution system in China to market also the newer products. The agents were now no longer expected to devote their attention exclusively to local retailers. By the 1930s it was also their task to maintain relations with local bus companies and small factories for soap, candles, matches, vegetable oil, et cetera. In

[349] Between 1927 and 1936 the number of registered motorised vehicles in China rose from 19,000 to over 47,000: Osterhammel, *Britischer Imperialismus*, 149.

[350] Ibid. 146.

the larger cities some retailers were equipped with petrol filling pumps for motor cars. Finally, the many wars of the 1920s and 1930s gave a huge impetus to the military consumption of petroleum. This development forced the company to reinterpret its main interests in China. Despite such portents, for the time being China remained a potentially important market for kerosene, and the transition from kerosene distribution to distribution of other petroleum products could be achieved by introducing gradual changes. Therefore, during the 1930s, the main aim of Shell in China was still the expansion of controllable sales, no longer exclusively for kerosene but for the newer oil products.

From the beginning Shell was profitable and paid its shareholders dividends each year. The APC's financial figures for China for the period 1906-1928 do no longer exist.[351] The initial investments in tank installations and agency stock were undoubtedly huge, probably amounting to over ƒ60 million by the mid-1920s. There is a very good chance that because of these investments and the low kerosene prices, it was many years after 1908 before Shell's Chinese operations showed a profit. However, at the latest from the late 1920s until the Second World War, the APC was able to remit dividend from China to Europe each year. From 1929 onwards figures are indeed available and they show that from 1930 until the end of 1940 the average annual turnover of APC North China and APC South China together was £4.5 million (ƒ42 million against the average exchange rate for 1930-1940), and the total net profit for this period amounted to £576,881 (ƒ5.4 million). The total sum of dividends remitted to the mother company in London amounted to about the same figure (£579,625, ƒ5.4 million).[352] Until the beginning of the war in 1937 turnover and profits were relatively stable. Neither the economic depression nor the loss of the Manchurian market is obviously reflected in these figures. The loss of sales seems to have been compensated for by the rise in price of kerosene and petrol. The beginning of the war did lead to much lower profit figures for APC North China, but APC South China clearly found ways to compensate for lost selling opportunities: from 1938 its profits went up steeply. Both subsidiaries remained profitable, and the northern organisation even showed a slight recovery in 1939 and 1940.[353]

The main local interest of Shell initially was to sell all surplus kerosene from the Netherlands Indies and the Unites States. Achieving a maximum profit rate was less important than creating a reliable and stable outlet for this surplus kerosene. To achieve this aim the company invested a huge amount of time and money in building an up-country distribution system, from which it could not easily withdraw once it was in place–which was the case from the late 1910s. This was the strategy for the first two decades or so but in the 1930s the main local interest of the company changed. The primary function of the Chinese market was changing from being that of an outlet for surplus kerosene to being a major market for petrol, fuel oil, and lubricants—the main petroleum products of the 1930s. Because Shell used its

[351] Information provided by Royal Dutch Petroleum Company The Hague and STT London.

[352] In the period 1930-1934 Royal Dutch/Shell profits were approximately (1930) £7.7 million, (1931) £4.2 million, (1932) £4.3 million, (1933) £4.5 million, (1934) £6.3 million: Howarth, *Shell*, 159-160 (for STT profits, which constituted 40 per cent of Group profits).

[353] APC NC and APC SC accounts 1930-1940, Shell London, Group Archive, EA112 APC (NC) Ltd 1930-1940 and EA82 APC (SC) Ltd 1930-1953 respectively.

existing selling organisation to achieve this new aim, its presence in China remained largely the same as it had been during the 1910s and 1920s.

Political Risks and Response

1906-1916

Exploration Concessions under the Yuan Shikai Regime. In 1906 for the first time Royal Dutch and STT made direct investments in China. The earliest occasion when they perceived the threat of a major risk as a direct result of political change was in 1914.[354] In 1911-1912 the Qing dynasty made way for the new republic under President Yuan Shikai. The fighting between loyalist and revolutionary troops did not last long and soon trade picked up to continue as before. The problem was that Yuan's regime was even more unstable than the old imperial administration. The first president of China had a host of enemies and little money to consolidate his power. In order to increase its revenue, the Chinese government was now more prepared than before to enter into co-operative ventures with foreign companies. Shell was not interested in changing the basis on which it was building its up-country presence, but unfortunately for the company its rival Standard Oil was quite willing to exploit the fact that Yuan was desperate for money. In 1914 the American oil company and the Chinese government signed an agreement to commence oil exploration and eventually production in China.

In an earlier phase Royal Dutch and STT had already investigated possibilities for oil production in China. Oil seepages were known to exist mainly in two provinces, Sichuan and Shaanxi;[355] therefore the attention of the foreign oil companies was largely confined to these two territories. In 1904 the Asiatic Petroleum Company became the first major oil concern to search for oil in China when it obtained an exploration concession for Sichuan.[356] The company sent a small expedition that reported that for the time being Sichuan was too difficult to reach without incurring huge costs.[357] Consequently the project was terminated.[358] In 1914 and 1918 the company was again offered the opportunity to look for petroleum in Sichuan, but this it declined.[359] The main motive for not sending any further expeditions to that

[354] Both Royal Dutch and STT had already made indirect investments in China the 1890s, and as early as 1900 STT experienced political risks in China as a major problem. In 1900 Boxer and Chinese troops attacked the foreign concessions in Tianjin and damaged the site where STT was constructing a large tank installation. After the fighting the site was occupied by German soldiers who removed all the building materials. The destruction of its Tianjin installation was a major financial and strategic setback for STT. However, after 1901 there were no great political risks for either STT or Royal Dutch until the 1914 agreement between Yuan and Standard Oil.

[355] Cheng, 'Petroleum Trade', 229.

[356] Which is surprising because the APC was created exclusively for distribution, not production or exploration. It may well be that the concession was obtained through the Paris Rothschilds who were a partner in the APC, not in STT or Royal Dutch.

[357] The concession was actually owned by the Societé Française d'Explorations Minières (SFEM), but it sold it to the APC. The company set up the Compagnie Française des Mines de Setchuan. In 1906 the right was returned to the SFEM: 'China', Shell The Hague, SIPM, 190A, 92 and Gerretson *Royal Dutch* III, 193-194.

[358] 'China', Shell The Hague, SIPM, 190A historisch archief, 92.

[359] In February-March 1914 Shell was again offered a concession in Sichuan, this time by W. Pritchard Morgan of the Eastern Pioneer Company, but the oil company declined: Shell Director H.N. Benjamin (London) to W. Pritchard Morgan (London) 9 Mar. 1914 , Shell The Hague, EP 21, x009.1 347.258 China concessies. This Sichuan concession was obtained by W. Pritchard Morgan in 1899. He then leased his

province remained the underdeveloped state of communication links between Sichuan and the rest of China.[360]
In Shaanxi it was the Americans who obtained an exploration concession.[361] An agreement was signed with the government of President Yuan Shikai, on 10 February 1914, allowing Standard Oil to look for petroleum in Shaanxi. In return Standard Oil promised a share of the production profits to President Yuan, who inherited the problem from the Qing administration of hardly any revenue being available to the central government.[362] In the past when China granted railway concessions to foreigners, the money to finance the construction of railway was raised on foreign capital markets by foreign banks. The railway was then constructed by a foreign contractor. Only after China had repaid the bonds, were control and ownership of the railway handed over to China. But in 1914 Standard Oil did not need the involvement of a bank or the capital market. Should sufficient oil be found, then the company would finance a production company. In return for the concession and for protection, the Chinese government would be given 37.5 per cent of the shares in this company, with an option of buying another 7.5 per cent. The remaining shares would stay in Standard Oil's hands.[363] Data in the Shell archive indicates that Standard Oil advanced the Chinese government a sum of Y35 million—constituting probably the first Y35 million of dividends payable to the Chinese state by the planned production company.[364]

Soon a large-scale expedition, escorted by the Chinese military, was mounted by the American firm to survey Shaanxi province. Finding oil fields in China was important to the Americans. Just a few years before, in 1911, Standard Oil had divested itself of its export subsidiary New York Standard. As a result New York Standard was left with a giant distribution organisation, but without any equally large oil supplies. As STT had opened oil production in Borneo, Standard Oil now seemed close to doing the same in Shaanxi. This worried the Shell leadership. What if Standard Oil were to find oil and refine it locally? The American firm might produce kerosene so cheaply that Shell's products would be pushed out of the North Chinese market. Cogently, the relationship now formed between Standard Oil and the Chinese government in oil production might result in a pro-Standard Oil policy with

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right to Pearson & Son: 'Over Petroleum Concessies', Shell The Hague, SIPM, 190A, 92. Deterding remarked to one of his colleagues that it would suit Shell perfectly if Pearson were to spend a great deal of money on trying to find a 'needle in the haystack' in Sichuan: H.W.A. Deterding (London) to C.M. Pleyte (The Hague) 15 July 1915, Shell The Hague, EP21, x009.1, 347.258 China. The identity of who approached Shell in 1918 with regard to Sichuan remains unknown.

[360] J.B. August Kessler (Shell The Hague) to Benjamin (Shell London) 31 Dec. 1918, ibid.

[361] Actually the concession was for three districts: Yan'an and Yanchuan in Shaanxi, and in Chengde in Zhili. However, it was very quickly found out that the Zhili concession was not interesting for exploration: Gerretson, *Royal Dutch* IV, 122.

[362] The main national revenue, the import duty collected by the Maritime Customs Service, was put under foreign control and used to pay off foreign debts and the Boxer indemnity, and most other forms taxation, such as regional trade duties, remained in the hands of the local authorities.

[363] 'China', Shell The Hague, 190A, 92.

[364] 'Chronologisch Overzicht', ibid. This source, probably notes made by or for Gerretson, states only the amount in 'dollars' without mentioning whether these were Chinese or other dollars. It is assumed here that Chinese dollars were meant. Why Gerretson did not mention this information in his book remains a mystery. In 1917 China paid Standard $543,703 to reimburse part of the exploration costs: M. Wilkins, *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970* (Cambridge MA 1974), 16.

regard to oil distribution. Just when Shell was in the middle of building its expensive up-country distribution organisation, its position already seemed undermined. Particularly worrying in this respect was that China had promised Standard Oil not to grant concessions to other foreign oil companies until one year after the contract was signed. Meanwhile Standard Oil, should it turn out that the concession areas were disappointing, had the right to look for oil wherever it liked in China. Shell complained that this ran contrary to the ideal of the Open Door.

On the grounds that the APC was a British company that was being discriminated against, Shell asked the British legation to present its case before the Chinese authorities. The British government indeed decided that the Shaanxi concession was a breach of the Open Door principle—and its legal underpinning, the most-favoured-nation clause in China's foreign treaties—since it gave the exclusive right to find and produce oil in Shaanxi to an American firm. The British minister in Beijing sent letters of protest to the Chinese government, but President Yuan showed no intention of altering the Standard Oil agreement. Then, in July 1914, Deterding decided to follow Standard Oil's example of negotiating directly with the Chinese government.[365] This constituted the beginning of Shell's active role in Sino-British—and Sino-Dutch—relations. While after 1914 the company frequently asked the British government to send complaints to Beijing when trouble loomed, Shell increasingly also used the parallel strategy of direct talks with Chinese officials.

According to Shell's internal organisation, matters relating to exploration and production were managed by the Bataafsche Petroleum Maatschappij (BPM) in The Hague. Consequently not the Anglo-Saxon or the APC management in London but BPM Director H. Colijn in The Hague was responsible for finding a suitable response to the Standard Oil concession. Colijn had joined Shell only recently, having served as an officer in Sumatra during the Aceh (Atjeh) War and having been Minister of War in 1912-1913. After Colijn had—on his own behalf—visited China in the autumn of 1913 he was hired by Deterding to become BPM director. Later, during the 1920s, he would leave Shell again to return to politics and to become Prime Minister. To undertake the challenge of going to Beijing and engaging in actual negotiations, Deterding hired another Dutch government official, W.J. Oudendijk. He had been in the consular service and in this capacity had been stationed in Beijing around the turn of the century. Oudendijk, who could speak Chinese fluently, had developed closer contacts with Chinese than was usual for foreigners in Beijing. Later, after his work for Shell was completed, Oudendijk resumed his diplomatic career, and during the whole of the 1920s he served in Beijing as the Dutch minister and as the dean of the diplomatic corps.[366]

During 1914-1915 when Oudendijk was in China on behalf of Shell, his mission was to obtain exploration concessions for parts of Shaanxi where Standard Oil was not yet active, or for other parts of China.[367] It is noteworthy that negotiations on

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[365] H. Deterding (Shell London) to H. Colijn (Shell The Hague) 6 July 1914, Shell The Hague, SIPM, EP 21, x009.1 347.258 China.

[366] On his career: Oudendijk, *Ways and By-Ways*. In this book Oudendijk briefly refers to his stay in China in 1914-1915 without mentioning that he was sent there by Shell.

[367] Sichuan was the one place in which Deterding was still not interested: Deterding (London) to Colijn (The Hague) 6 July 1914 , Shell The Hague, EP 21, x009.1, 347.258. At that time Royal Dutch had only unconfirmed reports of petroleum indications in Sichuan, Shanxi, Shaanxi, Zhili (Hebei), Fujian, Zhejiang,

behalf of Shell were completely in the hands of former Dutch government officials. Before 1912 Chinese officials would only negotiate with foreign government representatives, not with private persons or organisations. This policy had forced foreign firms to rely on help from their own governments. Now that the Qing dynasty had been replaced by the new republic, the foreign oil companies were among the first businesses to experiment with building up government relations. Apparently Shell felt more comfortable with the formula of former officials in company service, than with sending long-time managers to Beijing. Colijn's employment by Shell was probably not specifically related to the Standard Oil concession, but Oudendijk was more or less borrowed from the Dutch government to take care of the concession matter.[368]

In August 1914 Oudendijk arrived in Beijing where he soon found out that to get a concession, Shell would have to offer a loan to the Chinese government—the sum of £2 million was asked for by the Chinese.[369] Colijn was prepared to lend money to the Yuan Shikai regime, but first he wanted Shell experts to conduct an exploration in China.[370] Therefore a Dutch geologist was sent to Beijing from Java in 1915.[371] Before this resulted in an actual survey, Shell found out that the Standard Oil expedition to Shaanxi had not discovered any commercially viable oil fields and that the exploration activities had been halted. In June Colijn sent the geologist back to Java, and a few months later Oudendijk was told to return to Europe.[372] President Yuan did not get a loan from Shell, because its motivation for hunting for a concession was very different from Standard Oil's. Shell already produced large quantities of kerosene in Southeast Asia and was interested only in starting production in China if Standard Oil was. Producing in China would interfere with Shell's objective of using China to absorb its kerosene surplus created in the Netherlands Indies. The news of Standard Oil's failure must have come as a great relief to Colijn and Deterding.

Although Oudendijk was convinced that he had succeeded in obstructing the talks between Standard Oil and the Chinese government, after he left China in October 1915 the American-Chinese negotiations were resumed.[373] It was not until 1917 that Standard Oil made the decision to abandon the Shaanxi project completely. For many years the company was no longer interested in exploration concessions for any part of the country. There has been some confusion as to why Standard Oil paid so much attention to the Shaanxi concession and then decided to abandon exploration entirely. The expensive 1914-1915 expedition and its failure to find oil were widely

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Jiangsu, Yunnan, and Guizhou. Any other provinces with possible oil deposits were too remote even to consider exploring: 'Over Petroleum Concessies', Shell The Hague, SIPM, 190A, 92.

[368] As can be read in Chapter 5, at about the same time the Dutch government also 'lent' the civil engineer O.C.A. van Lidth de Jeude to Havenwerken to make a study of Yantai harbour and to obtain the related harbour improvement assignment for that firm. During the 1930s Van Lidth de Jeude would return into government service to become a cabinet minister.

[369] Gerretson, *Royal Dutch* IV, 129.

[370] Colijn (The Hague) to W. Oudendijk (Beijing) 24 Dec. 1914 , Shell The Hague, EP 21, x009.1, 347.258 China concessies.

[371] Shell Netherlands Indies to Colijn (The Hague) 10 June 1915, ibid.

[372] Deterding (London) to C.M. Pleyte (The Hague) 15 July 1915 and Colijn (Netherlands Indies) to Oudendijk (Beijing) 19 Sept 1915, ibid. According to Mira Wilkins, the US-Chinese co-operation halted in August 1915 because Standard refused to raise a loan for China: Wilkins, *Maturing*, 15.

[373] Oudendijk (Beijing) to Shell The Hague 29 Sept. 1915, Shell The Hague, EP 21, x009.1, 347.258.

publicised at the time, and this deterred other foreign oil companies from undertaking similar attempts. Simultaneously a rumour began to do the rounds that the Standard Oil geologists really had found oil, but that the company decided to conceal this fact in order to discourage anyone who had plans to develop petroleum production in China.[374] The implication of this was that the Americans wanted to keep China dependent on kerosene from their refineries in the US.[375]

It is indeed curious that Standard Oil kept the concession talks going for two years after the end of the Shaanxi expedition. Clearly Shell had not expected this when Colijn told Oudendijk that his mission was over in 1915. Cheng Chu-Yuan claims that oil was found, but it was the combination of low potential oil reserves and their distance from the markets that led the Standard Oil directors to take their decision.[376] In other words, oil exploration and production in Shaanxi were possible, but would also be very expensive. This could explain what Standard Oil and the Chinese government were talking about in 1916-1917: how the financial burden could be divided. Cheng concluded that 'there is no evidence that American geological surveys were consciously designed to seal off China's petroleum resources from the rest of the world'.[377]

Materials in the Shell archives partly support this, but also provide new information. In 1919 Shell acquired copies of the reports that the Standard Oil geologists had written in 1915. How Shell acquired these copies remains unclear, but the company certainly did not doubt their authenticity.[378] The Shell geological department in The Hague examined the more than 500 pages of the reports and concluded that oil exploration in Shaanxi was possible, but commercially very unattractive. However, on the basis of the reports Shell also concluded that Standard Oil was actually prepared to go ahead with the expensive development of oil fields in Shaanxi, provided that China would give the company a monopoly on exploration and production throughout the whole country.[379] It was only after it had become clear that the Chinese government was unwilling to give all rights to a single foreign firm, that Standard Oil decided to terminate the agreement with China.[380]

So while for the time being it was true that oil production in China was not commercially profitable, this was not the whole story. Standard Oil had clearly been interested in exploration even despite the apparent unattractiveness of the venture.

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[374] Oudendijk informed Shell of this rumour in late 1922 or early 1923: J.T. Erb (Shell The Hague) to Oudendijk (Beijing) 6 Feb. 1923, ibid.

[375] This in turn is related to the widespread suspicion that the former Standard Oil companies were still working together in secret, and that consequently Standard Oil did not really want to commence production in China.

[376] Cheng, 'Petroleum Trade', 229.

[377] Ibid. 233.

[378] One possibility is that a certain E.T. Birchall gave them to Shell because he wanted to convince Shell that oil exploration was still possible in China. Birchall approached Shell in 1919 with the proposition that he acquire a concession in China on behalf of Shell: E.T. Birchall (Brighton) to Shell 2 May and 11 July 1919, Shell The Hague, EP 21, x009.1 347.258.

[379] According to the Petroleum Department of the British government, Standard Oil found ninety-one indications of oil in China. Production operations were commenced in 'Yenchang' (old spelling) in Shaanxi, and terminated in 1916: memo Petroleum Department (London) to British Foreign Office 1921, PRO London, FO 371, 6625, F960. According to the British legation in Beijing there were no large oil deposits in Shanxi: ibid.

[380] Van Gogh (The Hague) to Benjamin (London) 16 Aug. 1919, Shell The Hague, Ep 21, x009.1 347.258.

But outside the Chinese government and a few people in the oil industry—including Shell's top managers—no one was aware of this. Standard Oil was not inclined to encourage anyone to acquire oil concessions by disclosing that it had been willing to commence exploration in Shaanxi, and for Shell it also ran counter to its interests to make this information public. China's capacity to absorb surplus kerosene would be spoiled if the country developed its own oil producting industry. The company turned down several offers for acquiring new concessions in 1919 and 1924.[381] The events of 1914-1915 revealed that the new republican government was willing to deal directly with a foreign company in return for financial aid, and that Shell was equally willing to give such aid in order to obtain a concession. Contrary to what had been the custom during the Qing period, neither the British nor the Dutch government was involved in negotiations about economic concessions, and now for the very first time Shell acquired experience with dealing with direct government relations in China.

1916-1928

After the death of Yuan and the breakdown of central government, Shell faced various new political risks. These can be divided into four main types: risks related to Japanese imperialism, looting of stocks, popular anti-foreign violence, and unpredictable taxation.

Restrictions on Land use under the Japanese. While problems of Western firms related to Japanese imperialism in China are usually associated with the 1930s, Shell came into conflict with the Japanese military in China at a relatively early stage. When Japan put forward its 'Twenty-One Demands' to China in 1915, it was not opposed by the Western powers. This was interpreted by many observers as international acceptance of Japan's ambition to replace Great Britain as the first among the foreign powers in China. Shell, which until World War I had enjoyed the privilege of being protected by the most influential of the foreign powers, now had to get used to the idea that in the future Japan might be strong enough to do whatever it wanted in the parts of China that were under its control. Against this background it is easy to understand why Shell responded vehemently to a Japanese administrative regulation in Qingdao that was not necessarily intended to harm the firm's interests. During the First World War, Japan occupied the German concession at Qingdao. Shell owned a large tank installation in that city from where it supplied most of Shandong province. Problems began when the Japanese army invaded the German concession in 1914. In the process the Japanese shelled the city and caused severe damage to the tank installation. The company presented a claim for financial compensation to the Japanese government, but the Japanese argued that Germany was responsible. By 1925 the claim was still outstanding, which probably created an unfavourable impression of the Japanese army in Shell.[382] In 1919 the Japanese military authorities of Qingdao asked Shell—and its neighbour Standard Oil—to

[381] C.S. Gulbenkian (London) to Erb (London) 23 Jan. 1919 and J.B.A. Kessler (The Hague) to Gulbenkian (London) 17 Feb. 1919 , ibid. Shell to H. van der Veen (Nederland in den Vreemde, Beijing) 2 July 1924, ibid: about Gansu and Xinjiang. Shell The Hague to NSC Amsterdam 29 Sept 1924, ibid: about the Longhai Railway area.

[382] Tsingtao claims, PRO London, FO 371, 10955, F1940.

remove its kerosene tanks. The reason given was that these constituted a danger to the public. When the Shell installation was built in 1907, it was well outside the city. But the rapid growth of Qingdao meant that housing gradually encroached on the tanks. Over and above this, the Japanese authorities insisted that it was also too dangerous for oil tankers to enter the busy harbour. Shell was unwilling to abandon its position, and tried to force the Japanese to cancel their relocation plans.

The first step in its plans was to involve the British government. The North China head office of Shell in Shanghai informed the British consul general of the problem in Qingdao.[383] Shortly after that the Foreign Office in London received the same information from the London office of the company.[384] The Shell standpoint was that the Japanese could not possibly really be worried about the danger of fire, since the Qingdao installation was probably the safest in any treaty port.[385] The real reason therefore must be that the Japanese wanted to curtail Western influence in Qingdao by making it harder for Shell and Standard Oil to continue their business. This was contrary to the principle of the Open Door. Shell argued that Britain should put pressure on the Japanese to change their attitude regarding the kerosene tanks. Not just for the sake of Shell's position in Qingdao, but because this act of discrimination would set a dangerous precedent. If Japan could get away with this, then in the future any British company might become the victim of Japan's growing influence in China. The ideal of the open door was endangered, which meant that all of Britain's interests in China were at stake. The Foreign Office was highly receptive to this argument.[386] Promoting the Open Door policy was considered the only way to protect the British position in China, and firm protests were sent to the Japanese government. Orchestrating its case, Shell had managed to generate considerable pressure on Japan. Public opinion in China and in the West tended to condemn nations that did not comply with the most favoured-nation regulation. Japan's reputation in China—at this time considered very important by the Japanese government—could deteriorate because of Shell's accusation. Importantly, Shell and Standard Oil acted in concert. While Shell asked the British government for help, the American company did the same, using the same arguments, in Washington. The result was that the American government joined the British in sending protests to Tokyo. Whether the company asked the Dutch government to do the same is not known.

The second step was for Shell to make it financially unattractive for Japan to remove the oil tanks. The petroleum company informed the Japanese and British governments that it was willing to move its installation further away from Qingdao, but only if it could choose the new site itself and if Japan were to pay for all the costs involved.[387] Shell even pointed out exactly where the new installation plus a new petroleum harbour were to be constructed. Naturally it would be very expensive to build an entirely new oil installation.[388] Standard Oil meanwhile sent out the same

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[383] C.G. Humphrys (Shell Shanghai) to British Consul General J.W. Jamieson (Shanghai) 10 July 1919, ibid. 3695, F128739.

[384] Shell London to British Foreign Office 18 Sept. 1919, ibid. 3695, F131151.

[385] British Minister J.N. Jordan (Shanghai) to British Foreign Office 8 Nov. 1919, ibid. 3695, F150510.

[386] British Minister J.N. Jordan (Beijing) to British Foreign Office 22 July 1919, ibid. 3695, F128739.

[387] Shell London to British Foreign Office 24 Nov. 1919, ibid. 3695, F155216.

[388] Moreover, the site chosen by Shell and Standard Oil was in a zone that was declared prohibited by the Japanese army: Shell memorandum, ibid. 5320, F1219.

message. The Japanese government was faced with a difficult choice. Paying for two new installations was so expensive that it was very probably out of the question. But removing Shell and Standard Oil from their present sites without their consent could have grave consequences. Possibly the British and US governments considered the attitude of their firms very reasonable and co-operative, and they would condemn the Japanese action as a breach of international agreements. Consequently Japan might become isolated from both China and the West, which was exactly the opposite of what Japanese foreign policy was trying to achieve. After more than a year of endeavouring to convince the other parties involved that fire safety was its only concern and that the installations really had to go, the Japanese government officially postponed the removal order. Unofficially the British government was informed that the case was closed and that the installations could remain where they were.[389]

Shell had won by putting pressure—jointly with Standard Oil—on both the British and the Japanese government. While Japan received protests from London, the British Foreign Office itself was regularly reminded by Shell people how directly this case was related to Britain's China policy. Had Japan decided to pay for the removal, this would also been a satisfactory outcome of the conflict. The British government gave it its full support, even though both the British vice-consul at Qingdao and the British legation in Tokyo informed the Foreign Office that the Japanese were probably right that the kerosene tanks did pose a danger to the city.[390] There was no clear evidence that the removal order actually constituted an act of discrimination, which indicated that Britain was primarily interested in limiting Japanese influence, not in letting the Japanese administer Qingdao as efficiently as possible. In this phase, the interests of Shell and the British government were still close to each other. Moreover, it was still possible to resist Japanese power. The risk that Japan would gain dominance in China and push out Western influence did not become relevant again until the 1930s. At the Washington Conference of 1921-1922 Japan was acknowledged by the West to be the main military power of East Asia, and it was also agreed by all powers that the open and independent status of China would not be changed. Indeed, for the time being Japan did not undertake any major initiatives to impose its power on China. Meanwhile China became engulfed in a series of civil wars fought between rival warlords. The largest of these wars were the Anhui-Zhili War (1920), the First Zhili-Fengtian War (1922), and the Second Zhili-Fengtian War (1924). They were followed by the great unification war initiated by the Guomindang in 1926.

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[389] C. Elliott (British legation Tokyo) to British Foreign Office 23 Nov. 1920, ibid. 5322, F3345. At first Shell demanded—in a letter to the Foreign Office—that Japan would officially declare the case closed, as the company had to make urgent decisions about extensions to the Qingdao installation. When the British legation obtained informal assurances that the removal plan had definitely been dropped, Shell was informed of this and made no further demands. In answer to the remark by Elliott in Tokyo that Japan would not give the company permission to build new tanks, Shell responded that its extension plans did not include new tanks. It seems possible that Shell used the suggestion of new tanks deliberately to obtain the assurances it consequently received from Britain. Shell London to British Foreign Office 1 Nov. 1920, ibid. 5321, F2670; British Foreign Office to Elliott (Tokyo) 10 Nov. 1920, ibid.; Elliott (Tokyo) to British Foreign Office 20 Nov. 1920, ibid. 5321, F2880; Shell London to British Foreign Office 6 Dec. 1920, ibid. 5322, F3136.

[390] British Minister Alston (Tokyo) to British Foreign Office 11 Dec. 1919, ibid. 3695, F163392; C. Elliot (British legation Tokyo) to British Foreign Office 23 Nov. 1920, ibid. 5322, F3345.

Safety of up-country depots. Fighting and the concomitant looting were the second major political risk of the 1916-1928 period. The contents of Shell agency warehouses were frequently removed against the wishes of the company or the agent—by whom or why was not always known to the company, as the difference between regular troops, prowling ex-soldiers, local militia, and bandits was often vague. The removal of stock might be the consequence of an act of requisitioning or outright destruction out of strategic motives,[391] but in most cases agency stock was simply stolen to be sold elsewhere. This situation made storing valuable goods like kerosene in rural towns a hazardous undertaking. Although the company employed guards to protect its tank installations and ships, it was not possible to station guards at the numerous agency warehouses.

There was not much the company could do to prevent the occasional looting of agencies. Not sending new supplies into unsettled districts could mean the loss of a carefully established local market position. Shell opted for this solution only in extreme situations, in areas where commercial life had become virtually impossible in the wake of widespread violence. An example of this policy could be seen in West Zhejiang in 1927, when the advance of the Nationalist army severely disrupted trade in the Yangzi area. At that time, Shell operated ninety-two agencies in this sales area. To be less vulnerable, Shell temporarily cancelled the contracts with all ninety-six third-party dealers there, maintaining only the twenty-three main and sub-agencies.[392] Shell preferred to retreat only from territories where Standard Oil did the same; otherwise the balance of market shares would be disrupted. Another consideration was that it was also not without risk to close agencies of any type. Relations with agents might not be re-established again after the dangers had passed, and agents might decide to keep sales remittances for themselves—possibly to obtain new non-Shell petroleum supplies elsewhere. Therefore in 1927 the Shell South China office in Hong Kong advised against any measures going beyond a gradual reduction in shipments to the unsettled areas. At that time some Y1 million was outstanding in Guangxi, Guangdong (Kwangtung or Canton), and Fujian provinces.[393] The London management instructed Hong Kong to maintain full stocks at river ports that could be protected by the British navy, such as Wuzhou and Nanning, unless the situation were to become drastically worse than it was: 'We are prepared to take reasonable risks in holding stocks in the interior with our Chinese agents [...].'[394]

Usually the company did not close agencies, but kept its business going as far as it was possible to do so and tried to recover damages from the Chinese government. Whenever looting and destruction had occurred, Shell's policy was to send an inspector to assess the damage and collect evidence. In most cases the company reasoned that the cause of the damage was bad government, and that the Chinese central government was responsible—even if it did not exercise any real power in

[391] In one instance, Shell products were even removed from a Chinese agency by Soviet troops. During a border clash with Chinese troops in Manchuria, the Soviets occupied Hailar where the Shell agency was located. The British consul-general at Harbin had the impression that the Russian population of Hailar had requested the removal of these goods, and those in the local Standard Oil agency, for fear of fire: British consul-general (Harbin) to British Minister (Beijing/Beiping) 10 March 1930, ibid. 14700, F2796.

[392] Annual report for the Hangzhou area, Shell London, Group Archive, E.G. Masters Papers.

[393] Shell Hong Kong to Shell London 9 Feb. 1927, PRO, FO 371, 12473, F1377.

[394] Shell London to Shell Hong Kong 9 Feb. 1927, ibid.

most parts of China. There was no alternative to obtaining compensation for loss of goods: it was not possible to insure them and the Chinese justice system was often not effective in dealing with cases like these. Therefore a claim was documented by the company and handed to the British mission in China. The company did not expect much from the Dutch government in terms of claims representation, and persistently argued that its subsidiary the APC was British and therefore deserved British support. The British government, which agreed that the APC was a British interest, then decided whether these claims should indeed be presented to the Chinese government. They were grouped per incident: other claims by British firms and individuals resulting from the same kind of problem were combined into a single claim. Often the process took years and required the repeated exertion of pressure by the British legation before money could be collected. Sometimes the claim was completely rejected by the Chinese government, and sometimes only a part of the claim was recognised. In such a case the British government made a *pro rata* division among the parties claimants staggered according to the amounts of their claims.[395] After the establishment of the Guomindang government in Nanjing, chances of recovering claimed damages increased.

Shell always tried to obtain full damage compensation. Given the size of its up-country business—and its vulnerability—Shell was usually responsible for the largest British commercial claim. For instance, in the period 1916-1922, Shell filed 254 claims against the Chinese government totalling Y476,000 for robberies and war damage. Other large British claimants were BAT (Y255,000) and the International Export Company (IEC, a Union Cold Storage subsidiary; Y209,000).[396] The problem for Shell was that of this claim, Y429,000—i.e., 90 per cent of the entire sum—were claims lodged by its Chinese agents. Again this illustrates that agency stocks represented an important weak spot in Shell's Chinese interests. Although the company was aware that many of the agency claims were not backed up by sufficient evidence for the Chinese government to be held responsible, it put pressure on the British government to demand payment from China in each case. In 1925 the motivation was phrased as follows: companies like Shell and BAT had 'built up enormous organisations all over China on the strength that the British Legation would always support the right of British merchants to trade in China under the consignment agency system.'[397] Despite such high-flown rhetoric, in 1928 the British government decided to stop the routine presentation of agency claims in cases of looting—only agency claims resulting from confiscation by the Chinese authorities were still handled by the British legation. Instead official assistance for looting claims would be limited to consular representations at the local level.[398]

[395] For example, in 1929 a 'Sino-British (Chinkiang claims) joint commission' was established, which decided that Shell was entitled to Y23,423 for claims submitted at he British Zhenjiang consulate. The Shell claim was included in a collective British claim for the Zhenjiang region. The money was then paid by the Chinese government: minutes of the Sino-British (Chinkiang claims) joint commission 22 Nov.-18 Dec. 1929, ibid. 14715, F2903.

[396] These were just the claims against China not yet paid by 1924. It is assumed here that the number of British claims paid by China between 1916 and 1924 is negligible: ibid. 11687, F3436.

[397] Shell London to British Foreign Office 6 Aug. 1925, ibid. 10933, F3731.

[398] The consul nearest to the looted agency could still recommend that because of special circumstances a claim should be made. Protests without claims could also still be made. British Minister Sir Miles Lampson (Beijing) to British Foreign Office 7 July 1928, ibid. 13178, F4723.

Several British firms with large up-country agency organisations—Shell, BAT, ICI, Swire, and Jardine—were informed of this. On the understanding that the Chinese agents would not be told about this change in policy, all companies except Shell agreed. In London the Shell director Waley Cohen repeatedly protested to the Foreign Office that this new policy was far from satisfactory, and that it would lead to an upsurge in the looting.[399] But the Foreign Office dismissed his view, replying that the inclusion of the often vague agency looting cases would weaken the stronger claims Britain made to China.[400]

Apart from the closure of agency depots and the actual destruction of stored petroleum products, the civil wars also disrupted trade in other ways: ships and railway wagons often were not available for commercial purposes, the population fled certain areas, purchasing power decreased. Sometimes farmers could not buy kerosene or other supplies because they were afraid that their horses or carts would be commandeered if they went to a market town. The dangers which might be encountered by Shell's travelling inspectors and other up-country personnel could be a disrupting force. In 1920 Inspector R.E. Covil was killed during fighting between two rival armies near Chongqing.[401] In 1926 Inspector J. Philips was murdered by bandits as he was travelling between Longzhou and Nanning.[402] Increasingly foreigners in China were kidnapped for a ransom. In August 1926 the Shell installation at Changsha, the capital of Hunan province, was attacked by bandits. The British installation manager, J. Moore, was kidnapped. Shell paid Y5000 to free him, and held the Chinese government responsible. After his release the company asked the British government to make an official claim for full compensation from China.[403] Shell sometimes obtained protection from the British navy for its tanker ships and its treaty port installations. But even on the busy main rivers that were patrolled by foreign gunboats incidents still occurred. In early May 1925, Chinese warships opened fire on a small Shell vessel near Shanghai. One of the six British persons in that boat was badly wounded.[404] On 26 May a Shell motor barge was fired at by Chinese warships, this time causing only material damage.[405] The company asked the British government to intimidate the Chinese navy by allowing British warships take up positions close to those of the Chinese.[406] The British commander-in-chief and the British minister in China rejected this plan as it could lead to a serious military incident.

The civil wars of the 1920s made Shell aware of its vulnerability, especially in the interior, and the effect of any British military protection it might expect was extremely limited.[407] The main weapon against the looting of agency stocks was not British military power, but British diplomatic support. Therefore in 1928 the refusal

[399] R. Waley Cohen (Shell London) to British secretary of state for foreign affairs 11 Apr. 1928, ibid. 13177, F1731.
[400] British Foreign Office to Shell London 19 Apr. 1928, ibid. 13177, F1731.
[401] Shell Chongqing to T. Covil Oct. 1920, ibid. 5347, F2601.
[402] 'The Pipeline' (June 1926), Shell London, Group Archive.
[403] Shell Changsha to British Consul Changsha 13 Sept 1926, PRO, FO 371, 11681, F5510.
[404] 'Britsch-Chineesch Incident', *NRC* (11 May 1925).
[405] Shell Shanghai to Shell London 2 June 1925, Shell The Hague, SIPM, 8, 886.
[406] Shell Shanghai to Shell London 13 May 1925, ibid.
[407] This sense of vulnerability also continued in the 1930s. In 1931 the top management in Europe saw banditry and the expected loss of extra-territoriality of expatriate personnel—plus the unfavourable silver price—as the main problems in China.

of the British government to present agency claims routinely to the Chinese central government was a severe disappointment to Shell. While the British government continued to regard Shell as a British interest worth supporting—the APC's British identity was never called into question by any British official—it was a matter of great concern to the company that this support did not extend to its agency system. This was precisely where official protection was most needed. The seriousness of this problem was thrown into sharp relief by the wave of anti-foreign nationalism that swept through South China from 1925. This constituted the third main political risk of the 1916-1928 period.

Anti-foreign boycotts and strikes. In 1921 for the first time Shell experienced the fact that anti-foreign nationalism, even when aimed at Japan rather than the West, was having an impact on the oil trade in China. In the wake of the Japanese occupation of a part of Shandong, anti-Japanese movements were fueled. At this time the British-Japanese alliance that had been signed in 1902 was about to expire, and its renewal would be seen by many Chinese as a token of support for Japanese aggression. When Shell's Chinese agents sent a joint letter to the oil company with the warning that a renewed alliance might result in an anti-British boycott, Director Waley Cohen contacted the Foreign Office asking it to urge the British government not to continue the alliance with Japan.[408] The problem was solved when the British government decided not to renew the alliance with Japan.

Events in 1925 and in the years which followed revealed how little Britain could do once its economic interests in China were targeted by popular boycott movements. After the 30 May and 23 June killing of Chinese demonstrators in Shanghai and Guangzhou respectively, a rash of anti-British strikes and boycotting actions broke out in the Southern coastal cities. In many places Shell—being regarded a leading British firm—was affected by the strikes, its storage and shipping activities being especially hard hit. In some incidents the company could enlist the protection of local potentates against strikes in return for petroleum.[409] But in Shanghai the North China management looked for a more definite solution and, arguing that the Guomindang revolutionaries were responsible, proposed to the London head office that a 'naval demonstration or punitive expedition' should be undertaken by the foreign powers.[410] The aim should be to remove all Russian communists from South China and the establishment of a new government in Guangdong. This could be made even more effective by Britain giving the Manchurian anti-communist warlord Zhang Zuolin (Chang Tsolin) strong but informal support, including money and ammunition. Shell's South China office in Hong Kong agreed that the strikes should be answered by a British naval action at Guangzhou.[411] Shell asked the Hong Kong government to initiate a blockade of

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[408] R. Waley Cohen (Shell London) to British Foreign Office 26 Sept. 1921, PRO London, FO 371, F3587/63/23.
[409] This happened in South China where General 'Hung Wongzhiu' forbade strikes by installation personnel in return for fuel oil: Shell Hong Kong to Shell London 14 July 1925, Shell The Hague, SIPM, 8, 886.
[410] Shell Shanghai to Shell London 2 July 1925, PRO London, FO 371, 10946, F2859.
[411] Shell Hong Kong to Shell London 6 July 1925, ibid. 10946, F2926.

Guangzhou,[412] but the British government abstained from using military force against the Guomindang government.

The anti-British boycott and strike activities proved a major stimulus to the larger political process of nationalist revolution, which produced yet another civil war. In 1926-1927 Chiang Kai-shek led the army of the Guangdong-based Guomindang (Nationalist Party) north to attack the principal warlords. Until 1926 anti-foreign agitation was confined largely to the South China coastal areas, but in tandem with Chiang's military advance, the nationalist revolution spread to Central and East China where most of the Shell distribution assets were concentrated. The oil company, like many other firms with a British background, was hit by both general violence resulting from civil war and by anti-foreign agitations. Although it is not always possible to establish the motives behind attacks against Shell, it is clear that its possessions and employees were less safe than they had been before the summer of 1925. There were numerous reports of damage. In at least one incident Chinese students seized Shell kerosene, publicly sold it, and used the proceeds to support the boycott.[413] In Guangzhou a Chinese strike picket team captured a Shell motor boat. The three Shell employees on the boat, one British and two British Indians, were maltreated before they and their boat were released.[414] In Chongqing the situation was perceived to be so serious that foreign women and children were evacuated to Hankou.[415] The Chongqing oil installation was protected by a British warship.[416] A British gunboat was also sent to Wuzhou, at the request of Shell, because of danger threatening its tank installation.[417] Here expectations differed. In such instances the British navy merely wanted to evacuate British personnel and then use its ships for other assignments. This disappointed Shell which hoped to continue operating its installations under the protection of the navy. In Taiyuan, Shanxi, the local Shell office was attacked by Chinese and partly destroyed.[418] At numerous other places Shell stock was destroyed.

Such incidents also continued to occur after 1926-1927, just at a time when the capacity of the British navy to intervene had virtually evaportated. In September 1926 the British navy shelled the city of Wanxian to retaliate against the Chinese capture of six British nationals. This resulted in the death of at least several hundred—but possibly several thousand—Chinese civilians, and an intensification of the anti-British movement. By now the British government was convinced that guns were counter-productive when used against anti-foreign popular movements.[419] In January 1927 a great number of Chinese demonstrators occupied the British concession at Hankou and forced foreign residents to retreat into the local Shell

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[412] Shell Hong Kong to Shell London 3 July 1925, Shell The Hague, SIPM, 8, 886.

[413] This happened in Whuzhou: Shell Hong Kong to Shell London 23 July 1925, ibid.

[414] Shell London to Foreign Office Apr. 1926, PRO, FO 371, 11624, F1652. The company filed a claim against China with the Foreign Office for damage incurred amounting to Y14,045. Shell wanted to pay these three employees two years' extra salary to compensate for the unpleasant experience (salary of the British manager being Y6,000, and that of the British Indians Y500 each; it is a mystery what the Y45 was for): Shell Guangzhou to British consulate-general (Guangzhou) 29 July 1926, ibid. 11674, F4816.

[415] Shell Shanghai to Shell London 9 July 1925, ibid. 10946, F3037.

[416] Untitled article in *NRC* (19 June 1925).

[417] Shell Hong Kong to Shell London 23 July 1925, Shell The Hague, SIPM, 8, 886

[418] 'Een Aanval op een Kantoor der Asiatic: Steun voor de Stakers te Sjanghai', *Algemeen Handelsblad* (9 June 1925).

[419] Osterhammel, *Weltgesellschaft*, 237-238.

office building. Britain decided to return the concession officially to the Chinese government rather than use force against the Chinese activists. Trade on the Yangzi had already stopped, foreigners in all treaty ports up-river from Hankou were evacuated, and Shell decided to move 30,000 tons of petroleum from Hankou downstream to Jiujiang. When the danger abated in the up-river Yangzi area and Shell representatives returned to Sichuan province in September 1927, they found that Y936,000 worth of stock had disappeared.[420] During the capture of Nanjing by Nationalist troops, several Westerners were killed and foreign warships had great difficulty in evacuating the remaining foreigners—including Shell personnel—from the city. In Changsha the Shell depot was looted, and in Jiangxi the company was forced to pay a 'fine' to prevent its Boyang Lake installation being set on fire.[421] In November 1927 Chinese soldiers attacked and slightly injured two British Shell employees in the Zhenjiang office.[422] It seems that while material damage to Shell property was worst in Guangdong,[423] most violence was actually experienced by the company in the Yangzi provinces in Central and East China. The Shell management in China realised that it was very vulnerable but completely on its own in dealing with the widespread attacks on its property:

> '[...] our organisation [is] extremely vulnerable to such hostile national feeling, as at bed rock, sales and payment depend [upon] Chinese common sense and not on possible recourse [to] legal procedure, especially as any claims on [the] Chinese Government for any losses incurred in [the] interior appear likely never to be pressed for payment.'[424]

In general the boycott hurt Shell's sales in South, Central and East China, as consumers were less inclined to purchase Shell products, which were regarded as British. Still the company managed to hold on its market position in most territories, helped by speculative purchases by dealers and the fact that the first months of the boycott were in the commercially less important summer season. Another factor which helped the situation was the co-operation between the foreign oil companies. When the crisis began, Shell and the American firms were working closely together in Guangdong in order to solve a taxation dispute with the Guomindang government. Still, the anti-British movement did put a strain on the Shell-Standard Oil-Texas collaboration, and in June and July of 1925 mutual distrust between the representatives of Shell and Standard Oil in China really raised its ugly head. Shell felt threatened and initiated price cuts, and Standard Oil soon followed suit. Yet communication aimed at preventing a full price war between the two companies remained intensive and succeeded in limiting the lowering of selling prices.[425] As will be explained in more detail below, the largest problem for Shell was that

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[420] Shell Shanghai to British consulate-general (Shanghai) 7 July 1928, PRO London, FO 371, 13232, F5592.
[421] 'Plunderingen te Tsjangsja: waarschuwingen tegen Molestaties', *De Courant* (31 Jan. 1927).
[422] British Minister (Beijing) to British Foreign Office 8 Nov. 1927, PRO London, FO 371, 12513, F8531.
[423] See the list of British claims against the Chinese government for the period 1924-1926, ibid. 15450, F4198.
[424] Shell Shanghai to Shell London 20 June 1925, Shell The Hague, SIPM, 8, 886.
[425] Shell Shanghai to Shell London 20 June and 9 July 1925, ibid.

Standard Oil felt strong enough to end the dispute in Guangdong on terms unacceptable to Shell. However, by and large the market situation did not change during the boycott. The most remarkable fact was that Shell's Chinese agents did not cause Shell any major problems. They could have united against the company—either on their own initiative or under pressure from political activists—which would have paralysed distribution operations in at least some parts of the country. Yet nothing indicates any form of obstructive activity on the part of the agents.

In spite of the increase in political risks after 1916, especially after 1925, the company saw no reason to consider its position in China to be hopeless or even in grave danger. The cause of anti-foreign agitation was quickly identified as communism and its supporters were thought to be a small minority. In the words of E.G. Masters, a British up-country inspector for Shell in 1926: 'They [the Chinese population] appreciate that foreign control is based on consistent rules rigidly and disinterestedly adhered to and they know that no such policy will be followed by their own officials.'[426] Therefore, he argued, the common man in China would be happy were the foreign powers to intervene and end the civil wars. But if the foreign countries did nothing at all, the Chinese would think they were weak and that would lead to the end of the foreign position in China. In May 1927 the Shell North China management again urged the head office in London to give Zhang Zuolin money or materials to encourage him to stay in Beijing. Otherwise, it was feared, the communists might take control of North China.[427] In the same month Waley Cohen, Shell director and member of the British parliamentary China Committee, met the British Foreign Secretary to urge him to use force against the Guomindang. He was given to understand that the British government did not believe that violent action could be the basis for future relations between Britain and China.[428]

Britain never at any stage undertook military action against the Guomindang government of China, and after 1927 Shell ceased to ask for such intervention. Gradually the relationship between the oil company and the Guomindang, which now ruled over most of China, improved, and the anti-British movement became less violent. Although civil war and looting still reigned in many parts of China, and continued to cause serious damage to the Shell organisation, the 1925-1927 period had brought about fundamental changes. Shell had witnessed the destructive power of widespread anti-foreign agitation, and had had to swallow the refusal of the British government to use force to protect Shell property against political risks. Becoming aware of the strength of Chinese nationalism, Britain was redefining its political relationship with China and abandoning its reliance on the traditional instruments of imperialist coercion. In the new situation there was little the British government would or could do for Shell when it came to dealing with operational risks in China.

Taxation before China's Re-Unification. The inability of the British government to protect Shell's up-country interests also applied to the fourth main type of political risk of the 1916-1928 years: the unpredictability of and seemingly boundless increase in local taxes. When Royal Dutch first exported oil to China in the 1890s the tax

426 Report 1926, Shell London, Group archive, E.G. Masters Papers.
427 Shell Tianjin to Shell London 12 May 1927, Shell The Hague, SIPM, 8, 886.
428 R. Louis, *British Strategy in the Far East, 1919-1939* (Oxford 1971), 134.

situation was simple. Foreign goods entered China at one of the treaty ports, where an import duty averaging 5 per cent of the value of the goods was collected by the Maritime Customs Service.[429] Although it was a part of the Chinese state administration, the customs service was created and largely managed by British experts and China could not change the level of this duty without the consent of the foreign powers. The only other type of unavoidable tax all foreign merchants had to pay was the local port duties, which were used for harbour improvement. In later years, especially during the 1920s, the tax situation became much more complicated, and caused Shell some major problems. As local and central authorities in China introduced new commercial taxes, Shell showed various ways of responding. The pre-1928 experience of Shell with taxation problems played an important role in the firm's relationship with the Guomindang government.

The fundamental difficulty for Shell and all other foreign firms that were active outside the treaty ports was the *lijin*, China's interior trade tax. After Britain had forced China to open its borders to foreign imports in the mid-nineteenth century, China introduced lijin duties on goods transported within the country. As a consequence, foreign imports were cheap in the treaty ports but grew more expensive the further they were transported into the interior. When Shell's up-country organisation became operational, the company did succeed in by-passing most Chinese middlemen but now had to pay lijin directly to the local authorities. During the civil wars of the 1920s the number of lijin barriers multipled, because many local military leaders were desperate for revenue. Furthermore, the variety of local trade duties also expanded. Apart from the original lijin, military protection fees, school taxes, dike taxes, customs surtaxes, famine relief taxes, survey fees, stamp taxes, documentary taxes, and surtaxes on transit passes, were all introduced. Any local warlord could and did impose any tax he liked on goods passing through his territory. The most internally divided provinces, such as Sichuan, were the worst in this respect. This province was divided between various warlords, who continued to fight each other until subdued by Chiang Kai-shek in 1935. To move petroleum from one distribution centre to another within that province, the company had to pay tax at several tax collection points, each collection point often demanding payment of two or more types of tax.[430]

Neither the virtually non-existent central government in Beijing nor any foreign government had the power to intervene. Under these circumstances Shell was sometimes willing to bargain with the provincial or regional government—or rather the warlord who controlled it. Shell's preferred solution was that the foreign governments should conclude treaties with the provinces that would provide the latter with customs revenue raised in the treaty ports. In return the provinces should abolish the local lijin barriers.[431] But the foreign states did not wish to participate in the fragmentation of China and maintained official relations only with Beijing. Shell, joined by Standard Oil, therefore made its own arrangements with the provinces. The company offered to pay a fixed trade tax to the provincial government, in return for which the latter would end the local trade taxes on petroleum in the areas under its

[429] Until 1912 formally 'Imperial Maritime Customs'.
[430] Shell Chongqing, 'List of taxes up-river from Chongqing', PRO London, FO 371, 11697, F5369.
[431] Shell Tianjin, 'Memorandum on the proposed Abolition of Li-Kin', PRO London, FO 371, 9217, F2971

control. In 1922 and 1923 such agreements were made with the governments of Hubei and Jiangsu respectively.[432] In Sichuan, where there was no provincial government, Shell approached one of the leading local warlords, General Liu Xiang, who controlled the eastern part of Sichuan. In 1927 Shell lent the general Y936,000 in order to get his assistance in limiting the number of local duties. The company allowed him to repay part of his debt by writing it off against the local petroleum tax.[433] The company also supplied General Lui's army with aircraft fuel, agreeing not to sell the same to rival warlords.[434]

There were also situations in which Shell was not willing to deal with the provincial or local government. In April 1925 Guangdong province decided to raise the import tax for kerosene, and Shell refused even to negotiate. This resulted in the first of two Guangdong tax conflicts and in Shell's first confrontation with the Guomindang, which still played a role only at the provincial level. Unlike what it had done in other provinces the oil company refused to negotiate about this local tax. Two factors seem to have been relevant to the company's attitude. First, to impose local transit and dike taxes was a common practice, while unilaterally deciding to raise the import duty in the treaty ports set a new precedent. In the past China had been forced to abandon its tariff autonomy. But the Guangdong government claimed that it represented the entire country and that China had the right to determine its own tariff policy. This leads to the second reason why Shell refused to compromise. The Guangdong government was in the hands of Sun Yatsen's Guomindang. The provincial capital, Guangzhou, was the party's power base and from there it aspired to conquer and reunify the entire country. In 1925 foreign businessmen considered the Guomindang to be dominated by left-wing extremists whose aim was to overthrow China's social order and destroy all Western influence in China.

In fact, the motive for Guangdong to raise the import duty was not based on radical nationalist or communist ideology. The regular import duty was collected by the Maritime Customs Service in Guangdong treaty ports such as Guangzhou and Shantou on behalf of the regime in Beijing. This money went to the northern warlords who controlled the capital, and who were regarded by the Guomindang as its main enemies. Thus the Guangdong government felt forced to introduce new taxes to provide the Guomindang with a source of revenue to finance its war of unification against the north.[435] Unfortunately for the Guomindang, Shell was not at all interested in helping it in its war against the northern warlords. The company, in conjuntion with Standard Oil and the Texas Company, decided to withhold all kerosene supplies to Guangdong until the province abandoned its new kerosene tax. Britain and the US were consulted by the oil companies and supported the boycott with diplomatic pressure.[436] After a few weeks, in early May 1925, Shell decided

[432] British legation (Beijing) to British Foreign Office 17 Sept. 1923, ibid. 9217, F3131. In the case of Jiangsu, the agreement was between the Chinese agents and the government. Officially, Shell was not involved, and the agreement was irrelevant to Sino-British relations. The same agreement was made by the Standard Oil agents. British Consul General Pratt to British envoy (Beijing), ibid. 9217, F2971.

[433] In March 1933 the debt was expected to be paid off by the end of that year: British consul-general (Chongqing) to British Minister (Beijing/Beiping) 27 Feb. 1933, ibid. 17136, F2791 and F3371.

[434] But on one occasion Shell and Standard Oil did also supply his enemy, General Lui Wenhui, with aircraft fuel: ibid. 16208, F8224.

[435] Shell London to British Foreign Office 14 April 1925, ibid. 10933, F1366.

[436] British Foreign Office to Shell London 7 April 1925, ibid. 10933, F1176.

that stronger measures were required to solve the Guangdong tax problem. The company approached the British Foreign Office with a request for military intervention. While pointing out that Sun Yatsen was pro-communist and violently anti-foreign, Shell asked the British government to send in troops to either seize the Guangzhou arsenal, the Chinese section of the Guangzhou-Kowloon railway, or the lijin stations around Guangzhou. Shell Director A.S. Debenham explained the desirability of such a move as follows:

> 'It has become customary among the Treaty Powers to avoid the use of force, with the result that a belief has undoubtedly arisen that protests can be disregarded with impunity and that Breaches of Treaty, if persisted in, will lead eventually to a compromise satisfactory to those guilty of the breach. It is further to be remembered that whereas formerly with an effective Central Government, pressure could be brought to bear by threatening to withhold loans and in similar ways, with the Government of China divided no such pressure can be brought to bear. Loans to provincial authorities are known to be out of the question, while anything that tends to increase the difficulties of the Government at Pekin is welcomed. Direct pressure must, therefore, be brought to bear on those actually responsible. To effect this without the ill-will of the populace is admittedly difficult, but it is believed that action on the lines indicated would have the effect desired and something decisive would be done to check the growing interference with foreign trade and disregard of foreign rights.'[437]

Some within the Foreign Office agreed that action of this type might be desirable, and proposed a joint British-US naval demonstration at Guangzhou and to threaten to use force if the demonstration itself should prove ineffective.[438] Before such a plan materialised, the Shanghai Incident of 30 May 1925 triggered off strong anti-British agitation and Britain was no longer willing to undertake anything which might antagonise the public opinion in China further.

From June 1925 there was a double boycott in Guangdong. Shell refused to supply the province, while at the same time anti-British organisations urged traders and consumers not to buy British goods, such as Shell kerosene. This unusual situation was disadvantageous to Shell, because Standard Oil and the Texas Company were not boycotted by the Chinese. The American firms' sales managers and agents in Guangdong now were tempted to exploit the situation and capture Shell's market share in South China. As the anti-British boycott continued, the likelihood of the Anglo-American alliance breaking intensified. Meanwhile, the Guangdong government added a new element to the conflict by introducing the first step towards a provincial monopoly on petroleum sales: all oil companies were ordered to pay tax and licence fees to the province before they could supply their agents.[439] By early 1926 Standard Oil was putting pressure on Shell to reach a compromise with the Chinese. The Americans were willing to pay a lump sum tax, if the province would end the monopoly system. Shell responded that it preferred to

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[437] A.S. Debenham (Shell London) to British Foreign Office 6 May 1925, ibid. 10933, F1626.
[438] British Foreign Office to British Consul General (Guangzhou) May 1925, ibid. 10933, F1767.
[439] British consul-general Guangzhou to British minister Beijing 9 Feb. 1926, ibid. 11667, F1132.

wait.[440] In June 1926 the alliance broke. Guangdong announced that it had abolished its monopoly, and instead created a new tax that would have to be paid the moment when kerosene and petrol left a depot. The company that sold the product also had to pay the salary of a government inspector for each depot.[441] In response Standard Oil agreed to pay this new tax and resumed its kerosene deliveries. Guangdong obtained its revenue, but without raising the import duty.

The boycott against British companies by the public was still effective and Shell wanted to continue to fight the Guomindang, regardless of whether the new tax technically was an import or a trade duty. Shell's Shanghai director called Standard Oil's deal 'gross treachery to Foreign trade and Foreign treaty rights',[442] and in London Debenham informed the Foreign Office that it had lost its battle 'against overwhelming odds', and that Shell now was forced to pay the Guangdong tax on kerosene and petrol. The company blamed its American allies and the British government. Director Waley Cohen claimed that Britain was abandoning its support for British firms in China.[443] To this the Foreign Office replied that, 'At no time [since 1842] has the use of force or compulsion in regard to taxation in the interior been considered either a wise or a practicable policy [...].[444] Consequently, the British government had

> 'reluctantly come to the conclusion that there does not appear to be any means of preventing the Chinese authorities from levying illegal taxes on goods marketed in the interior of China. There is in fact no compulsion which can be applied which will enforce respect for treaty rights in such cases.'[445]

In other words, Shell was asking the impossible. The Foreign Office was well aware that the company itself had already tacitly accepted interior taxation by paying lijin for many years and making tax agreements with the governments of Hubei and Jiangsu. The definitive position of the British government was that interior trade taxation was entirely Shell's problem.

Shell understood the message. It no longer expected help from the British government, and for the first time was willing to negotiate with the Guomindang. By late 1926 the Northern Expedition led by the Guomindang's military leader Chiang Kai-shek was making good progress, as a result of which the Guomindang controlled an increasingly large part of South China. This meant that the Guangdong petroleum tax would very probably be introduced in the areas under Nationalist control. In November 1926 Song Ziwen (T.V. Soong) of the Guomindang informed Shell that he wished to discuss this. This time the company was prepared to consider co-operating in return for a tax reduction.[446] Despite such a conciliatory attitude, negotiations did not result in an agreement until a year later. During 1927 the future

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440 Shell Shanghai to Shell London 5 Jan. 1926, Shell The Hague, SIPM, 8, 884.

441 British consul-general Guangzhou to British minister Beijing 3 July 1926, PRO, FO 371, 11667, F3238.

442 Shell Shanghai to Shell London 12 July 1926, ibid. 11667, F3524.

443 Waley Cohen (London) to British Foreign Office 1 Oct. 1926, ibid. 11667, F4149.

444 British Foreign Office to Shell London 28 Sept. 1926, ibid. 11667, F3744.

445 British Foreign Office to Shell London 9 Sept. 1926, ibid. 11667, F3579.

446 Debenham (Shell London) to British Foreign Office 22 Nov. 1926, ibid. 11667, F4974; and Shell Shanghai to Shell London 17 Nov 1926, ibid. 11667, F4974.

of the Nationalist regime remained uncertain, and it seemed that for the time being the oil tax would not be enforced outside Guangdong. Then the whole picture changed. Not only did the Guomindang armies manage to capture the strategically important middle and lower Yangzi provinces, where many of the major cities were located, but immediately thereafter Chiang Kai-shek violently purged the communists from the party. Sun Yat-sen, the Guomindang's founding father who had favoured collaborating with the Communist Party, had died already in 1925, and by the end of 1927 it seemed that Chiang's new Guomindang was firmly committed to banning communism from China. Another development that had not escaped Shell's attention, was that previous to their occupation by Nationalist forces, many provinces were already introducing the new petroleum tax.[447] This indicated that the tax would have to be paid, regardless of who would emerge from the civil war as the victor. The Guomindang, now less radical but more powerful, became an increasingly attractive negotiating partner for Shell.

On 20 December 1927 an agreement was reached between Shell and the new National Bureau of Mineral Oil Tax of the Guomindang government. The company promised to pay the new tax on kerosene and petrol in all areas under Nationalist control. In return the Guomindang government would eliminate the lijin and all other interior trade taxation, and attempt to check anti-foreign activities aimed at Shell's agents or property. The petroleum tax would be collected twice a month in Shanghai. For the time being Shell would have to pay only Y0.60 per case instead of the Y2 per case demanded before the Northern Expedition, but to obtain this agreement the company had to make an advance payment of Y350,000.[448] To recover the tax the company instructed its agents to raise the selling price by Y0.60; the advance tax was paid entirely by the company itself.[449] A similar agreement existed between the Guomindang and Standard Oil. In this way the oil companies invested hundreds of thousands of yuan in supporting the Guomindang financially, and in keeping their selling prices artificially low. A few months later, in March 1928, the Guomindang controlled an even larger part of the country and successfully demanded a tax increase from Y0.60 to Y1 from the foreign oil companies.[450] By late 1928 Shell paid this Y1 per case tax on kerosene and petrol in most parts of the country, including provinces that were only nominally controlled by the Guomindang government.[451] The situation was becoming less chaotic, which was welcomed by Shell. For the first time in many years there was a real prospect that lijin and the

[447] In the summer of 1926 Shell was negotiating with the government of Jiangxi province, which wanted a Y25 thousand lump sum from Shell and Standard Oil as provincial petroleum tax. The two companies met Sun Chuanfang, the warlord that controlled the lower Yangzi region, to discuss the matter. This proved fruitless, and protests by Britain in Jiujiang and Beijing also produced no effect. In August 1926 the Foreign Office advised Shell to pay Y25 thousand per month as kerosene tax: Shell Shanghai to Shell London 15 August 1926, ibid. 11667, F3336; British Foreign Office to G. Macdonogh (Shell London) 30 Aug. 1926, ibid. 11667, F3484.

[448] British consul-general (Shanghai) to British minister (Beijing) 31 Dec. 1927, ibid. 13156, F1391.

[449] For instance, see the annual trade report from the Hangzhou office for 1927, Shell London, Masters papers.

[450] British consul-general (Shanghai) to British Minister (Beijing) 10 Apr. 1928, PRO London, FO 371, 13157, F2770.

[451] For instance in Hebei and Fujian: understanding between Hebei and Shell 11 Aug. 1928, PRO London, FO 371, 13160, F5584; Chi Lung-Sing, 'The Chinese Oil Trade: Kerosene on the Foozhow Market', *The Petroleum Times* (5 Nov. 1927), 885-886.

other local taxes would eventually disappear. Since a trade tax on petroleum had to be paid anyway, it was better for the tax to be centralised and at a fixed level. By not recovering the pre-paid tax through an increased selling price, Shell and Standard Oil tried to keep their kerosene affordable for the public, and to capture the market share of smaller competitors.

1928-1937

After the civil wars and the revolutionary turmoil of the 1920s, there followed a period of greater political stability in which the Guomindang consolidated its power. Although the company was not immediately convinced that the Guomindang government was a reliable partner—in 1931 Shell still felt that the government was 'too weak to withstand the demands of Chinese [anti-foreign] nationalists'[452]—for the time being there was no alternative. At this time, Shell's main political concern was to reach compromises with the new government to neutralise the main political risks of this period. These related to the imposition of new regulations by the nationalist rulers, in particular to taxation, the leasing of land, distribution rights, and exploration concessions. A further political risk did not relate to the unification of China under the Guomindang government, but to the Japanese occupation of Manchuria.

Taxation under the Guomindang Government. The unification of China under the Guomindang government had immediate consequences for the national import tariff, which since the mid-nineteenth century had in practice been far under the formal limit of 5 per cent of the value of the goods. This was a very low tariff compared with that of most other countries. One of the first goals in the Guomindang's foreign policy was to regain tariff autonomy for China, which would almost automatically result in higher import duties. This in turn would force Shell to raise its prices, putting kerosene out of the reach of its poorer customers. In 1928 the Chinese government approached Japan, the US, Britain, and the Netherlands—the four countries that supervised China's tariff policy on behalf of the other foreign powers—with the request that restitution of tariff autonomy be discussed. Subsequently Shell was asked by both the British and the Dutch governments to state its opinion on this matter. The company informed the two governments that it did not oppose China's tariff autonomy under certain conditions, mainly that the new tariff would be stable and the same for traders of whatever nationality, and that the lijin would be completely abolished.[453] These were also the main demands put forward by the British and Dutch governments. After negotiations with the foreign powers, China officially regained tariff autonomy on 1 February 1929. On the same date Shell made its move by concluding an agreement with Finance Minister Song Ziwen of the Chinese government according to which the company would pay a single fixed import duty on its products, valid for the entire country. Shell would pay its duty to the Maritime Customs, and China promised that no other tax would have to be paid by Shell or its agents. The trade tax on kerosene and petrol was now abolished—

[452] A. Debenham (Shell London) to J. de Kok (Shell The Hague) 20 Feb. 1931, Shell The Hague, management 15, direktie BPM, China politiek en economisch 1931-1938.

[453] De Kok (The Hague) to Debenham (London) 25 Oct. 1928, Shell The Hague, SIPM, 8, 884; Shell The Hague to Dutch Ministry of Foreign Affairs 5 Nov. 1928, ibid.

officially it was incorporated in the new import duty. No outsiders, except for the British government, were aware of this arrangement.[454]

Within a few years Shell's attitude towards the Guomindang had undergone a complete reversal. In 1925 the company had been vehemently opposed to this party, by 1929 Shell had come to the conclusion that the Guomindang was exactly what it needed to get rid of the old lijin problem. The taxation situation appeared to be improving. Although the Guomindang did not yet have actual control of all provinces, Shell tried to benefit from their claim that theirs was the government of the entire country, and that it was just a matter of time before *de facto* rule would be imposed on every part of China. In August of 1928 when negotiating about a tax agreement with two important Sichuan warlords, Liu Xiang and Yang Sen, Shell demanded that the Guomindang government be involved in the agreement. The idea was that as soon as Nanjing claimed that Sichuan province was under its control, the oil tax paid in Sichuan could be recovered in Nanjing, as it would then have been integrated into the national oil tax.[455] However, it was not always possible for the oil company to involve the government in Nanjing in local taxation disputes. In the early 1930s, once again Guangdong province—nominally under Nationalist control—was the scene of serious taxation problems, and for years the central government did not interfere in the matter.[456]

In the early 1930s power in Guangdong was held by Marshall Chen Jitang, in name of the Guomindang, whose main power base had now moved from Guangzhou to Nanjing in East China. The Chen regime followed its own taxation policy, studiously ignoring orders from Nanjing. In this case the problem was not the introduction of a new petroleum tax, but the fact that the import duty on kerosene was much higher than that on fuel oil—the respective duties being Y92 and Y6 per ton.[457] The result was a second Guangdong tax conflict, which erupted when Chinese entrepreneurs in Guangdong discovered a way to make a profit from the tax difference. They imported fuel oil with a high kerosene content into Guangdong. The kerosene was extracted from it in distilleries, and this was then sold on the South-

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[454] 'Agreement between the National Government of China and APC North China Ltd Relating to Revision of Customs Import Duty and Providing for the Incorporation Therein of the Special Tax on Kerosene and Gasoline 1 Feb. 1929' [same also for APC South China Ltd], PRO London, FO 371, 13894/F2098; and British consul-general (Shanghai) to British Minister (Beijing/Beiping) 25 Feb. 1929, ibid.

[455] British rear admiral (Yangzi river) to British Admiralty 17, 20, and 23 Aug., and 3 Sept. 1928, ibid. 13177 F4492/F4520/F4608/F4765. Apart from the obvious desire to decrease the number of taxes in Sichuan—Liu controlled Chongqing and Yang Wanxian, and apparently the two were willing to co-operate in the sphere of taxation—there were two other motives for Shell to reach this agreement. In the first place a similar agreement had been made between Standard Oil and the two warlords. In the second place the shelling incident of 1926, when a British gunboat killed a large number of Chinese residents of Wanxian, had produced an anti-British boycott that was much stronger here than in most other parts of the country. Shell hoped that its agreement with Yang Sen would help end the boycott: British consulate-general (Chongqing) to British legation (Beijing) 10 Sept. 1928, ibid. 13160, F6463.

[456] Another, smaller, conflict occurred in late 1928 in Manchuria where the regime of Zhang Xueliang—also nominally under Nanjing—tried to force the oil companies to pay a special tax on petrol and kerosene. Shell offered to pay half of the tax, but the Manchurian government declined. The outcome of the conflict is unknown: Shell Shenyang to British consulate-general (Shenyang) 19 Nov. 1928, ibid. 13892, F497.

[457] Shell The Hague, 'Memorandum Betreffende de Moeilijkheden die Buitenlanders Ondervinden bij den Verkoop van Lampolie in China' to Dutch Ministry of Foreign Affairs 23 Aug. 1933, Shell The Hague, legal, 65 China.

Chinese market. Because this locally distilled kerosene was cheaper than the imported kerosene sold by Shell, Standard Oil, and the Texas Company, these three companies felt seriously threatened. The confrontation between the Guangdong distillers and the foreign oil companies has already been told, on separate occasions, by I. Anderson and J. Osterhammel.[458] Their accounts have shown that Shell managed to solve the matter under its own steam, by paying advance tax to the Chen Jitang regime. Nevertheless, looking more closely at the intentions and plans of the Shell leadership will reveal further insights into the company's attitude regarding the changing relationship between China and the West.

From Shell's point of view, the period of competition with Chinese distillers in Guangdong can be divided into four phases: firstly the problem proved insoluble simply by making complaints in Nanjing; secondly Shell came with a counter-strategy; thirdly the provincial government openly intervened on behalf of the local distillers; and finally the provincial government switched to unofficial methods to support its distillers. The first phase, beginning around 1930, was when Chinese distilling first began to make itself felt and Shell found itself losing part of its market share in Guangdong and Guangxi. In this phase Shell still hoped that Nanjing would intervene and force Chen to raise the import duty on fuel oil. However, as time went by and nothing happened it eventually became clear that the central government could or would no nothing. Although Nanjing decided that fuel oil destined for kerosene production should be taxed at the rate of the kerosene duty, nothing changed in Guangdong.[459] The provincial rulers were defiant, and for the time being the national government refused to intervene. Shell could not easily make a claim for reimbursement from Nanjing, as this was not a case of double taxation.

The second phase started early 1933, when Shell decided to address the distilling problem locally, in Guangdong province itself, rather than in Nanjing. In April 1933 the company began operating its own distillery in Guangzhou. Standard Oil and the Texas Company did likewise. Like its Chinese competitors, Shell did not import 'real' fuel oil. Instead, just enough 'Solar Oil' fuel oil was added to Shell's regular 'Crown Oil' kerosene to have the product qualify as fuel oil according to customs regulations.[460] This could be done in Hong Kong, where no import duty was imposed. After it had crossed the Chinese border, the mixture was easily reconverted into Crown Oil and Solar Oil at the Guangzhou installation. There was even a possibility to avoid the payment of import duties altogether. Shell believed that the Chinese distillers used this method, which was related to the colour of the imported oil. For the time being, Shell chose not to use the same method in order to appease the Maritime Customs. It was thought that if Customs received no revenue at all, it would eventually raise objections to the practice of mixing oils in Hong Kong only to separate them again in nearby Guangzhou.[461] Another relevant aspect was that Shell's distilled kerosene was sold at a loss in order to stay under the lowest price which the Chinese could sell against.[462] It is clear that at this point the financial

[458] Anderson, *Standard-Vacuum*; and Osterhammel, *Britischer Imperialismus*.
[459] Shell The Hague, 'Memorandum Betreffende de Moeilijkheden die Buitenlanders Ondervinden bij den Verkoop van Lampolie in China' to Dutch Ministry of Foreign Affairs 23 Aug. 1933, Shell The Hague, legal, 65 China.
[460] Shell London to Shell The Hague 10 Feb. 1933, Shell The Hague, SIPM, 49, 304.
[461] Shell London to Shell The Hague 27 Feb. 1933, ibid.
[462] Anderson, *Standard-Vacuum*, 44.

considerations were relatively unimportant to Shell. The company worried more about possible opposition from Customs, and about its market share in kerosene sales. The only aspect that the directors did not like about the distilling operation was the risk that in the future China might demand that all imported kerosene and petrol would be distilled locally.[463] The distilling activities of Shell and its American partners were successful—in terms of the elimination of competition—until the Guangdong government decided to intervene on behalf of the Chinese firms.

In the summer of 1933, the third phase commenced when Guangdong informed the foreign companies that to distil kerosene locally, they were required to obtain certain permits. These permits were in practice impossible for the foreign companies to obtain. Only then, in August 1933, did Shell approach the British and Dutch governments to put pressure on Guangdong to abolish this permit regulation. As a part of Shell's case reasoning why it should be helped, it pointed out to the Dutch government that the Asiatic Petroleum Company represented primarily a Dutch interest.[464] At the same time the British government was told by the company that the APC was a crucial British interest.[465] Both governments responded by sending protests to China, in compliance with Shell's request. But within a few weeks, the directors in London concluded that diplomatic pressure would probably not bring about the solution. Simultaneously a new dimension was added to the problem. The Guangdong government wished to develop the existing Chinese capacity for distilling into refining. The Shell management decided that this scheme should be 'squashed'.[466] The company approached the largest of the Chinese distillers with a proposal that they co-operate in distribution. A new subsidiary would then be created for this purpose, which would secretly enlarge Shell's share at the expense of the Chinese. Eventually the Chinese partners would be eliminated.[467] Both the distilling and the refining threats would be a thing of the past. However, the London office very soon decided to abandon this plan.[468] The reason was that Shell was afraid that this would encourage Chinese initiatives to 'blackmail' the oil company into similar co-operative agreements in the future.[469]

In September 1933, Shell Director Heertjes came with a new suggestion, asking 'whether the fact that the Chinese are allowed to live and trade in Java as in Paradise could be exploited to our advantage'.[470] According to his plan, the Chinese communities in Java should be asked to send a letter to the Guangdong government in which they emphasised 'their immunity from unpleasant government interference', and in which a plea would be made against discriminating measures on oil imported from the Netherlands Indies. But the colonial administration in Batavia informed Shell that, in fact, the Indies Chinese did not feel that they were treated at all well by

[463] Shell London to Shell The Hague 10 Feb. 1933, Shell The Hague, SIPM, 49, 304.
[464] A.S. Oppenheim (Shell The Hague) to Dutch Ministry of Foreign Affairs 23 Aug. 1933, Shell The Hague, legal, 65 China.
[465] Petroleum Department (London) to Foreign Office 1 Aug. 1933, PRO London, FO 371, 17126, F5140.
[466] Shell Hong Kong to Shell London 7 Sept. 1933, Shell The Hague, SIPM, 49, 304.
[467] Shell London to Shell Hong Kong 9 Sept. 1933, ibid.
[468] Lampson (Beijing/Beiping) to Foreign Office 25 Sept. 1933, PRO London, FO 371, 17126, F6251.
[469] Shell London to Shell New York 20 Sept. 1933, Shell The Hague, legal, 65 China.
[470] Heertjes (Shell London) to Oppenheim (Shell The Hague) 8 Sept. 1933, Shell The Hague, legal, 65 China.

the Dutch authorities. It was added that threatening Guangdong with repercussions for its commerce with Java was useless, because of the negative balance of trade existing at the time. The plan was dropped. Yet another attempt by Shell was to prevent supplies of fuel oil from reaching Guangdong. The Chinese distillers imported their raw material from some 'smaller' US producers. Joining forces with the Texas Company and Standard Oil, Shell tried to convince the American suppliers to stop their deliveries.[471] This also failed.[472] At this point Shell seems to have had some difficulty in defining its future policy with respect to Guangdong. The events of the next few months remain obscure.

About December 1933 the fourth phase was ushered in, when the Guangdong authorities suddenly yielded to the Dutch, British, and American governments' demand that official protection of Chinese distilling be dropped. Shell, Standard Oil, and the Texas Company obtained their permits and could now continue their fight against the Chinese firms legally. However, this diplomatic success accounted for little, as Guangdong simply introduced an unofficial way to protect indigenous distilling. Its strategy was to introduce a new tax, which was to be paid by all distilleries. Shell soon discovered that the tax was largely, and secretly, returned to the Chinese companies—but not to the foreigners. In other words, the problem remained more or less the same, while the grounds for diplomatic intervention had disappeared.

In the following year Shell put pressure on the British government to do something about Guangdong's policy, but without even proof of the secret tax refunds there was nothing Great Britain could do. In January 1934 Director Heertjes from London visited the Shell offices in Hong Kong and Guangzhou to decide on a new policy. In the first place he instructed the local management to sell at a price slightly above that of the Chinese distillers. In the second place he ordered the building of a cleaning plant, hidden in a warehouse. This warehouse would also contain a small distilling plant to deceive the local authorities, should they inspect the warehouse.[473] This suggests that Shell had decided to make use of the option, mentioned earlier, of importing coloured kerosene free of duty. To put Customs on the wrong track, the kerosene would be secretly cleaned. This would save money for the company, which by now had invested heavily in its war against the Chinese distillers. Underselling the Chinese for a prolonged period of time was very expensive. In the third place Shell secretly purchased at least one of the Chinese distilleries, probably with the aim of gaining information about the strategy adopted by the Chinese. In order to hide this fact from the other Chinese distillers, the local Shell office went as far as hiring thirty persons to join on behalf of the purchased distillery a demonstration against the foreign oil companies.[474]

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[471] Shell London to Shell New York 20 Sept. 1933, ibid.

[472] Memorandum 12 June 1934, PRO London, FO 371, 18086, F3753.

[473] Shell Hong Kong to Shell London 13 Feb. 1934, Shell The Hague, SIPM, 49, 304; Shell London to Shell The Hague 13 Feb. 1934, ibid.; Shell London to Shell The Hague 4 May 1934, ibid.

[474] British Consul-general (Guangzhou) to British Minister A. Cadogan (Beijjing/Beiping) 11 Oct. 1934, FO371, 18087, F6895. This incident gives an interesting insight into some of the mechanics of anti-foreign agitation: anti-foreign demonstrators in this instance were simply hired by Chinese firms. Furthermore there was also a strong government influence: this demonstration was allowed by the government as long as it remained inconspicuous. The government was against strong anti-foreign agitation at this point, because the demonstration was held just after the agreement between Guangdong and the foreign

The measures introduced by Heertjes were aimed merely at defending Shell's position in South China, not at recovering its pre-1930 market share. Heertjes hoped that within a few months the Guomindang government would take direct control of Guangdong—a process that was then under way in neighbouring Fujian. But by summer, when Guangdong was still in the hands of Chen Jitang, Shell began considering some form of co-operation. The option of paying in order to have the tax disadvantage removed was already on the cards, but was not favoured by Shell. In late August the company sent a memorandum to the Foreign Office which stated that:

> 'It has been suggested that we should overcome our present difficulties by going into partnership with certain Chinese interests but we feel that this would involve the surrender of the fundamental trading rights secured to us by treaty and such a surrender might have far reaching and costly repercussions elsewhere in China. In any case, the partnership proposals which have been made to us by Chinese interests have only amounted to suggestions that we should pay them a certain commission on our sales and in return they would undertake to secure us equality of treatment with our Chinese competitors. In other words, we have merely been asked to pay blackmail [...].'[475]

In spite of these words, on 28 September 1934—a few weeks after the memorandum to the Foreign Office—Shell and the US firms reached an agreement with Chen Jitang and the Guangdong government. The companies jointly paid 5 million Hong Kong dollars (ƒ3 million) as a tax advance in return for an end to the secret subsidies given by Guangdong to the Chinese distillers.[476] Given the respective market shares of the three oil companies, it is likely that Shell's contribution amounted to at least HK$2 million (ƒ1.2 million). The oil companies claimed—probably realistically—that they would recover the advanced sum in only seven months. The tax paid in advance was on sales of distilled kerosene, which amounted to 3 yuan per 10 US gallons (37.85 litres). Until the advance was repaid, Shell would have to pay only 1 yuan per 10 gallons. Before the agreement the Chinese distillers paid only 1 yuan, while Shell had to pay 3 yuan. Thus from September 1934 the Chinese competitors had to increase their selling price by 2 yuan in order to stay in business, which ended their competitive advantage over the foreign companies. Under these circumstances Shell, Standard Oil, and the Texas Company were finally in the position to eliminate local competition. In the following months Shell and Standard Oil bought up several of the local distilling firms.[477] On 13 January 1935 the Chinese distillers gave up their fight. They sold their stocks of kerosene to the foreign companies and went out of business.[478]

companies of September 1934. The manipulation of anti-foreign feelings by Chinese officials and businessmen in order to obtain bargaining or competitive advantages over foreign firms was widespread.

[475] Shell memorandum 'Distilled Kerosene Problem in China' 25 June 1934 to Foreign Office 29 Aug. 1934, PRO London, FO 371, 18087, F5319.

[476] British Minister (Beijing/Beiping) to Foreign Office 25 Sept. 1934, ibid. 18087, F5781.

[477] Shell London to Shell The Hague 28 Nov. 1934, Shell The Hague, SIPM, 49, 304.

[478] British Consul-General Phillips (Guangzhou) to British Ambassador Cadogan (Beijing/Beiping) 19 Jan. 1935, PRO London, FO 371, 19321, F1126. However, the problem of local distillers in South China resurfaced again later: in late 1937 kerosene distribution inland from Hong Kong began in bulk in order to create a shortage of second-hand oil tins, which in turn would mean that the local distillers could not use

Shell had finally achieved its goal, but the real winner was the provincial government, which continued to be paid kerosene tax well after the Chinese distillers had cleared the field. The foreign companies were forced to continue distilling their kerosene locally, at least until they had recovered their advanced tax. Consequently Guangdong was certain to get at least another HK$ 2.5 million (ƒ1.5 million) from the foreign firms. Because it remained cheaper for the oil companies to distil locally as long as there was a difference between the import duties for kerosene and fuel oil, they continued operating their distilleries in 1935 and 1936—meaning that more tax went to the province. When the pre-paid tax was fully recovered, Shell was willing to advance a further sum.[479] There was no change in the situation until July 1936, when the Guomindang government took control of Guangdong and ended the tax difference between fuel oil and kerosene. Immediately all distilling activities were stopped by the foreign companies, and the South China market was once again supplied with imported kerosene.[480] The Shell directors were clearly worried about the possible effects of this way of solving their problems in China. They saw it as a form of blackmail, where—under the banner of nationalism—government authorities introduce discriminatory practices purely with the aim of obtaining advanced tax or another financial benefit. Internally, the Shell management referred to the pre-paid Guangdong tax as a loan.[481] The available data on Shell's policy in Guangdong during 1933-1934 indicate an awareness among its leaders that diplomatic support and treaty privileges could not be depended upon. But the company also did not have a clear-cut answer to a problem that could not be solved merely by business tactics such as initiating price wars or local production. The idea of long-term co-operation with Chinese business or official partners in Guangdong did not appeal to Shell, probably because it involved indigenous refining which ran counter to Shell's main interest in China.

Even with the second Guangdong taxation conflict was settled, Shell's tax worries did not end. The agreement with the central government of 1 February 1929 initially worked well in many parts of China. In instances where Shell agents were forced to pay local tax, the company simply demanded and obtained a refund from the finance ministry in Nanjing. But on 30 June 1931, when the agreement expired, it was not renewed.[482] The reason may have been that there were still too many areas where the Guomindang government could not control local officials, which made the agreement a very expensive undertaking for the Chinese side. Until Nanjing could actually impose direct rule in all provinces, Shell instructed its agents to recover local taxes in the selling price. The company gave all agents a copy of a government letter that stated that local duties were illegal. The agents could show the letter to local tax officials. This situation drew Shell's interests closer to those of the Guomindang government: generally speaking petroleum would be more expensive in areas where the central government was weak. An expansion of Nationalist power would

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Shell tins and increased their packing costs. Shell agencies were equipped with bulk shop tanks. This method was successful, but had to be stopped because of the war: capital expenditure for Area Management B 6 Dec. 1939, Shell The Hague, SIPM 8, 1250.

[479] A. Agnew (Shell London) to De Kok (Shell The Hague) 13 Jan. 1936, Shell The Hague, legal 7, China.

[480] Osterhammel, *Britischer Imperialismus*, 327.

[481] Agnew (Shell London) to De Kok (Shell The Hague) 13 Jan. 1936, Shell The Hague, legal 7, China.

[482] Shell Shanghai to Shell agents 4 July 1931, PRO London, FO 371, 16227/F3732.

therefore be welcomed by the company, just as it hoped for central government control of Guangdong during 1934-1936. This could also be seen in other provinces. For instance, in 1931 the provincial government of Hunan ordered Shell to pay a dike tax on kerosene and petrol sales, and threatened to arrest its agents if it did not comply. The conflict ended after Chiang Kai-shek, in his capacity as leader of the Guomindang government, sent a telegram to Hunan taking away the province's competence to collect dike tax.[483] Another example is the Fujian business tax on petrol and kerosene, a problem that ended in early 1934 when the central government imposed direct rule on the province.[484]

However, in a similar case in Shaanxi in 1934, Shell believed that Finance Minister Song had secretly told the local authorities to ignore any instructions he would officially give to end extra taxation.[485] Clearly there was some suspicion among Shell people as to the trustworthiness of the Chinese government. In some other provinces where central government influence was also strong, Shell continued to be dissatisfied with taxation. In 1935 Shell complained about this being the case in Sichuan,[486] and in the same year there was a collision between the company and tax officials in Fujian. Shell refused to pay tax on certain products because it believed that competing importers from Japanese Formosa were secretly getting preferential treatment, which led to the temporary seizure of Shell oil stocks by the local tax office.[487] In the mid-1930s, local tax-related incidents continued to be constant thorn in the company's flesh. Despite such irritations, the advantage of increased centralisation in China was becoming apparent to Shell. A clear illustration of this was the successful lobby against a higher import tax on oil by the foreign oil companies in 1934.

The more Nanjing effectively controlled taxation in the less obedient provinces, the more likely an increase in the national import duty on petroleum was. In January of 1934 press reports appeared saying that such an increase was imminent. Shell, Standard Oil, and the Texas Company responded by sending a letter to the Chinese government to point out the likely results of such a tax increase: a lower standard of living for those who could no longer afford kerosene, a slowdown in the development of roads and of bus services, and above all less government revenue because of the decrease in imported kerosene and petrol—the companies predicted that local distilling would take the place of imports.[488] It was at this crucial moment that Shell began to make plans to build a refinery in Shanghai to make petrol and kerosene out of lowly-taxed heavier petroleum types.[489] Within a few weeks the Legislative Yuan in Nanjing decided to oppose the government's plans for a raised import tariff.[490] The Shanghai refinery was no longer required. This proved to the

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[483] British consul (Changsha) to British minister (Beijing/Beiping) 6 Jan. 1933, PRO London, FO 371, 17090, F3614.

[484] British minister (Beijing/Beiping) to British Foreign Office (London) 12 Jan. 1934, ibid. 18045, F225.

[485] Shell Shanghai to British commercial councillor (Shanghai) 11 Dec. 1934, ibid. 19283, F989.

[486] Shell Chongqing to British ambassador (Beijing/Beiping) 17 Apr. 1935, ibid. 19321, F3615.

[487] British consul (Xiamen) to British ambassador (Beijing/Beiping) 4 Oct. 1935, ibid. 19321, F4398.

[488] APC, Stanvac Oil Company and Texas Oil Company to Chinese ministry of finance 16 Jan. 1934, ibid. 18086, F1393.

[489] J.L. Bowker (Shell London) to P. Caland (Shell The Hague) 26 Jan. 1934, Shell The Hague, SIPM, 8, 884 import and export taxes China.

[490] *Shanghai Evening Post and Mercury* (12 Feb. 1934).

foreign oil companies that it was quite possible to influence the Nanjing government by putting forward arguments related to its revenue. On the whole, from Shell's point of view the tax situation in China had greatly improved since 1925. For the time being an expansion of central government influence solved many of Shell's tax problems, and in principle the company was willing to support the Guomindang by making tax deals. The second Guangdong taxation conflict showed how strongly Shell opposed the emergence of a Chinese distilling industry.

Restrictions on Land Use under the Guomindang Government. The second kind of political risk perceived by Shell during 1928-1937 related to its use of land. At many locations the oil company leased land for its wharfs or tank installations, and this sometimes made the company vulnerable to local conflicts.[491] This happened in the late 1920s when the warlord Zhang Zuolin was using Shell to put pressure on the USSR to withdraw its influence from Manchuria. The Soviets owned and controlled a major trans-Manchurian railway line, The Chinese Eastern Railway (CER). As with other main railways in China, Shell leased plots of land alongside for the storage of petroleum. The company had been paying rent to the CER, but when the latter asked Shell to clear one particular site in 1927, the petroleum firm refused to move unless offered a suitable new location. Zhang's government saw this as an opportunity to push back Soviet influence and told the company that it could stay if it paid rent to the Chinese Land Administration rather than to the CER. When Shell did this, the CER threatened to cut off its siding facilities from the petroleum storage site. In order to keep the site in operation, the oil company then was also forced to pay rent to the CER.[492]

More often Shell itself was targeted by the Chinese authorities, especially during the first half of the Nanjing decade. At the treaty ports, the company had long-lasting lease contracts for substantial areas of land, which often dated back to the Qing dynasty. In many cases these plots of land were outside the foreign concession areas, and consequently attracted the attention of the local Chinese authorities. In 1930 the Reclaimed-Land Bureau of Zhejiang wanted Shell and Standard Oil to pay for an area of reclaimed land in front of their installations at Ningbo. Shell asked for a consular intervention, claiming that the so-called reclaimed land was actually mostly under water and that it would have paid 'to avoid local difficulties' if the sum had been lower. The British and US consuls at Ningbo obtained a declaration from the mayor saying that the reclamation money should not have to be paid.[493] While it was possible that in the Ningbo case the provincial government was mainly trying to find a pretext to increase its revenue, there also were cases in which Chinese officials were persistently attempting to take from Shell land lease privileges it had enjoyed for decades.

In 1929 Fujian province asked Shell to move its installation from Gulangyu Island—part of the city of Xiamen—to a nearby site on the mainland, where Standard Oil already operated an installation. Shell agreed and built a completely new oil storage installation on the new site, a plot of 96,000 square feet of land leased to the company in perpetuity. When the new installation was almost finished

[491] To house its European managers Shell also leased British consular buildings in various cities.
[492] PRO London, FO 371, 13950, F6020.
[493] Memorandum 'Riparian Rights', ibid. 15480, F411.

and its costs already had totalled Y1 million,[494] the district authorities sent troops to end the construction work. The local magistrate claimed that the province was not entitled to make agreements about oil installation sites.[495] Among his demands was that in the new agreement the land lease would be valid for only twenty-five years. Shell refused to give up its Gulangyu lease, which was in perpetuity, if the new lease were not on the same terms. It referred to the Chinese demands as 'most preposterous'.[496] Shell's own negotiations with Chinese officials failed to produce any result. Official protests to the Guomindang government by Britain did not help, as the latter did not want land being leased to foreigners in perpetuity. To its regret, the oil company was informed that the British government was unwilling to station a gunboat in Xiamen harbour to step up pressure on the Xiamen authorities.[497] By 1933 the matter was still unresolved when the British minister to China, Miles Lampson, was on leave in England. He was approached by a Shell director who urged him to do something quickly, and on his return to Hong Kong the local Shell managing director did the same. This pressure resulted in Lampson personally visiting the local, provincial, and national Chinese authorities. His performance as mediator between the Chinese and the oil company produced a settlement within a few weeks. A lease in perpetuity was out of the question, which was now accepted by Shell. However, in return for paying a rent of at least Y10,000 a year, Shell was granted a 75-year period for the lease by the Chinese government. The magistrate no longer stood in the way of the move to the new installation site, and a final agreement was signed on 8 November 1934.[498]

Another case in which the Chinese authorities tried to limit the land rights of Shell occurred in Shanghai. In 1930 the Bureau of Harbour Affairs of the Chinese administered part of Shanghai introduced a new regulation, according to which all companies located on the Huangpu River bank no longer automatically had the right to access the river from their land. Instead, they had to lease the right to make use of the frontage, i.e., the line separating their land from the river, from the Chinese bureau.[499] Free river access was very important to the economic prosperity of the International Settlement, and the foreigners in Shanghai interpreted the new frontage regulation as an attempt by the Chinese government to limit their treaty privileges. Before enforcing the new rules, the Chinese authorities first used Shell as a test case. Shell was told by the Chinese authorities that part of the river front of its Lower Pudong Wharf would be expropriated to make way for a new ferry landing.[500]

Shell was willing to give up some of its land for the ferry, but in return it wanted a guarantee that it could keep and use its Pudong wharf also in the future.[501] The

[494] Osterhammel, *Britischer Imperialismus*, 469 n86.
[495] PRO London, FO 371, 16227, F1911.
[496] T.P.M. Bevan (Shell Xiamen) to British consul (Xiamen) 29 Oct. 1932,ibid. 17095, F93.
[497] Shell London to British Foreign Office, ibid. 16227, F5224.
[498] Ibid. 17095, F1670/F1773/F1925/F2006/F2286/F3018 and 18112, F152.
[499] Shell, memorandum, ibid. 15480, F262.
[500] Chinese Ministry of Foreign Affairs to British ambassador (Beijing/Beiping) (translation), PRO London, FO 371, 15480, F3011. Shell had two wharfs in Shanghai, both in north Pudong facing the Yangshupu Lu (Yangtszepoo Road) factories across the River Huangpu. The eastern wharf was called the Lower Wharf, the Upper Wharf was located a few kilometres further to the west. Unlike the Yangshupu industrial area, Pudong was not under foreign adminstration.
[501] Shell London to British Foreign Office 20 May 1931, ibid. 15480, F2921; Shell London to Shell Shanghai 14 May 1931, ibid. 15480, F2920.

problem for Shell was that it did not hold a title deed for the contested plot of land, because the company had bought it only recently from another firm, the Shanghai Dock Company[502] The Chinese authorities were not inclined to give a title deed to the company until it complied with the ferry plan. To strengthen its bargaining position, the company asked the British government for diplomatic support. The latter declared that it was willing to assist, but also intimated that China had the right to appropriate any plot of land outside the foreign concessions for public use. By this time the traditional relationship between British diplomats and the companies whose rights they defended was no longer as close as it had been in the early 1920s. The British minister to China, Miles Lampson, advised to the Foreign Office in London that it should be careful in giving promises of support to the companies. First of all, he stated, the old methods of diplomatic pressure were no longer efficacious and 'the best results are usually obtained by the firms themselves seeking a compromise settlement by direct discussion with the local authorities'. And in the second place, the British government should not let itself be manipulated by 'our extremely intelligent friends of the Asiatic Petroleum Company and Butterfield and Swire [B&S was having a similar problem]'. Lampson believed that these companies would hold the British government responsible for their problems, if they were unable to reach a compromise with the Chinese.[503] Despite such misgivings, he did his duty and sent a letter to the Chinese foreign minister to complain about the river frontage matter.

Meanwhile Shell had not sat still and tried to solve the ferry problem by direct talks with the Chinese. Throughout the year 1931 Shell representatives were in contact with various officials of the Chinese municipality of Shanghai, including the mayor. As with the Xiamen case, the company made it clear that it had a strong aversion to the Chinese demands: 'We told the [Chinese municipal officials] that their proposals were simply ludicrous [...].'[504] In October of the following year, after lengthy negotiations, the Chinese finally agreed to give Shell what it wanted: the title deed for the land of Shell's Lower Pudong Wharf. In return the Chinese city of Shanghai acquired its ferry landing and a road from the landing to the boundary of Shell's land. The decision by the Chinese to give in was probably stimulated by the Japanese attack on the city earlier in 1932. After the Japanese violence against China in 1931 and 1932, China's policy of limiting Western privileges became less pronounced. More anxious to be conciliatory, the Chinese municipality of Shanghai no longer tried to enforce payment of frontage rights.[505]

The leasing of Chinese land was sometimes a source for conflict with the local authorities, and like the customs duties it represented an area in which in the late 1920s the company was confronted with the increasing determination of Chinese officials to push back foreign influence. The British government was helpful to the oil company, but only as a mediator and it eschewed the policy of making threats against China. The Chinese were creative in finding ways to undermine the treaty system, and Shell was learning that its capacity to resist this development was

[502] Memorandum 'Riparian Rights', ibid. 15480, F411.
[503] British Minister M. Lampson (Beijing/Beiping) to British Foreign Office 24 June 1931, ibid. 15481, F3960.
[504] Shell Shanghai to Shell London 19 Nov. 1931, ibid. 15481, F7593.
[505] Ibid. 17059, F2130.

limited. In Xiamen the company was forced to accept a change in its lease contract from perpetuity to seventy-five years. In Shanghai, where the outcome of the conflict was less dramatic for Shell's position, the company also cannot have failed to notice its ultimate inability to resist the will of a persistent Chinese government. The revision of old treaty rights was very probably regarded as an inevitable process, but Shell was not in a hurry to give up its land rights and in this respect the company benefited from the growth of Japanese power in East Asia. After 1931 the waxing Japanese threat made the Chinese authorities less inclined to limit Shell's land rights, consequently no further disputes of this type occurred.

Guomindang State Control of Oil Distribution. A third important political risk of this period was the possibility that the Chinese government would bring parts of the trade in petroleum products under its control. In 1933 the Guomindang government was waging a military campaign to destroy the communist power base in Jiangxi province, the 'Jiangxi Soviet' of which Mao Zedong (Mao Tsetung) was one of the leaders. Central to the strategy employed by the government was a blockade to isolate the communist-controlled area. Consequently public sales bureaux for salt and kerosene were established in counties in the immediate vicinity of the territory under blockade. The oil companies needed special permits to transport kerosene and were forced to sell it via the public sales bureaux, instead of directly through their own agents. Because each customer was allowed to buy only 2 ounces of kerosene, Shell's sales figures in Jiangxi quickly deteriorated. In the following years similar blockades were installed in several other provinces where the government wanted to bring 'bandit areas' under its control. Shell did not complain about this practice until after the government's successful advance into Jiangxi, which forced the communists into their Long March to Yen'an in North China. By early 1935 communist influence in Jiangxi had been destroyed, but the monopoly on kerosene distribution was not lifted. On the contrary, apart from restrictions on transport and the quantity per buyer, the agents of the foreign companies now also were forbidden to raise their selling prices. By early 1935 it had become clear that the Chinese authorities were planning to substitute the public sales bureaux—which regulated the trade still carried out by the agents—for rural co-operatives of kerosene consumers—which would distribute the oil to their members and thereby obviate the position of the agents.[506]

Shell informed the British legation and the British minister sent complaints to the government in Nanjing.[507] Furthermore, in February of 1935 Shell's Jiujiang manager Morton Smith approached the wife of Chiang Kai-shek, with whom he was apparently acquainted, and asked her to bring the matter to Chiang's attention. Consequently, General Chiang instructed Governor Xiong of Jiangxi to discuss the problem with Morton Smith; but subsequent talks between the Shell representative and the governor and with other provincial officials produced no result.[508] In early October Shell, Standard Oil, and the Texas Company stopped their deliveries to at

[506] Memorandum by Morton Smith (Shell Jiujiang) March 1935, ibid. 19327, F3120. Not only does this memorandum contain figures on how much oil was smuggled, but also a description of the method and routes used.

[507] Cadogan (Beijing/Beiping) to British consulate-general (Hankou) 20 March 1935, ibid. 19327, F3120.

[508] Morton Smith (Shell Jiujiang) to Mrs Chiang 27 Feb. 1935, ibid. 19327, F3120.

least some of the Jiangxi public sales bureaux. Their place was taken by the Guanghua Petroleum Company, a Chinese distributing firm.[509] Further protests by the British legation did nothing to change the situation.[510] In early April of 1936 the planned co-operatives materialised: in certain towns in Jiangxi the agents of the three foreign companies were ordered to sell only to the co-operatives.[511] But later in the same month Shell was surprisingly informed that the monopolies of the sales bureaux and the co-operatives had been abolished, and that kerosene could again be traded freely.[512] What had happened? According to Osterhammel's study, a British League of Nations advisor, W. Campbell, successfully urged Chiang Kai-shek to end the monopoly. Osterhammel also mentions that introducing co-operatives was part of a League-sponsored programme. Therefore it made sense that someone from the League of Nations should ask the Chinese government to exclude kerosene from the rural co-operatives program. The questions why Campbell made his request, or why Chiang Kai-shek decided to abandon the oil monopoly scheme altogether unfortunately both remain unanswered. No other attempts were made by the Guomindang government to impose a monopoly on the petroleum trade. As the conflict with Japan over the Manchurian monopoly will show, Shell was prepared to put up strong resistance to any form of state monopoly on the distribution of its products.

Exploration Concessions under the Guomindang Government. The fourth main political risk of the Nanjing Decade was caused—just as under Yuan Shikai—by the government issuing new oil exploration concessions that threatened the status quo on the Chinese oil market. During the 1920s Shell paid no attention to opportunities for oil exploration in China. This changed during the 1930s, when Standard Oil again showed a willingness to invest in oil exploration in China—this time at the request of Chinese officials.[513] Several high-ranking Chinese officials and influential Chinese businessmen established a syndicate to develop China's oil reserves. In November of 1935 this syndicate obtained a concession to look for oil in Xinjiang, Gansu, and Qinghai from the Chinese government. On 21 May 1936 the syndicate approached Standard Oil with a proposal that they form a partnership. The result was an agreement that gave Standard Oil the right to look for and produce oil in the same three provinces, whereby the Chinese syndicate and the American oil company each would take part for 50 per cent.[514] In the summer and autumn of 1937, two US geologists were in China to survey the concession provinces. Unlike during the 1914-1915 expedition, media attention was scrupulously avoided.

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[509] Cadogan (Beijing/Beiping) to British Foreign Office 8 Nov. 1935, ibid. 19327, F7989.

[510] British Sub-Embassy (Nanjing) to British Embassy (Beijing/Beiping) 16 Nov. 1935, ibid. 20227, F40.

[511] British Embassy (Beijing/Beiping) to British Foreign Office 11 Apr. 1936, ibid. 20227, F2804.

[512] British consul-general (Hankou) to British Embassy (Beijing/Beiping) 27 Apr.1936, ibid. 20227, F3722.

[513] After it occupied Manchuria, the Japanese army became interested in looking for oil there. In 1933 it asked Japanese oil companies to invest money in prospecting in Manchuria, but the companies were not interested: Shell Tokyo via British Foreign Office to Shell London 16 June 1933, ibid. 17112, F3837. However, a year later the Shenyang office of Shell reported that a Japanese expedition was on its way to the area south of Manzhouli, Inner Mongolia, to look for oil: Shell Shenyang to Shell Shanghai 29 June 1934, ibid. 18110, F5842.

[514] Agnew (Shell London) to De Kok (Shell The Hague), Shell The Hague, EP 22, x00 China.

Standard Oil, which through the international cartel agreements was committed to co-operating with Shell in China, offered half of its participation to the European concern.[515] At that time Shell believed that Xinjiang (Chinese Central Asia) offered good prospects for oil exploration in China.[516] China was largely reunified under Chiang Kai-shek, and with the development of a new road system the idea of exploration in this remote part of the country seemed much less unrealistic than before. This occurred at a time in which Shell's interest in China was changing. Whereas the Chinese market formerly was used to absorb surplus kerosene—a by-product of petrol—it was now becoming an important market for the main petroleum products of the 1930s themselves: petrol and fuel oil. Therefore, provided that Shell was involved, commencing oil production inside China was now more attractive than it had been two decades earlier. On 26 July 1937 the three parties met in Dorchester, England. The Chinese syndicate was represented by two of its members, Finance Minister—and Shell agent—Kong Xiangxi (H.H. Kong) and the experienced diplomat, Gu Weijun (Wellington Koo). Shell was represented by O.W. Darch, Standard Oil by Ph.W. Parker and G.S. Walden. They were high-ranking managers; no British or US government officials were involved or even informed. At this meeting Kong and Gu invited Shell to join on the same terms as Standard Oil. Two days later Shell and Standard Oil reached an agreement on Shell's participation in the Standard Oil concession.[517] This agreement and the new Standard Oil expedition were kept a secret even from the management of Shell's organisation in China.[518] The reason for this secrecy is difficult to fathom, but may have been of a propagandistic nature: possibly the Guomindang was afraid of loosing popular support if it were made known that its officials gave oil concessions to the large Western firms. Therefore the fact that Standard Oil offered Shell the opportunity to participate in the concession neutralised the risk of Shell's position being undermined by China's desire to become an oil-producing country. As it turned out, the initial survey was not followed by more thorough exploration activities.

When the Dorchester meeting took place, the Sino-Japanese War had already broken out. In January 1938 the Japanese occupation of East China had made oil exploration in Xinjiang unattractive again, and the concession partners agreed to let the project rest until after the war.[519] Another aspect that worried Shell was 'the uncertainty as to the holdings of the syndicate and the legal conditions'.[520] Meanwhile the geologists had visited Gansu and Qinghai—why Xinjiang was not included in their survey is not clear. In the spring of 1938 they reported that the prospects of finding oil in Gansu and Qinghai were not bright. Although discouraged, Shell and Standard Oil did not want to abandon the project entirely. Instead it was decided to 'leave this matter as it stands now'.[521] The companies made

[515] Agnew (Shell London) to G.S. Walden (Stanvac London) 28 July 1937 and reply Walden to Agnew 29 July 1937, ibid.
[516] J.W. de Booy (Shell The Hague) to Agnew (Shell London) 9 July 1937, Shell The Hague, SIPM, 190A, 91.
[517] Agnew (Shell London) to De Kok (Shell The Hague), Shell The Hague, EP 22, x00 China.
[518] Heertjes (Shell London) to De Kok (Shell The Hague) 10 Aug. 1937, ibid
[519] 'Summary of Position as Disclosed by Documents Sent to Mr Agnew by Mr Walden on the 28th January 1938, under the Heading of "Search for Oil in China"', ibid.
[520] De Booy (Shell The Hague) to F. Godber (Shell London) 20 May 1938, ibid.
[521] Ibid and Godber to De Booy 23 May 1938, ibid.

sure that the geologists would not disclose the nature or the results of their mission. They were instructed not to tell anyone that they had been in China on behalf of Standard Oil, or to publish any scientific or technical articles.[522] The costs of the expedition, amounting to about $34,000, were borne equally by Shell and Standard Oil.[523] As with taxation, Shell was quite willing to enter into close- co-operation with the Guomindang government in the field of oil exploration. For the first time the oil companies were not even informing their governments of important contacts with high-ranking Chinese officials. However, as long as Japan continued its advance into China the company postponed actual support for Chinese oil production.

Machukuo State Control of Oil Distribution. The fifth and last major political risk that threatened Shell's position in China prior to 1937 was caused by the Japanese invasion in Manchuria of 1931 and the subsequent establishment of the Japanese-controlled puppet state of 'Manchukuo' that was not recognised by the Western powers. Initially some Western businessmen welcomed the invasion, because they hoped that Japanese control would bring more stability to that part of China. Despite their expectations, Chinese resistance was not quickly eliminated by the Japanese army and in 1932 and 1933 Shell continued to be troubled by war damage and looting. By early 1933 some thirty-five agents had reported damage, totalling over Y100,000.[524] These problems of violence and theft were not entirely the same as those experienced by the company during the 1920s. The new element was Japan, which meant that the experience Shell had built up with provincial warlord regimes and the Guomindang government was irrelevant here. Britain's official relations with Japan were very different than those with China–Japan was militarily strong and less inclined to tolerate Western influence in areas under its control–even when compared with the Japanese policy at Qingdao around 1920.

The protection of the larger treaty port installations by the British navy was still possible in China, but no longer feasible in Manchuria. Shell operated a large installation in the vicinity of Niuzhuang, South Manchuria, in an area where many bandits were active who benefited from the unsettled condition in Manchuria. A year after the invasion began, in September 1932, two British Shell-managers and the daughter of a British missionary were kidnapped by bandits in the vicinity of Niuzhuang.[525] One Shell-employee escaped, but the two other victims were released only after a high ransom was paid. This increased the danger that other foreign Shell personnel would also be kidnapped. Consequently the company felt very vulnerable in this area, and feared that its tank installation would prove an attractive target for bandits. Apart from Chinese personnel and forty to fifty company guards there were also two British managers living in the installation, which was located out in the countryside. To be able to protect these two British subjects, the crew of a British

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[522] R. Leibensperger (Stanvac The Hague) to H.M.E. Schuermann (Shell The Hague) 20 Aug. 1938 and response Schuermann to Leibensperger 30 Aug. 1938, ibid.

[523] Godber (Shell London) to De Booy (Shell The Hague) 17 Nov. 1938, ibid. The plan was revived in 1947, when Shell sent a survey team to Gansu. The preparations for oil production were stalled again during the Korean War: Shell Companies in Greater China, *The Long Term*, 20.

[524] Most of these claims were investigated and confirmed by the company. For a list of the agents, the town where their business was located and a description of the cause of the damage (usually looting by bandits or Chinese troops): PRO London, FO 371, 17045, F4671.

[525] Ibid. 16223, F6591.

naval vessel based in Niuzhuang harbour practised armed landings near the installation.[526] This irritated the local Japanese authorities, who regarded it as a sign of disregard for Manchukuo's sovereignty. The British government decided that under such circumstances it was better to remove its warship, and asked Shell not to allow its British staff remain at the installation during the night, when a bandit attack was most likely to occur. The company was loathe not to have a European at the installation at all times to supervise the Chinese employees. Initially two British managers were ordered to stay in Niuzhuang at night, but soon the busy winter season started and they were back again permanently at the installation.[527]

The situation in North Manchuria was even more difficult. The northern agencies were so far inland that the company lost contact with many of them during the fighting and the accompanying chaos of 1931-1932. In September 1932 the disturbed communications between the company and its agents caused the Harbin management to fear that many agents had sold their stock and remitted the proceeds to other parts of China. The value of the North Manchurian agency stock was thought to be certainly more than Y400,000.[528] This was only partly covered by guarantees. If the company were to try to recover its stock and debts, agents could easily escape its arm by crossing the border between Japanese Manchukuo and unoccupied China. In spite of these problems, Shell was no doubt pleased about the puppet state's policy towards the foreign debts of the Chinese provincial governments it replaced. Even though following the invasion the Japanese government declared that it did not feel responsible for such debts,[529] the Manchukuo regime did decide to repay them.[530]

Problems of a different nature arose when trading conditions gradually settled down after 1932. Shell was the market leader for petroleum products in Manchuria, occupying almost 32 per cent of a market that consisted of some 126.5 million litres in 1933.[531] Shell was particularly strong in the marketing of the strategically important products petrol and fuel oil, while Standard Oil had a lead in kerosene sales. As a consequence of the Japanese occupation of Manchuria, diplomatic relations between Great Britain and Japan deteriorated. The British government refused to recognise Manchukuo, which caused worries for Shell, because it feared that Japan might retaliate by limiting Shell's rights in Manchuria. These worries multiplied when Japan's exports were threatened by changes in the tariff policy of British India, a major market for Japanese consumer goods. Shell then pointed out to the British government that an anti-Japanese policy with regard to Manchuria was undesirable for British business and that it feared losing its main Japanese customers

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[526] British consul (Niuzhuang) to British Minister (Beijing/Beiping) 6 July 1933, ibid. 17073, F5502. During the summer season the British staff did sleep in Niuzhuang, in a building that Shell leased from the British consular service: British Minister (Beidaihe) to British Foreign Office 7 Aug. 1934, ibid. 2350, K10515.

[527] Ibid. 17143, F6603/F7219; ibid. 18088, F80.

[528] 'Business conditions in North Manchuria, 1931-1932', ibid. 16227, F8467. It is not known to which extent this fear came true.

[529] Ibid. 15495, F6273.

[530] At least the ones by the former Liaoning provincial government: ibid. 17045, F390. As a consequence Shell obtained compensation for much of its agency claims of the 1931-1932 fighting in Liaoning province: British claims against former Liaoning government, ibid. 17045, F6790.

[531] Main products: kerosene (14.7 million litres; Standard Oil market leader), petrol (14.3 million litres) and fuel oil (10,7 million litres): British consul-general (Shenyang) to British Minister (Beijing/Beiping) 14 June 1934, ibid. 18109, F5158.

in Manchuria: the South Manchurian Railway Company, the Dairen Kissen Kaisha, and the Dairen Fishing Boat Association. According to the oil company its future in Manchuria was 'so utterly dependent on friendly relations with Japan', and therefore its message to the British government was that it should refrain from taking anti-Japanese measures. At this point the East Asian interests of the company and the Western governments were further apart than ever before. The Manchurian oil market was a large one and Shell had no intention of losing it. In the long run, the Japanese occupation promised more stability and faster economic and industrial growth, which made Manchuria even more attractive. But the Western powers, traditionally represented in China by Britain, saw the international order threatened by the Japanese invasion and refused to recognise Manchukuo. Moreover, the British government was not convinced that the future of Shell in Manchuria was really at stake. According to the British consul in Dalian, what Shell was implying was not true, that no Japanese firm was contemplating closing its door to supplies from Shell because of British foreign policy.[532]

Although Japanese firms in Manchuria never actually boycotted Shell, sooner or later a deterioration in Anglo-Japanese relations would be unfavourable to a British company with large assets in the territories controlled by the Japanese army. Besides the danger of war between Britain and Japan, there was the problem that the government of Manchukuo was not recognised by the British and Dutch governments. Therefore, as in China after 1916 but for a different reason, British and Dutch diplomats could offer little direct support when Shell came into conflict with the Manchukuo authorities. The first time this happened concerned a case of alleged discrimination, in some respects similar to what Shell was experiencing in Guangdong about the same time.

Japanese firms were importing into Manchuria a type of petroleum that could be burned in lamps as kerosene, but that qualified with customs as gas oil or 'light oil'. As a result the Japanese importers paid the light oil import duty, which was lower than the one for kerosene, and were able to market lamp oil more cheaply than Shell, Standard Oil, and the Texas Company, the main importers of regular kerosene.[533] When the Western firms complained and the Manchukuo government did not change the situation, Shell turned to the British government, claiming that the Open Door principle was at stake. While formally Britain and the US sent protests to the Japanese Embassy in Manchukuo, Shell decided to fight the Japanese importers with their own weapons. The company's managing director at Shenyang ordered the Shell installation at Dalian to mix kerosene with gas oil, the result of which was presented to and accepted by Manchukuo customs as light oil. Although Shell successfully imitated the Japanese tactic, the company disliked the fact that this produced a lower burning quality and continued to ask the Manchukuo customs to change its definitions of kerosene and light oil.[534] Still, putting its misgivings aside, Shell began shipping its self-mixed light oil to Manchuria, even though the British government warned that under these conditions it could not continue its support. It was difficult to maintain that this was a case of anti-Western discrimination if Shell were allowed

[532] Ibid. 17139, F4051/F4137/F5347.

[533] Shell Shanghai to British commercial councillor (Shanghai) 14 June 1933, ibid. 17139, F5168.

[534] D.F.A. Wallace (Shell Shenyang) to British consul-general (Shenyang) 29 Jan. 1934, ibid. 18108, F881.

to do exactly the same as its Japanese competitors.[535] At this point the light oil conflict did not develop any further, probably because a far more serious issue was now arising.

In the spring of 1933 for the first time Shell heard rumours that the Manchukuo regime intended to establish a state monopoly for petroleum distribution in Manchuria.[536] Near the end of that year, Manchukuo officials began visiting agents of Shell and of the other foreign oil firms in various remote parts of Manchuria. The Manchukuo government was collecting data on the petroleum trade from these agents, and Shell knew that this indicated that the introduction of the monopoly would only be a matter of time.[537] Throughout 1934 it gradually became clear that Manchukuo intended to incorporate parts of the existing distributing networks of the foreign companies into a state-controlled organisation, that would have a monopoly on kerosene and petrol distribution.[538] Manchukuo would still buy most of its petroleum from Shell and Standard Oil, but there was no guarantee that this would continue to be the case in the future and it was known that Japanese firms were being encouraged to expand their production capacity in Manchuria. The new system was scheduled to become effective in early 1935.

Meanwhile Anglo-Japanese diplomatic relations had become even worse after the Japanese withdrew their membership from the League of Nations in March 1933. Shell now believed that the only government that could protect the company in Manchuria was not Great Britain but Japan. The company's attitude towards political risks in Manchuria was summed up as following:

> '[...] whilst [we] quite understand sovereign rights etc. [of the state of Manchukuo, we] also fully realise [the] important influence of Tokyo [on the government of Manchukuo;...] as traders we have nothing to do with diplomatic recognition and we [are] only concerned with [the] real situation with leads us to the fixed conclusion that we must depend upon Tokyo for protection [of] our position.'[539]

By mid-1934 the intended Manchukuo oil monopoly was perceived by Shell to be a very serious problem. Manchuria was a large and rapidly developing market where Shell had two large tank installations and an extensive agency network. Supplying Manchuria with petroleum without having any influence on local distribution would be extremely disadvantageous to Shell, since it amounted to a return to the pre-1908 situation in which the company could not control volume and price level. There were only two possible strategies which could be adopted to prevent the introduction of the monopoly law: either to force Manchukuo to drop the idea, or to find some compromise in which Manchukuo would drop it in return for something else. As

[535] Wallace (Shell Shenyang) to British consul-general (Shenyang) 19 Feb. 1934, ibid. 18108, F1408.

[536] In a letter Sir G. Macdonogh of Shell informed John Pratt, China specialist at the British Foreign Office, about this news and asked him to let the Foreign Office to inquire in Tokyo about this: Macdonogh to Pratt 15 May 1933, ibid. 17111, F3260.

[537] Shell Shenyang to British consul-general (Shenyang) 14 Dec. 1933, ibid. 18114, F762.

[538] On 26 October 1926 Manchukuo announced that at least six Standard Oil agents and four Shell agents would be incorporated as main agents in the new system. Various other Shell and Standard Oil agents and sub-agents would in the same system become sub-agents: account of meeting Manchukuo with oil company agents 26 October 1934, ibid. 18190, F6894.

[539] Shell London to Godber (Yokohama) Dec. 1934, ibid. 19350, F95.

research by I. Anderson has shown, both strategies failed and Shell withdrew from kerosene and petrol distribution in Manchuria—as did Standard Oil and the Texas Company.[540] The withdrawal from Manchuria was the first major setback suffered by Shell since it built its up-country organisation at the beginning of the century, and therefore deserves some closer attention.[541]

As mentioned above, Shell thought that control of the Manchukuo regime rested in Tokyo. It is relevant to note, as indicated by Anderson, that also in Japan itself the Western oil companies were faced with a new petroleum law that seemed to undermine their position on the Japanese market.[542] This reinforced Shell's notion that protection against political risks in Manchuria could be found only in Tokyo. At first Shell tried to discourage the Manchukuo authorities by refusing to give detailed information on its market operations and position in Manchuria, either from its local head office or from its Chinese agents.[543] Joining forces with Standard Oil, the company also looked for ways to threaten Manchukuo with an oil embargo, preferably without actually formulating the threat.[544] The two firms succeeded in this by generating a discussion between the governments of the US, Britain, and the Netherlands about a possible official oil embargo against Japan—not just against Manchukuo because the difficulties in Manchuria and Japan were thought to be closely related, and oil would continue to reach Manchuria through Japan.[545] After a few months these governments decided against putting this idea into practice, but by then rumours about it had already reached Japan and had produced an effect which was desirable to the oil companies.[546] Shell also made use of the press to increase

540 Anderson, *Standard-Vacuum*, Chapters 2 and 3.

541 Anderson has already analysed this case to demonstrate that the Manchurian oil monopoly conflict was one of the events that contributed to the eventual outbreak of the Japanese-Western war in 1941. His analysis is made largely from the perspective of Standard Oil and the US State Department. While it is very complete and also incorporates the actions of Shell and the British Foreign Office, for the sake of the present study it is desirable to reinterpret the events specifically from Shell's point of view.

542 The Japanese Petroleum Industry Law was designed to make Japan less dependent on foreign oil imports. Under to the law, Shell and Standard Oil were obliged to drastically increase their stock in Japan and to build new storage facilities to make this possible.

543 Shell Shenyang to Shell Shanghai 29 June 1934, PRO London, FO 371, 18110, F5842.

544 Anderson, *Standard-Vacuum*, 58-59. See also Shell Tokyo to Shell London 9 Nov. 1934, PRO London, FO 371, 18191, F7160. If the threat was made but not carried out, the Japanese authorities might try even harder to limit their dependence on the foreign companies. In December Shell Director A. Agnew instructed his colleague F. Godber, who was on his way to East Asia, that the use of threats was not desirable until perhaps at a much later stage: Agnew (Shell London) to Godber (Singapore) 6 Dec. 1934, ibid. 18191, F7352.

545 For this purpose Deterding and his colleague from the Standard Oil Company of New Jersey, W.C. Teagle, had meetings in Washington with the US under-secretary of state and the secretary of the interior on 22 and 23 August 1934: Anderson, *Standard-Vacuum*, 80-81. On the second day of the meetings Deterding stated that he would arrange that the Dutch government would initiate the official protest against Japan's treatment of foreign oil companies that was to be combined with the threat of a limitation of oil deliveries to Japan: Deterding (London) to Teagle (New York) 10 Sept. 1934, PRO London, FO 371, 18189, F5473. At the same time discussions also took place between Shell and Standard Oil representatives and US, British, and Dutch diplomats in Tokyo. The argument used by the companies why official backing was essential was that without it, the 'independent' US oil companies would quickly replace them as the main oil suppliers of Japan.

546 Anderson, *Standard-Vacuum*, 86. The British and Dutch governments seem to have been in favour of backing the oil companies if they were to use the threat of a boycott, but only if the US would do the same, which was not the case: British Foreign Office to British Embassy (Tokyo) 5 Dec. 1934, PRO London, FO 371, 18191, F7207. The problem from the point of view of the American government was that it would

pressure on Japan. In October 1934 the Shell office in Shanghai asked the local *Times* correspondent to write about—the negative aspects of—the Manchukuo oil policy.[547] In the following weeks several articles on the topic appeared in *The Times* and in other Western newspapers. After Shell and Standard Oil had succeeded in giving the Japanese government the impression that the monopoly plans were raising considerable opposition in the West, the two oil companies were ready to begin negotiations.

In December of 1934 top-managers of Shell and Standard Oil gathered in Shanghai to prepare for their meeting with Japanese officials.[548] The companies now asked the three Western governments involved to end their efforts to put diplomatic pressure on Japan, and instead arrange an invitation from the Japanese government for the representatives of the two oil companies.[549] The companies had several things to offer to Japan. In the first place of course oil. Although Japan and Manchukuo could buy their oil from other producers, Shell and Standard Oil were the leading suppliers in the Far East. Other firms trying to take their place would have to face strong opposition from these two giant corporations. New York Standard was firmly backed by its former parent, New Jersey Standard, which in 1933 had taken a 50 per cent interest in New York Standard's Chinese and Japanese business. The Texas Company was in the same boat in Manchuria, and the remaining major oil firms—Socal, Gulf, and Anglo-Persian—were prevented by agreements from entering the Far Eastern markets.[550] In the second place these companies could offer the Japanese the strategic benefits of their presence: as long as the oil tanks and the stocks were company property, the Japanese government did not have to spend large amounts of money on setting up such facilities by itself. To put themselves in readiness for a future war, the Japanese armed forces required extensive petroleum stocks. Soundly backed by their financial strength, Standard Oil and Shell were able to maintain larger stocks in Manchuria and Japan than smaller firms could. Shell was also willing to consider building refineries in Japan. Finally, the companies could offer the Japanese the knowledge and the right to use a coal hydrogenation process.[551] In April 1933 a hydrogenation cartel—that owned the exclusive rights for this process—had been formed by Shell, New Jersey Standard, ICI, and IG Farben.[552] By the process of hydrogenation it was possible to convert coal into oil, something that would be very valuable during a war. Japan had far more access to natural reserves of coal than of oil. However, for the time being this bargaining tool disappeared into the background when the managers—even before they went to Tokyo—found out that the Japanese were not interested in buying the hydrogenation process. At the

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have to take a much more active approach that the others, because it would actually have to prohibit the great number of smaller, 'independent' US oil producers from exporting to Japan. Britain and the Netherlands did not have many independents.

[547] Shell Shanghai to Shell London 22 Oct. 1934, ibid., 18190, F6354.

[548] Directors from London, New York, Shanghai, and Tokyo: Anderson, *Standard-Vacuum*, 85.

[549] Shell Yokohama to Shell London 14 dec. 1934 (copy to Foreign Office via Petroleum Department), PRO London, FO 371, 18191, F7400.

[550] Nevertheless, Shell and possibly also the Japanese government, was aware that it could not possibly prevent the small independent oil companies from supplying Japan: Shell London to Godber (Yokohama) Feb. 1935, ibid. 19350, F878,

[551] British petroleum department to British Foreign Office 30 Oct. 1934, ibid. 18190, F6439.

[552] W.J. Reader, 'Imperial Chemical Industries and the State, 1926-1945' in: B. Supple (ed.), *Essays in British Business* Hsitory (Oxford 1977), 233-237.

time the authorities believed that Japanese researchers were capable of developing a similar process by themselves.[553]

In January 1935 the oil men were in Tokyo and began their talks with Japanese officials. The leader of the Shell delegation was F. Godber, a top managing director from London. He was instructed not to make a distinction between the Manchurian and Japanese issues.[554] The Texas Company was represented by Standard Oil and Shell, and during the talks it was generally Godber who spoke for the oil companies. It was Deterding, still the top man of the Shell concern, from whom Godber had to obtain approval before he could make any proposals. The Japanese government—and that of Manchukuo—was represented by the commercial bureau chief of the foreign ministry and the vice-minister of commerce and industry.[555] It did not take long for the fact to emerge that the Japanese were willing to compromise on their oil law in Japan, but not on the establishment of a state monopoly in Manchuria. Shell decided to accept the monopoly, as long as it was allowed to distribute the oil it imported by itself under its own brand name, and as long as no new Japanese refineries were built in Manchuria.[556] However, the Japanese refused to let the companies use their own distributing organisations. They were only willing to give them a guaranteed purchase of refined products only for 14 per cent of the 1934 Manchurian market.[557] By late February the talks were still under way, and the Manchurian issue now was the only point on the agenda. While both sides remained in a deadlock, the Shell office in Shenyang learned that the monopoly was due to become effective on 10 April. Godber believed that Japan was bluffing, and that the introduction of the monopoly would be postponed.[558] The Manchukuo government was convinced that, in the end, the oil companies would accept the monopoly rather than withdraw from Manchuria altogether. Both sides were wrong.

The monopoly became effective as announced, even though no compromise had yet been reached in Tokyo. The negotiating process was severely hindered by the fact that during March talks were suspended and the oil representatives retreated to the Philippines. During this time the Japanese Diet was in session and it was expected by both sides that pressure on the Japanese government not to yield to the Westerners would be too high. The negotiations could not be resumed before early April, by which time it was already clear that the monopoly would not be stopped. Shell and Standard Oil realised that it was now impossible for the Manchukuo authorities to yield to their main demands. The companies could not revert to a boycott against Japan, because they were very close to an agreement which would solve their problems relating to the Japanese market itself. And because the Japanese market was larger and considered to be more important than the Manchurian market, the companies accepted their defeat in Manchuria and turned their full attention to maintaining their position in Japan. The situation in Japan and in Manchuria were now regarded as separate issues.

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553 Anderson, *Standard-Vacuum*, 97-99.

554 Shell London to Godber (Yokohama) Dec. 1934, ibid. 19350, F95.

555 Anderson, *Standard-Vacuum*, 92.

556 Godber (Yokohama) to Agnew (Shell London) 9 Feb. 1935 and Agnew to Godber 10 Feb. 1935 both via British Foreign Office, PRO London, FO 371, 19350, F902.

557 Godber (Yokohama) to Agnew (Shell London) 21 Feb. 1935 via British Foreign Office, ibid. 19350, F1241.

558 Godber (Yokohama) to Agnew (Shell London) 1 Mar. 1935, ibid. 19350, F1504.

Shell and Standard Oil decided to withdraw from Manchuria. Such a move was imperative to impress on the Japanese that they could not take a similar uncompromising action in Japan itself. Indeed it was even hoped that the unexpected might still occur, and Manchukuo might end the monopoly regulation after all.[559] Therefore the Western oil companies did what they could to make the situation for Manchukuo as difficult as possible.[560] Although a full boycott was not possible, Shell and Standard Oil did establish an informal boycott of crude oil for Manchukuo by Western oil companies. While the Manchukuo regime could still import oil from Japan or from independent suppliers in the US, Shell was convinced that this at least would 'involve expense and difficulty'. Furthermore, Standard Oil and Shell were supported by the US government, which asked the independent American producers not to sell to Manchukuo.[561] The American producers agreed to this.[562] The British government also discouraged small producers within its empire from exporting to Manchuria. Similar support from the Dutch government was not needed, since Shell—via the Indies producers' association—controlled the entire oil export from the Netherlands Indies. Therefore for a while from mid-April 1935 Manchukuo was only supplied from Japan, which itself was having difficulty in creating oil reserves.[563]

At the same time Shell, Standard Oil, and the Texas Company filed claims with the Japanese government for full compensation for the loss of their Manchurian interests. On 11 May 1935 the three Western firms presented their claims, Shell demanding £418,000—which was the estimated value of 'Shell Manchuria'.[564] It was some time before the Manchukuo government realised that the refusal to sell crude oil and the claims were not intended to be a prelude to any further negotiations.[565] In the course of the following year, foreign marketing operations in Manchuria were gradually halted. Shell's main branch offices in Manchuria, in Harbin and Shenyang, were closed on 4 January and 15 May 1936 respectively. Standard Oil and the Texas Company had already left Manchuria by the latter date. Even then Shell was not entirely gone. The only remnant of the Asiatic Petroleum Company was the large tank installation at Niuzhuang, still supervised by a British manager. But when the APC left, the Rising Sun Petroleum Company entered. Rising Sun was Shell's Japanese distribution subsidiary. In 1935 it opened an office in Dalian, South Manchuria, which had been leased to Japan by China since the Russo-Japanese War of 1904-1905. Rising Sun began distributing, the petroleum products

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[559] Shell London to Shell New York 1 May 1935, ibid. 19352, F2840: '[...] there is still a faint chance of Manchukuo authorities backing down if they realise immediately the seriousness of our decesion.'

[560] The Texas Company, which was smaller and had interests that were somewhat different from those of Shell and Standard Oil, was more inclined to co-operate with the monopoly authorities. However, Shell and Standard Oil were helped by the US State Department in putting pressure on the Texas Company to follow the same policy as the others.

[561] Memorandum 'Manchurian Oil Monopoly' 4 April 1935, ibid. 19351.

[562] British Embassy (Washington) to British Foreign Office 17 April 1935, ibid. 19351, F2546.

[563] However, after about a year SOCAL was selling crude oil to Manchukuo: British consul-general (Dalian) to British ambassador (Tokyo) 8 April 1936, ibid. 20239, F3113.

[564] Of which £146,000 was for property and equipment: British consul-general (Shenyang) to British Foreign Office 10 May 1935, ibid. 19352, F3004; Anderson, *Standard-Vacuum*, 65-67. The most valuable single asset in Manchuria was the Niuzhuang installation that was not included in this figure, because Shell did not want to sell it.

[565] Shell London to Shell Yokohama 1 May 1935, PRO London, FO 371, 19352, F2840.

that were not covered by the monopoly law through Japanese agents in Manchuria. Although Shell no longer sold crude oil and the important products kerosene and petrol to Manchukuo, some of its other products were still marketed in Manchuria. In late 1935 when it became clear that all three oil companies were really closing down their operations in Manchuria, a Manchukuo government official stated that his government had never expected that the companies would really leave, and that it did not have the money to pay for their claims.[566] In principle Japan was willing to pay in order to obtain the facilities and stocks left in Manchuria by the oil companies, but not at the price which they demanded. Until Pearl Harbor, Shell and Japan continued negotiations about the price to be paid by Manchukuo to obtain its Manchurian assets. By April 1938, Shell scaled down its price, because it had managed to sell some £69,000 worth of stock in Manchuria—which indicated that it took some years before Shell's products actually disappeared from the Manchurian market.[567] During these years the Manchukuo monopoly organisation paid rent to the Western firms for use of their installations,[568] but a final settlement was never reached.

Even after it had made the decision to leave Manchuria, Shell was still anxious to maintain good relations with the Japanese government. In May 1935 the company informally passed on a draft section of the speech that Shell's management was preparing for the annual shareholders' meeting to a Japanese foreign ministry official. The section mentioned the withdrawal from Manchuria, and Shell wanted to avoid offending Japan by it.[569] After Manchuria was no longer an issue at the talks in Tokyo—which were renewed in April—Japan and the oil companies quickly managed to come to a settlement. When Godber finally returned to London after having been in the Far East for almost half a year, he brought with him an agreement with Japan which guaranteed the continuation of Shell's leading position in the Japanese market. The company was pleased with this outcome, although the loss of Manchuria was a major setback. Shell had showed itself willing to continue its business in Japanese-occupied Manchuria and to accept working within the Manchukuo oil monopoly nominally. It only left that part of China and initiated an unofficial boycott against it in order to save its market position in Japan, where Shell continued to sell oil throughout the 1930s.

From the outset Shell certainly did not expect that it would have to choose between the Manchurian and the Japanese market. The introduction of the monopoly combined with the desire to save the Japanese market explain Shell's decision to undertake a near-complete withdrawal. But there are other explanations for the fact that it came to a point at which Shell had to take such a drastic action. In the first place there was Shell's decision to handle the matter exclusively through the Japanese government and to tie it to Japan's domestic oil policy, which produced an enormous distance between the company and policy makers in Manchukuo. The relations between the government in Tokyo and the Manchukuo regime were largely

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[566] British consul-general to British ambassador (Tokyo) 5 Dec. 1935, ibid. 19353, F8068.

[567] Shell London to British Petroleum Dept 21 April 1938, ibid. 22111, F4459. The Petroleum Department of the Board of Trade was responsible for communications between the British petroleum industry and the British government. In practice it acted as Shell's representative inside the British government

[568] Yokohama Specie Bank (London) to British Dept of Overseas Trade 15 Oct. 1936, ibid. 20378, F6259.

[569] Shell London to Shell Yokohama 24 May 1935, ibid. 19352, F3812.

directed through the Japanese military and were not as close as Shell had apparently thought. In the second place there was Godber's conviction that Manchukuo was bluffing about the introduction of the monopoly, and the Japanese conviction that Shell and Standard Oil were bluffing about their intention to leave Manchuria. These misjudgements hardened the resolve on either side, making both less eager to come to a speedy agreement. And in the third place there was the fact that the monopoly became effective at the end of the session of the Japanese Diet when negotiations were postponed. This made it impossible for last-minute talks to be organised before the imposition of the monopoly.

Besides the light oil and monopoly issues a third, less dramatic, confrontation occurred between Shell and the Manchukuo authorities. The trade in candles was not included in the state monopoly, but the creation of the state of Manchukuo meant the introduction of a trade barrier between Shell's candle factory in Shanghai and the Manchurian market. Because the new Manchukuo import tax on candles was high, the company decided to build a candle factory at its Niuzhuang installation. The factory represented a value of 12 million Manchukuo dollars, had a capacity of 75 tons of candles per month, and was to be operated by thirty-four men. The company hurriedly built it in the spring of 1934, hoping to be able to operate it during the summer—the production process requiring warm weather. Unfortunately for the oil company, by the time the factory was ready, the Manchukuo authorities still had not given a permit to operate it. The reason given for this delay was that this was the first time that a foreign company had wanted to operate a factory in Manchukuo. Furthermore, the Manchukuo government wanted to settle all matters related to the monopoly before it decided about the factory permit.

Talks between government and Shell representatives broke down when the Manchukuo government demanded full information about the owners of the new factory. The only data supplied by Shell was that the factory was owned by APC North China in Shanghai. In fact the factory was operated by APC on behalf of Candles, a joint venture between Shell and Unilever. The Shell representative who was doing the negotiating thought that the Japanese demand for information was 'ridiculous' and answered that it would take 'months of correspondence and searching old records both locally and in London' before the information requested could be supplied.[570] Feeling the pressure to produce sufficient candles before the end of summer, the company then decided to operate the factory without a permit.[571] Shell benefited from the fact that its factory was located within its tank installation precincts. This made it easier to operate it without consent from the local authorities. The situation was helped because there was no law stipulating that a permit was actually needed to operate a factory. The British Consul-general at Shenyang suspected that Shell had only applied for the permit to obtain the goodwill of the authorities.[572] In December 1934, when the Manchukuo government informed Shell that a permit would not be issued and that no foreign companies were allowed to

[570] A.E. Foster Kemp 'Report on visit to Hsinking', ibid. 18088, F5298.

[571] British consul-general (Shenyang) to British legation (Beijing/Beiping) 15 Sept. 1934, ibid. 18088, F5868.

[572] Following the example of BAT, which had applied for a permit for its local selling subsidiary for the same reason: British Consul-general (Shenyang) to British legation (Beijing/Beiping) 27 Aug. 1934, ibid. 18088, F5488. After six months and fifteen visits, BAT had obtained its permit, and had informed Shell about its experience: A.E. Foster Kemp 'Report on visit to Hsinking', ibid. 18088, F5298.

operate factories, the candle factory was already closed down for the winter.[573] The atmosphere became better and in February of the next year the Manchukuo government stated that it regarded the candle factory to be a subsidiary rather than a separate company, and that no permit would be needed.[574] This change in policy may have been the result of a desire by Manchukuo to limit its international isolation, and to give a signal to Shell that it favoured the company's continued involvement in the Manchukuo economy.

The Japanese invasion of 1931 caused an increase in political risks in Manchuria, but at the same time led to less political risks in the parts of China that were under control of the Guomindang government. In 1933 Shell noted that, as a result of Japan's aggression in Manchuria, the problems with Guangdong's provincial import tariff would not expand to North China.[575] The Japanese threat, felt most directly in the North, made the Chinese government less inclined to risk a major conflict with the oil companies, which might be exploited by the Japanese army to expand its influence in the northern provinces. In North China Japan's expansion had a distinct impact on the oil trade. In 1935-1936 the Western oil concern suffered from the effects of the large-scale smuggling of Japanese oil into Shandong and Hebei (Hopei).[576] According to Shell over 6 million litres of Japanese kerosene and petrol were smuggled into North China in the period from early April to mid-September of 1936, causing Shell to lose part of its market position. While Shell recognised that little could be expected from British official support in Manchukuo, with regard to the rest of China it was still the policy of Great Britain to defend the Open Door. The oil company still considered it worthwhile to send its complaints about Japanese smuggling in North China to the British Foreign Office. Losses caused by smuggling were so great, Shell reported to the British government, that the future of its North China organisation was in grave danger. Its installations and ships would become useless, and its staff would be 'thrown on the streets'.[577] In spite of such dramatic appeals, the British government had not succeeded in accomplishing a solution when in July 1937 Japan invaded North and East China.

1937-1941

In this period the main political risks to Shell in China were damage from fighting, trade restrictions imposed by the Japanese military, the danger of being cut off from the part of China that was still under Chinese control, and the possibility of war between Japan and either of the two home countries of the oil company, the Netherlands and Great Britain.

Damage from the Sino-Japanese War. Shell's first worry in the summer of 1937 was that fighting between Chinese and Japanese troops would induce the foreign governments to evacuate the main treaty ports. On 17 August 1937 the Shell

[573] British legation (Beijing/Beiping) to British Foreign Office 12 Dec. 1934, ibid. 18088, F7379.
[574] British consul-general (Shenyang) to British Embassy (Beijing/Beiping) 23 Feb. 1935, ibid. 19318, F1633,
[575] Shell London to Shell Hong Kong 9 Sept. 1933, SIPM, 49, 304.
[576] Osterhammel, *Britischer Imperialismus*, 151.
[577] In its report, the company claimed that the smugglers were Japanese who used the Japanese concession in Tianjin to store and distribute the petroleum: J. Kitto (Shell Tianjin), 'General Notes on the Smuggling of Kerosene and Gasoline into North China' Sept. 1936, PRO London, FO 371, 20268, F7244.

Shanghai office believed that the whole British population of the International Settlement might have to be evacuated because of the fighting, and feared that this would result in the Japanese or the Chinese taking control of the Settlement. The Shanghai management claimed that British prestige and trade interests were at stake, and asked the directors in London to persuade the British government to defend Shanghai rather than evacuate it.[578] The directors in London were less alarmed: they did not expect that either the major British companies or the British government would want a full evacuation of the International Settlement.[579] Indeed, at an informal meeting on the same day with Shell and other major British firms in China, the British Foreign Office assured that only an evacuation of women and children was being contemplated, not a full evacuation.[580]

The International Settlement of Shanghai was defended by foreign troops and remained under international control. Even so, the war could not entirely be kept out: when Chinese planes attempted to bomb Japanese vessels in the harbour they hit various parts of the city, including the industrial areas of Yangshupu and Pudong. Serious damage was caused to Shell's Yangshupu depot on the north bank of the Huangpu River and its upper wharf across the river in Pudong.[581] Inland from Shanghai, the presence of foreign gunboats could not protect foreign trade and shipping from war damage. Shell depots and ships were occasionally hit by bombs or shells. In the 'Panay Incident', in which the Japanese bombed and sank three Standard Oil tankers and the American gunboat the 'Panay' near Nanjing,[582] some Shell vessels were also damaged—in spite of their clear display of the Union Jack. Shell's ship the 'Tien Kwang' was evacuating 250 staff members and their families plus oil stocks from Nanjing when the city was occupied by the Japanese army. On 11 December 1937 the ship was shelled by Japanese forces, the following day it was bombed by Japanese planes. No information on casualties among the refugees is available. Another Shell steamer and the accompanying British gunboat the 'Ladybird' were also shelled, the gunboat taking four hits. Several of Shell's Chinese crew members were injured in the incident, the material damage amounted to Y9,000.[583] The Panay Incident received a blaze of publicity and Japan quickly paid for the damage. Still, the Chinese bombing of Shanghai and the Panay Incident had again shown how vulnerable Shell's installations and ships were to war damage.[584]

[578] Shell Shanghai to Shell London 17 Aug. 1937, Shell The Hague, management 15, directie BPM, China: politieke en economische toestand 1931-1938.

[579] Godber (Shell London) to De Kok (Shell The Hague) 17 Aug. 1937, Shell The Hague, management 15, directie BPM, China: politieke en economische toestand 1931-1938.

[580] O.W. Darch (Shell London) to De Kok (Shell The Hague) 17 Aug. 1937, ibid. Like the other major British firms in China, Shell would not give up its base in Shanghai until this was absolutely necessary. In mid-October 1940 Shell, Unilever, and the other large companies informed the British government that they did not want to encourage the evacuation of their personnel: PRO London, FO 369, 2554, K10577.

[581] 'How the APC Tanks Were Saved', Shell London, 'Shell Magazine' (Nov. 1937), 496; British Consul-general (Shanghai) to British Embassy (Nanjing) 14 Dec. 1939, PRO London, FO 371, 24679, F792.

[582] Anderson, *Standard-Vacuum*, 107-110.

[583] APC claim Panay Incident, PRO London, FO 371, 22061, F3800.

[584] There were also smaller incidents such as a Japanese destroyer stopping a British Shell motor junk between Hong Kong and Macao, beating a crew member and detaining the boat for more than fifteen hours: British Ambassador Craigie to Japanese Minister for Foreign Affairs Hachiro Arita 15 Feb. 1939, ibid. 23480, F3098. On 27 November 1937 Japanese planes bombed Shell's Zhenjiang office, in spite of the Union Jack being spread out on the tennis court: ibid. 24681, F3108.

Japanese Trade Restrictions. But the period following the fighting was even more threatening to Shell's interests: the advancing Japanese military introduced trade restrictions in the territory that fell under its control. The Japanese pushed the Chinese army back into the interior and occupied the major population areas in the lower and middle Yangzi area. With the Japanese soldiers came Japanese firms that attempted to expand their trade in China. The Japanese military measure which proved most troublesome for Shell was the closure of the Yangzi to foreign shipping. For a year, until the middle of 1938, Shell was unable to supply its Yangzi installations. As an emergency measure petroleum was sold to Japanese dealers in Shanghai, who did have limited and therefore costly access to inland-bound shipping space. The company was cut off from its up-country agents and forced to use expensive middlemen to reach them. But not all was gloom. The fact that the Japanese occasionally needed Shell's co-operation gave the company hope for a better treatment in the future. In July 1938 the Japanese army requested Shell to lease its depot at Pukou. Because of the Japanese regulations, Shell's installations along the river were closed. Although the company refused to lease its depot, at the same time it was considering means to obtain the co-operation of the Japanese military to achieve the resumption of its Yangzi trade. A plan was made to offer petrol at an attractive price and to arrange a supply agreement by which the Yangzi installations would be reopened and petrol would be transported from Shanghai in Japanese tanker ships. Shell was prepared to convert kerosene storage tanks to handle these petrol supplies. The outcome of this plan is not known.

In some places the Japanese also interfered in the local agency businesses. For instance, when Zhenjiang was used by the Japanese army as a base for its operations, the oil agents were forced to appoint Japanese firms as their representatives.[585] The entire local oil trade then fell into Japanese hands, although how much petroleum the Japanese actually managed to sell to the Chinese consumers remains obscure. Sometimes the Chinese agencies were also the target of unofficial Japanese initiatives. On 30 July 1939 a Chinese agency in Shandong was attacked by demonstrators who looted almost Y16,000 worth of Shell stock. The company sent an inspector to investigate the matter. His report claimed that the demonstration was instigated by the Japanese consulate using the local 'farmers revival assembly', a Japanese controlled organisation, as its instrument.[586] The Japanese authorities denied any such involvement.

From the late summer of 1938 transport conditions in East China quickly improved. The Japanese reorganised the two major railways running inland from Shanghai, leading to Nanjing and Hangzhou respectively. This resulted in an increase of freight space being available in Shanghai. Moreover, after the initial demand for oil was met its prices fell. This made it unattractive for the Japanese dealers to continue their trade. In search for customers, the Japanese shipping firms on the Yangzi offered freight space for oil to non-Japanese firms. Shell's Chinese agents, who were able to work with much lower profits than the Japanese could, seized this opportunity and by late 1938 almost all major depots in the lower Yangzi

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[585] Shell, 'Trade Development in the Japanese Occupied Areas 1938-March 1939' 4 April 1939, ibid. 23431, F5131.

[586] Shell Qingdao to British Consulate-general (Qingdao) 2 Aug. 1939 and British Consulate-general (Qingdao) to British Ambassador Sir A.J. Clark Kerr (Shanghai) 9 Aug. 1939, ibid. 23481, F10079.

area were restocked. From there the agents farther up-country were supplied—the Japanese did not interfere. Perhaps the mutual willingness of the Japanese military and Shell to do business with each other also contributed to Shell's success in resuming its Yangzi operations. When the Japanese navy wanted to lease a tank installation at Hankou that was owned jointly by Standard Oil and Shell, Shell was willing to comply.[587] To make distribution easier, the company was also gradually reopening its depots along the Tianjin-Pukou Railway, one of China's major north-south connections. Proving its adaptability, the company removed distribution equipment from the more war-torn areas to less affected territories.[588] In April 1939 the company was not dissatisfied with the pace of commercial normalisation in East China. In an internal memorandum it was noted that the Japanese treatment of Chinese merchants in the lower Yangzi area was getting better, and that Japanese traders were unable to compete with their Chinese counterparts. As a result, trade in the occupied areas was, after initially having been put under Japanese control, gradually returning to Chinese hands. The outlook was that Shell would be able to recapture its oil business in the occupied areas: 'Other than the ban to foreign shipping on the Yangtsze and the continued monopolisation of transport facilities by Japanese Transportation Companies, trading conditions are tolerable'.[589]

Because of the war, the Japanese now needed oil more than ever and had no wish to alienate their suppliers.[590] The Japanese army consumed great amounts of petrol during the war, but most of this was not supplied by the Western oil companies. The Japanese army bought its supplies from Japanese oil companies via the Chinese Da Hua (Ta Hwa) company. Additional supplies were purchased from Shell, Standard Oil, and the Texas Company mainly for three reasons: in order to create emergency supplies; to maintain an alternative supply source; and because Japanese petrol was of a lower quality. In North China Shell was not pessimistic about its petrol business. The Japanese army was expected to buy more Western petrol in the future. All the more so because it had developed bus and trucking services in the area under its control, which gave consumption a boost. In the regular—non-military—North Chinese petrol market Shell still occupied a leading position.[591]

Shell sold petrol and other fuel to both the Chinese and the Japanese military as long as the British government did not object.[592] During the fighting between Chinese and Japanese troops at Shanghai in early February of 1932, China had wanted to buy the company's entire local stock of aviation fuel, but this sale was

[587] And the British Foreign Office did not object: Shell London to British Petroleum Dept 8 May 1939, ibid. 23524, F4496; British Foreign Office to British Petroleum Dept 12 May 1939, ibid.

[588] Capital expenditure from Area Management B 5 Oct. 1939, Shell The Haue, SIPM, 8, 1250.

[589] Shell, 'Trade Development in the Japanese Occupied Areas 1938-March 1939' 4 April 1939, PRO London, FO 371, 23431, F5131. The Japanese Kiangche Launch Company had the shipping monopoly and sold permits to only a few shipping firms, which charged high prices. Shell could not use its own vessels: Shell Suzhou to British Consulate-general Shanghai 22 June 1938, ibid. 22123, F8642. Shell Shanghai to Shell London 27 July 1938, ibid. 22138, F8371.

[590] Anderson, *Standard-Vacuum*, 102.

[591] Shell, 'North China Gasoline, Japanese Competition' 25 May 1938, PRO London, FO 371, 22138, F8507.

[592] British Petroleum Dept to British Foreign Office 23 Dec. 1938, ibid. 22104, F3729. In this letter the Petroleum Department claimed that the US supplied some three-quarters of Japan's imports, and therefore that Shell as a Dutch-British firm hardly could affect the military situation in China. This is a misleading argument, since Shell was also a major US oil exporter.

blocked by the British government, which hoped for a quick settlement between the fighting parties.[593] But in July 1937, at the outbreak of the war, no Western government intervened when Shell and Standard Oil sold their entire stock at Dalian consisting of 3.8 million litres of oil and petrol, plus an additional 5.7 million litres to the Japanese army in North China.[594] Shell would sell petrol and fuel oil only to the Japanese armed forces against sterling credit or against negotiable yen.[595] In December 1938 the Japanese army asked Shell for a licence to use the hydrogenation process—the rights for its use in Asia were owned by the International Hydrogenation Patents Company, a Dutch joint venture of Shell and New Jersey Standard. A few years before Shell had been willing to sell this licence to Japan, but now the company first went to the British government to ask for advice. The Japanese wanted to build a hydrogenation plant in North China, where petrol would be made from coal. The licensing procedure was stalled, and in the end Japan never obtained the licence.[596]

In March 1938 press reports began to appear in Japan about an oil monopoly for Japanese-occupied North China.[597] On 30 June the Manchuria Oil Company—the very monopoly firm that had been the cause of Shell's withdrawal from Manchuria—informed Shell, Standard Oil, and the Texas Company that a few days later a marketing firm would be formed by the Inner Mongolian (Mengchiang) government, which, like the Manchukuo government, had been created and was controlled by the Japanese military. The Western firms were asked to participate for Y50,000 each, an offer they refused.[598] The situation in Inner Mongolia was similar to the Manchukuo monopoly case, but led to a different outcome. US, British, and Dutch diplomatic protests were made in Tokyo, and Shell declared that the independence of its brands and its distribution organisation could not possibly be compromised by any form of co-operation. However, in this case Shell also decided not to make any agreement at all as long as the war between China and Japan was undecided.[599] Secret talks between the company and the Japanese ambassador in (Eastern) China gave Shell some assurance that this time the Japanese would take no definite steps before negotiations were finished. The company decided that official protests should be low-key.[600] While Shell's Shanghai office unsuccessfully tried to establish contact with the Inner Mongolian government, the company stopped its trade in that part of the country.[601]

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[593] British Consul-general (Shanghai) to British Foreign Office 3 Feb. 1932, ibid. 16225, F828; reply same date, ibid.

[594] The companies said that they could deliver only in Japan, not in China: British Embassy (Tokyo) to British Foreign Office 27 July 1937, ibid. 21000, F4574.

[595] Negotiable yen being yen that could be converted directly or indirectly into sterling. Shell Shanghai to Shell London 16 Aug. 1937, Shell The Hague, management 15, directie BPM, China: politieke en economische toestand 1931-1938.

[596] Anderson, *Standard-Vacuum*, 119-120; 'Japanese Hydrogenation Project for North China', PRO London, FO 371, 23499, F1324; British Foreign Office to British Petroleum Department 16 Mar. 1939, ibid.

[597] Shell Yokohama to Shell London 4 April 1938, ibid. 22138, F3969. On this case see also Anderson, *Standard-Vacuum*, 111-113.

[598] Shell Shanghai to Shell London 1 July 1938, PRO London, FO 371, 22138, F7313; British Consulate-general (Shanghai) to British Foreign Office 24 July 1938, ibid. 22138, F7904.

[599] Heertjes (Shell London) to Shell Shanghai 25 July 1938, ibid. 22138, F8046.

[600] Shell Shanghai to Shell London 27 July 1938, ibid. 22138, F8046.

[601] Shell Shanghai to Shell London 16 Aug.1938, ibid. 22138, F8944.

At stake for Shell were its interests in that province: £3,914 worth of invested capital, 29 per cent of the local kerosene market, 27 per cent of the petrol market, and almost complete dominance of the market for fuel oil.[602] Like Shell, the two US firms also refused to co-operate with the monopoly. The only concession Shell was prepared to make was to sell oil to the Inner Mongolian Oil Company—but only if payments were made in gold currency, which the Japanese were no less short of than the oil itself.[603] The Japanese military and government, having seen in Manchuria proof that the oil companies were very serious about withdrawal if no compromise could be arranged, were anxious to see a resumption of the Western oil supplies to Inner Mongolia. On 24 September the monopoly and the Inner Mongolian Oil Company were abolished, and the Western oil companies resumed distribution activities in Inner Mongolia through their agents.[604] This was a decisive and quick victory for the foreign companies, but not the end of their worries. The Japanese never ceased trying to bring the Chinese oil trade under their control.

In late 1938 the Japanese authorities in other parts of North China were trying to pressure the foreign companies to surrender their agency business to Japanese trading firms. Shell saw this as the first step towards losing its distribution system, and was therefore strongly opposed to any such move. It was afraid that its American competitors were less disturbed by the prospect of powerful Japanese partners, such as the Mitsui Trading Company, managing distribution in China.[605] On 21 November representatives of Shell and Standard Oil had lunch with Nomura Shunkichi, a leading Japanese oil broker. He declared that Japan was looking for ways to turn its expensive war in China into a financially more balanced situation. He proposed that Shell and Standard Oil participate in forming a new Chinese oil company, in which Japanese and Chinese capital would also be invested. All existing distribution assets would be transferred to the new concern, which would also build refineries in China. In addition to giving this information, the Japanese oil broker commented that 'it should be very reassuring to traders and investors in general if it can be established that the Companies having the greatest stake in China are able to adjust themselves satisfactorily to the new conditions'.[606] Apart from pointing out that refining in China was uneconomical, the Western oil men refused to comment on the proposal and the matter was postponed.

Although a Japanese-Western joint oil enterprise never materialised, at this time Shell's ideas on the future of Western oil interests in China and those of Standard Oil were beginning to draw apart. After the lunch meeting—according to Shell's information—the Standard Oil representative advised his superiors in New York to 'study the picture closely and not too long, lest someone else steals the ground-

[602] Per year in the 1935-1938 period: 1.7 million litres of kerosene, 568 thousand litres of petrol, and 70,000 litres of fuel oil: Darch (Shell London) to British Petroleum Dept. 31 Aug. 1938, ibid. 22139, F9563.

[603] Shell London to Shell Shanghai 31 Aug. 1938, ibid. 22139, F8995.

[604] British consulate-general (Tianjin) to British Foreign Office 19 Nov. 1938, ibid. 22139, F12245. Also Anderson, *Standard-Vacuum*, 113.

[605] British consul-general (Shanghai) to British Foreign Office 9 Nov. 1938, PRO London, FO 371, 22099, F13328.

[606] Notes on Mr Ely (Shell Japan) and Mr Meyer's (Stanvac Japan) talk with Messrs Masayuki Tani and Shunkichi Nomura on 21 Nov. 1938 at the Tokyo Kaikan, ibid. 23499, F1498.

floor'.[607] In the opinion of the Standard Oil man, the era of the Open Door in China was over. He expected that the US and Britain would not challenge Japan's military power in China, and that Japan would continue to keep the Chinese market open to foreign investors. Shell, however, was determined to make only minor concessions to the Japanese in order to stay on in the Far East—and was feeling strong enough to stand up to Japan. The company was equally convinced that it would succeed in preventing Standard Oil from making unfavourable agreements with the Japanese in China.[608] This indicates that in December 1938 the company was determined to stay on in China, confident that it could achieve this on its own terms. Meanwhile, both Shell and Standard Oil were losing part of their market shares in occupied China to the Texas Company, which apparently had found opportunities to exploit its position as the smallest of the three oil giants.[609]

War with Japan. By this time the possibility of a war between Britain and Japan was becoming too blatant to be ignored by Shell. Shell was well aware that in the case of a war with Britain or the US—and regardless of whether the Netherlands would initially be involved—the Japanese military would very probably attack the Netherlands Indies in order to get access to the Sumatra and Borneo oil fields. In Manchuria and China the company could distance itself to a certain extent from British and Dutch foreign policy, claiming that it was merely interested in commerce. But, if Japan were to occupy the Southeast Asia oil fields—which were largely owned by Shell and Standard Oil—the company would automatically be involved on the Western side of the war. These circumstances forced Shell to consider the possibility of war more thoroughly than most other Western business in China. Early in 1939 the firm's Hong Kong office was informed by the British Navy that should the Japanese military attack the colony, this attack could lead to a Japanese seizure of Shell's stock around Hong Kong, and in the south coast treaty ports of Guangzhou, Shantou, Fuzhou, and Xiamen. Therefore Shell was asked to make preparations for the destruction of the stock and the installations. The company replied that in such an emergency it preferred to hand over its stock to Standard Oil or the Texas Company—should the US remain neutral—in order to save it from destruction or seizure, and Shell asked the British government to take responsibility if the company were forced to take recourse to destruction.[610] Some months later the British navy concluded that it was too much to ask of Shell to prepare for the destruction of its stock, because almost all coastal installation were in Japanese-occupied ports. The Japanese military was likely to detect these preparations, which would then endanger the company and its employees.[611] The only thing the oil concern could do was keep its stock in the Japanese occupied cities limited.[612]

Selling oil to the Chinese government became increasingly difficult. One of the reasons why Japan continued to expand its military presence in South China was precisely so that it could cut off supplies to the Chinese army. When the Japanese

[607] Shell Yokohama to Shell Shanghai 26 Nov. 1938, ibid. 23499, F1498.
[608] Shell Shanghai to British commercial councillor (Shanghai) 13 Dec. 1938, ibid. 23499, F1498.
[609] Capital expenditure from Area Management B 5 Oct. 1939, Shell The Haue, SIPM, 8, 1250.
[610] British commodore (Hong Kong) to commander-in-chief British Navy for China 24 Feb. 1939, PRO London, FO 371, 23520, F5328.
[611] British Admiralty to Commander-in-Chief British Navy in China 10 Aug. 1939, ibid. 23521, F8802.
[612] Commander-in-chief British Navy in China to British Admiralty 14 Oct. 1939, ibid. 24692, F246.

conquered the lower Yangzi valley, an arrangement was made by Shell with the Guomindang government that the former would import oil supplies into the unoccupied part of the country via Hong Kong.[613] But when the Japanese invaded also South China and largely cut off the route inland from Hong Kong and other ports, Shell sent its oil to Haiphong, in French Indochina, and from there overland to Kunming, in Yunnan province. From Kunming the Chinese government took the supplies by truck to its war capital Chongqing. In line with its policy since 1907 the company wanted to keep as much as possible of the distribution line in its own hands, and therefore initiated its own transport service between Kunming and Chongqing. By early 1939 Shell operated seventeen trucks on this route, and was in the process of buying more transport vehicles. The aim was to supply not only the Chinese government, but also the company agencies in West China which were now very difficult to reach from the Chinese coast.[614] Although Shell could no longer bring oil from Shanghai or Hong Kong to unoccupied China, this did not mean that no oil reached the Chinese army from the coastal cities. The Japanese were powerless to prevent extensive smuggling, and continued to stimulate Shell's Hong Kong and Shanghai sales strongly up to December 1941.[615] The Chinese government, while cut off from Shanghai, supplied the foreign oil companies with foreign exchange in order to maintain oil imports into that city.[616]

In August 1939 the company explained to the British government that it feared that soon its American competitors would have seized the entire oil trade with unoccupied China. As one director pointed out, the Chinese preferred to buy Shell oil because it was cheaper, Shell could send supplies from nearby Southeast Asia, and Shell had a good distribution system that reached all the way to Chongqing. Unfortunately China was short of foreign currency, which it needed to pay Shell. The American rivals did not have this problem, since they benefited from the export credit scheme set up by the US government. To maintain its position, Shell asked Britain to grant an export credit guarantee for British oil supplies to China. The British government refused this.[617] A month later, in September 1939, the French colonial government temporarily closed the Haiphong-Kunming route for oil and

[613] Shell Shanghai to Shell London 27 July 1938, ibid. 22138, F8371.

[614] Capital expenditure from Area Management B 6 Feb. 1939, Shell The Hague, SIPM, 8, 1250.

[615] In the summer of 1939, Shell reported it was getting petroleum supplies ('quite much') into unoccupied China via South Chinese ports: Darch (Shell London) to British Petroleum Dept 14 Aug. 1939, PRO London, FO 371, 23414, F9932. Two years later an incident occurred that suggests that the company might have sold oil in Shanghai directly to representatives of the Chinese forces, even smuggling it out of Shanghai. On 22 July 1941 the company's motor vessel the 'Wukiang' was taking 4,000 tins of kerosene from Shanghai to the north bank of the Yangzi delta. The Japanese military seized the vessel, believing that the kerosene was to be delivered to the Chinese 4th Route Army, engaged in guerrilla actions in the vicinity. The Japanese claimed to have evidence that the goods had already been sold, unlike normal agency shipments which remained Shell property until sold by the agent: British Consul-general (Shanghai) to British Embassy (Shanghai) 13 Nov. 1941, ibid. 27960, F12882. Certainly Shell must have profited from the smuggling. In the first half year of 1941 alone almost 5.7 million litres of petrol and aviation fuel were smuggled out of Hong Kong, most of it probably destined for unoccupied China: British Foreign Office to British Embassy (Washington DC) 24 Oct. 1941, ibid. 27664, F10812.

[616] In September 1941 the Chinese Stabilisation Board made available US$900,000 to the three oil companies for this purpose, indicating that in the future more foreign exchange would follow: British Colonial Office to Governor (Hong Kong) 1 Oct. 1941, ibid. 27664, F10309.

[617] Darch (Shell London) to British Petroleum Dept 14 Aug. 1939 and reply 23 Aug. 1939, ibid. 23414, F9932.

ammunition. Shell moved on to use the next best alternative: the Burma road between Rangoon and Yunnan. In November, Shell sent about 4,000 tons of petrol to China via Rangoon.[618] After the Japanese attacked the Haiphong-Kunming route, almost all supplies went by way of the Burma road. In January and February 1940 Shell and Standard Oil together imported some 255,500 litres of petrol into China via Burma.[619]

The company did not give up its attempts to get financial backing from the British government in order to maintain its position in unoccupied China. Mr Morton Smith, who as Shell representative had pleaded with the wife of Chiang Kai-shek for the abolishing of the Jiangxi monopoly some five years before, was now employed by the Chinese government as advisor to the National Control Commission of Liquid Fuels. The British Foreign Office did not doubt that he was still closely connected to Shell.[620] Morton Smith presented a plan to the Chinese government, under which Shell would sell £2.5 million worth of oil in five years under a British export credit guarantee. As a result of his action, the Chinese ambassador in London requested the British government to grant such a guarantee. Morton Smith himself also went to London to approach the Ministry for Economic Warfare on behalf of Chinese Finance Minister Kong Xiangxi. But the British government again turned down the request for a credit guarantee. Sir Frederick Leith-Ross of the Ministry for Economic Warfare, expressed the opinion that China was already getting all the oil it needed and that an export credit guarantee would make no impression in Chongqing.[621]

This setback was all the more serious since Shell's future seemed to lie in the unoccupied part of China rather than in the part under Japanese control. After the outbreak of war in Europe tensions between Japan on the one side and the Netherlands, Britain, and the US on the other ran high, and Shell and Standard Oil were closely tied to these potential enemies of Japan. The Japanese military wanted to decrease its dependence on the Western oil companies, and stepped up its attempts to have Japanese firms rather than Western or Chinese ones manage the oil trade in the eastern half of China. In Hankou fourteen Japanese companies formed an oil guild, which monopolised the local oil market.[622] In Guangdong the Western firms were forced to obtain special permits from Japanese companies to ship goods inland and between treaty ports. To make matters worse, the provincial kerosene and petrol taxes were raised.[623] In the second part of 1940 the Japanese authorities formulated a plan to impose a monopoly, this time for all occupied parts of China. Part of this plan was the seizure of the oil stocks of the Western companies.[624]

In spite of the company's complaints about the inability of China to purchase Shell oil and the advantage of the two American firms, Shell's sales via Burma

[618] Darch (Shell London) to British Petroleum Dept 26 Oct. 1939, ibid. 23537, F11367. Darch wanted official confirmation that the British government was 'anxious' for Shell to continue such supplies to China via Haiphong and Rangoon. The Foreign Office replied that it had no objection.

[619] British Burma Office to British Foreign Office 16 July 1940, ibid. 24667, F3617.

[620] Comment added to draft of letter British Foreign Office to Morton Smith 18 Jan. 1940, ibid. 23414, F12978.

[621] Sir F. Leith-Ross (British Min. for Economic Warfare) to British Foreign Office 24 Jan. 1940, ibid. 23689, F614.

[622] British consul-general (Hankou) to Clar-Kerr (Beijing/Beiping) 6 Aug. 1940, ibid. 24689, F4782.

[623] British consul-general (Guangzhou) to Clark Kerr (Shanghai) 16 Dec. 1940, ibid. 27676, F3760.

[624] British Embassy (Shanghai) to British Foreign Office 11 Aug. 1941, ibid. 27687, F7620.

continued. Morton Smith continued his lobbying activities with the British government in the summer of 1940, when Britain temporarily closed the Burma road. He proposed to the Burma Office that after the reopening of the road, Great Britain should send new oil supplies to China. In order to prepare for this, the British government should invest £100,000 in enlarging packing facilities in Burma.[625] In September 1941 Shell came with further proposals: the British government should help financing a pipeline from Rangoon to Kunming, and supply Shell with ships and other distribution equipment.[626]

On the other side of the Burmese-Chinese border similar efforts achieved an enormous success in early 1941. Shell, Standard Oil, and the Texas Company made an agreement with the Chinese government under which China would build petrol stations along the Chinese part of the Burma road, provide 200 trucks for use by the companies, and pay the companies for the oil transported by them. The companies would supervise the building of the stations, rent them for Y1 per year, transport the oil, and set its selling price.[627] They had succeeded in acquiring control of the only major oil route into unoccupied China, and this time China was paying for the installations and the trucks. By September 1941 Shell was sending 14,000 litres of petrol and 6-7 thousand litres of aviation fuel per month along the Burma road.[628]

In the autumn of 1940 the position of Shell in most of the Far East was becoming an inseparable part of Japanese-Western political relations. In September and October in Batavia the Japanese government negotiated with Shell, Standard Oil, and the Dutch government about Japanese demands for oil concessions in the Netherlands Indies and oil supplies to Japan. Concessions were not granted and the amount of oil offered for sale to Japan was considered insufficient by the Japanese government.[629] When in the summer of the following year the Japanese military invaded southern Indochina, the US and the Netherlands imposed an oil embargo on Japan: Shell and Standard Oil could not export oil from the US or the Netherlands Indies to Japan.[630] The Japanese government retaliated by freezing all Chinese assets of Shell, Standard Oil, and the Texas Company The Shell stock in Yantai and Qingdao was immobilised.[631] This seemed to strike the definite blow to the company's business in occupied China, but then the Japanese North China authorities informed Shell that they wished to continue doing business. Furthermore the Shanghai office claimed to have discovered that Standard Oil and the Mitsubishi

[625] He also proposed that Shell be assigned to carry out this expansion of packing facilities: British Burma Office to British Foreign Office 12 Aug. 1940, ibid. 24668, F3833.

[626] Clarke (Shell) to British Petroleum Dept 8 Sept 1941, ibid. 27657, F9201. Caltex was not happy about the prospect of Shell having its own pipeline into China: Caltex Singapore to Caltex New York 28 Oct. 1941, ibid. 27645, F13906.

[627] Agreement between Chinese Ministry of Communications and Standard-Vacuum Oil Company, Asiatic Petroleum Company, Texas Company (China) 1 March 1941, ibid.

[628] Clarke (Shell) to British Petroleum Dept 8 Sept 1941, ibid. 27657, F9201. The demand for petrol in unoccupied China was lessened by Chinese efforts to make fuel from tung oil, vegetable oil, soft coal, natural gas, and alcohol from millet grain plants: A.H. Howard, report on the oil industry of China, for the British Admiralty 1944, Shell London, GHC/CHIN/2.

[629] A. Iriye, *The Origins of the Second World War in Asia and the Pacific* (London and New York 1987), 118.

[630] Idem, *Power and Culture: The Japanese-American War, 1941-1945* (Cambridge MA and London 1981), 28.

[631] British Embassy (Shanghai) to British Foreign Office 11 Aug. 1941, PRO London, FO 371, 27687, F7620.

Trading Company had made a secret agreement that would enable the American oil company to resume up-country shipments through Mitsubishi. Shell decided to wait and resume shipments only between Hong Kong and Shanghai—China's two main trading ports still free from direct Japanese administration.[632] The real end came in December when Japanese troops attacked and occupied Hong Kong and Shanghai's foreign settlements.[633] After 1941 the oil supplies to unoccupied China via Burma continued, but this lies beyond the limits of this study.[634] Although initially Shell tried to remain neutral in the Sino-Japanese war, developments in international relations between the West and Japan forced Shell to concentrate increasingly on its relations with the Chinese side. By the time the Pacific War erupted, the company had succeeded in establishing itself firmly in the only remaining route of supplying China, the Burma Road.

Conclusion

The main Shell local interest in China was to create, maintain and enlarge a controllable outlet for the kerosene it produced in the Netherlands Indies and the US. After World War I petrol, fuel oil, and lubricating oil also became important products to be marketed in China. This aim could be achieved only by building an extensive up-country distribution system. Once the initial heavy investments in storage and transport facilities were made and agency relations were established, the company could not easily withdraw from China.[635] The hypothesis about the main political risks between the beginning of direct investments in 1906 and the Japanese take-over in 1941 is largely correct, but needs some additions. Between 1906 and 1916 political risks did not play a major role, although the Standard Oil concession agreement of 1914 was an important exception. Between 1916 and 1928 the main political risks—looting and tax insecurity—related to the civil war and the resulting administrative fragmentation. But from 1925 anti-foreign nationalism also emerged as an important risk to Shell's interests. The possibility of Japanese political dominance becoming a problem first occurred to Shell in the late 1910s, but did not yet produce direct risks. Between 1928 and 1937 most political risks were related to Chinese nationalism: the authorities tried to limit foreign influence in China by

[632] Shell Shanghai to Shell London (no date), PRO London, FO 371, 27688, F9830; Shell New York to Godber (Shell London) 2 Sept 1941, ibid.; British Petroleum Dept to British Foreign Office 24 Sept 1941; ibid.

[633] As late as 22 December 1941, however, Shell seemed to have still at least one agency operational along the China coast. The agent for Fuzhou informed Shell that he was out of stock and funds, asking Y9,000 to be transmitted via the Bank of China. The company refused: Shell agency Fuzhou to Shell London 22 Dec. 1941, ibid. 27690, F14223.

[634] From August 1945 Shell returned to the formerly Japanese parts of the country. After making new large investments in renewing its distribution assets, a few years later the company was again put out of business, now by the PRC government. In 1951 China requisitioned all Shell property in China. Shell was forced to continue its distribution operations until 1953. From 1953 until 1966 the company maintained a small office in Shanghai; only during the Cultural Revolution did Shell disappear completely from the PRC (the fate of the Shanghai office adviser Nien Cheng during the Cultural Revolution is recorded by her in *Life and Death in Shanghai* (New York 1987)). The resumption of Shell's presence began with its attendance at the biannual Guangzhou Trade Fair from 1970/1971. A permanent office was opened in the Beijing Summer Palace in late 1980. Meanwhile, the Hong Kong office continued to flourish after 1949: Shell Companies in Greater China, *The Long Term,* 20-24.

[635] The company's own 1997 publication to commemorate its past in China very accurately states that 'Shell's history in China demonstrates a long-term commitment': ibid.

imposing new tax, land, and trade regulations. They were also keen to reduce their dependence of foreign oil supplies by creating a Chinese oil producing industry. From 1931 there was another alarming political risk, namely Japanese imperialism—in particular in Manchuria. Indeed, between 1937 and 1941, finally, political risks experienced by Shell were caused by Japanese imperialism: mainly war damage, trade restrictions, and becoming cut off from the unoccupied part of the country. And, as with the Dutch banks and the JCJL, the possibility of a war between Japan on the one hand and the Netherlands and Great Britain on the other was also a serious risk from the end of the 1930s.

Shell did not find a permanent solution for risks related to civil war. Up-country stock could not easily be withdrawn to keep it safe from plunder, and consequently local taxation could not be avoided. Initially the company tried to limit the effects of looting—usually of up-country agency depots—by having the Chinese government pay for the damage via negotiations between the British legation and the Chinese government in Beijing. The company consistently presented itself in China as a British firm, and usually did not even bother to approach the Dutch legation for support. However, in the second half of the 1920s even the British government was unable to press for the payment of agency claims on behalf of Shell, and decided to limit its actions to claims on behalf of the company itself. Since the agency stock could not be fully covered by agency guarantees, the company just had to accept the damage caused by looting. In its battle with irregular local taxation, Shell never relied on British government support. The company's strategy was to try and make arrangements with the main local warlord, according to which local taxes were replaced as much as possible by a regional or provincial lump sum tax.

Concerning risks closely related to Chinese nationalism—anti-foreign boycotts, and the rise to power of a Guomindang committed to limiting foreign economic influence—Shell initially hoped that British military power could be relied upon. In 1925 the oil company tried to persuade the British government that boycott movements and the Guomindang party were under the influence of Soviet agents, and could be easily destroyed either by direct military intervention or by supporting anti-communist warlords. Unwilling to involve itself, the British government refused to take such actions, and by the late 1920s Shell decided to establish closer relations with the Guomindang-controlled government in order to benefit from the fact that it controlled much of China and needed new sources of revenue. During the first half of the 1930s, the relationship between Shell and the Guomindang government remained uneasy. As it turned out, the Guomindang found it impossible to exercise effective control over many local strongmen and therefore could not deliver the nation-wide stability needed by Shell. Moreover, the oil company's managers believed that because of pressure exerted by the more radical nationalist leaders and in order to gain influence over the economy, the Guomindang government would not respect Shell's position in China fully, no matter how much the company accommodated itself to the government's needs. Despite such unpromising circumstances, aided by its strong market position and China's troubles with Japan from 1931, Shell managed to neutralise nationalism-related risks on a case-by-case basis. In general, the company was willing to compromise with Chinese demands as long as its main local interest of keeping control of its nation-wide distribution system up and running was not endangered. Shell accepted higher taxes and shorter land-leasing terms, but not the imposition of a state distributing monopoly. By 1937 the Guomindang government held *de facto* power in most provinces, and its relationship with Shell was stabilising. There were no more important conflicts between the government and the company. Instead, when the Sino-Japanese War broke out, plans were under way for a joint venture for oil production that would be 50 per cent Chinese, 25 per cent owned by Standard Oil, and 25 per cent owned by Shell. After 1937 Chinese nationalism as a risk to foreign oil companies evaporated as China needed foreign oil to fight its war with Japan. In 1941 the foreign companies entered into a co-operative agreement with China to expand the oil importing capacity of the Burma Road.

Political risks caused by the imposition of Japanese political control on China were responded to largely in the same way as Shell had reacted to the rise of the Guomindang. Initially, in 1919, the company hoped that British power could contain Japanese influence. By the early 1930s, when Japan occupied the three Manchurian provinces, it was clear that Great Britain was not going to risk causing a military confrontation with Japan in order to protect its business interests. Once the Japanese were a major territorial power in China, Shell showed a tendency to accommodate to their interests in order to protect its own position. In Manchuria, the firm was prepared to co-operate with the imposition of a government-controlled distribution monopoly, but because this threatened its main local interest the company needed firm guarantees that it would retain control of its agents and brand names. The complicated negotiations failed and the Western companies decided to withdraw from Manchuria. This was a severe setback for Shell, but did not mean that the company lost faith in its ability to co-operate with the Japanese elsewhere in China. In the late 1930s Shell was confident that Japan's need for oil would continue to give it sufficient bargaining space to defend its main local interest, although the threat of a Japanese distribution monopoly continued to exist. Shell took no measures against the possibility of a war between Japan and Great Britain or the Netherlands. It could not retreat from occupied China because had it done so, its competitors would take over Shell's position. Its strategy was to stay on as long as possible, and accept the financial damage should war break out.

CHAPTER 5

HARBOUR CONSTRUCTION: HAVENWERKEN

> 'But now our relationship with the banks is completely different from what it was before. "Our bankers are in the dredging line" [... And now they] are major shareholders of the Company [...] And this is not all; in principle they are prepared to supply the necessary funds for, and to make possible, the execution of any new project on a sound basis, wherever it may be in the world, if it shows good prospects for yielding profit.'
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> R.H. van Dorsser (Havenwerken Amsterdam) to F. Quien (Havenwerken Shanghai), July 1912.[636]

Overall Corporate Interest

The early history of Havenwerken ('NV Nederlandsche Maatschappij voor Havenwerken') largely coincides with that of attempts to regenerate the harbour of Shanghai.[637] In the early twentieth century, foreign shipping companies were extremely dissatisfied with Shanghai's port facilities. The city could be reached from either the sea or the Yangzi River only via the Huangpu (Whangpoo) River, but this river was too shallow for large ships.[638] Foreign commercial and consular representatives were looking for ways to solve this problem. In 1875 the Shanghai Chamber of Commerce and the Shanghai Consular Body invited two Dutch hydraulic engineers, G.A. Escher and J. de Rijke, who were working in Japan for the Japanese government, to take a look at the problem.[639] The two experts went to Shanghai and wrote a report on possible ways to improve the Huangpu, but these plans were not put to practice, mainly because the Chinese government was not prepared to invest much money in promoting international trade. In the early 1880s

[636] 'Geschiedenis KNMH', HBG Gouda, KNMH.

[637] In English: Netherlands Harbour Works Company.

[638] Ships going to Shanghai had to pass the shallow 'Woosung Outer Bar' when entering the river, then they had to make very sharp turn (around 'Pheasant Point'), immediately after which they had to get across the 'Woosung Inner Bar', and go around an island ('Gough Island'). Finally they had to avoid one other shallow part of the river (near 'Kajow Creek'). If ships were too large or too heavy to get over the bars then lighters had to be used to cover the rather long distance between the Bars and Shanghai. The situation was complicated because the river was gradually changing. Had nothing been done about this, then Shanghai might eventually have become useless as a sea port: F.J. Blom, 'Waterbouwkunde in China', *De Ingenieur* 30 (1915) 1006-1007.

[639] Since the Japanese government was unwilling to let the men go to China, they pretended to go to Nagasaki for a short holiday. Apparently the father of A. Korthals Altes (of the EAD) had advised the merchants and other consuls to invite these two men. What the occupation of Korthals sr was is unknown. Escher and De Rijke were paid 2500 Shanghai taels for their study, and during their stay they met the consuls general of the US and Britain, the Dutch honorary consul, the consuls of France, Japan, Germany, and Austria-Hungary, the chairman and the secretary of the Shanghai Municipal Council, the Commissioner of Customs, and the Shanghai Daotai. Diary G.A. Escher 1873-1876, private collection L. Blussé.

an attempt was made by the Chinese authorities to deepen the river, but this work was on such a small scale that it did not make a lasting impact.[640]

In the years which followed, several Dutch businessmen became interested in exploiting Dutch technical knowledge in the field of coastal and riverine engineering to undertake activities in China. After a huge flooding of the Yellow River in 1888, Dutch financiers, businessmen and engineers sensed an opportunity for Dutch enterprise. They established an association with the aim of acquiring commissions for river improvement from the Chinese government—the 'Vereeniging ter Bevordering van de Uitvoering van Werken in het Buitenland door Nederlanders'.[641] Several times Dutch engineers travelled to China to study how the Yellow River could be brought under better control.[642] However, the Chinese authorities were not interested in hiring foreigners to work on the Yellow River, and these initiatives failed to bear fruit.[643] Nevertheless, the idea that there were opportunities for Dutch hydraulic expertise in China was now firmly established in the minds of Dutch diplomats and businessmen.

Meanwhile the Shanghai merchant community had not abandoned its search for ways to have the harbour improved. In 1897 De Rijke was asked to write another report, which he did the following year. Initially there still was no money available to carry out his plans, but in 1900 the Boxer War between China and the foreign powers came to the rescue of the harbour improvement scheme. One of the stipulations in the 1901 Boxer Protocol was that China would finance the improvement of the Huangpu, and subsequently a foreign-controlled river conservancy board was formed to initiate and supervise the work.[644] Although it took some more years of negotiations before a way that was acceptable to the Chinese was

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[640] F.L. Hawks Pott, *A Short History of Shanghai* (Shanghai 1928); 'Geschiedenis KNMH', HBG Gouda, KNMH, p.10.

[641] 'Association to promote the carrying out of Dutch [public or infrastructure] works abroad'.

[642] The first journey was made by P.G. van Schermbeek (Dutch army officer in Japanese service), A. Visser (of contracting firm Volder & Bos), and B.H. Blijdenstein (civil engineer). The second journey was made by Schermbeek and Visser. A third journey was made in 1891 by J.W.G. Fijnje van Salverda: 'In Memoriam P.G. van Schermbeek', *De Ingenieur* (1902) 384; 'Geschiedenis KNMH', HBG Gouda, KNMH, p.8.

[643] W.F. Leemans, chairman of the VBUWBN, continued his efforts after the failure of the two missions to China. In 1901 he informed the Dutch Ministry of Foreign Affairs that the union of engineers educated in Delft wanted to stimulate the employment of Dutch engineers abroad: W.F. Leemans to Dutch Ministry of Foreign Affairs 18 Mar. 1901, ARA The Hague, BZ, B 222, 4.

[644] Hawks Pott, *Shanghai*, 156-157. This is based on Article VI of the Boxer Protocol, which is reprinted in Van Dongen, *Neutraliteit en Imperialisme*, 387-392. Improvement of the two main treaty ports—the protocol also demanded that the harbour of Tianjin be improved—was not seen as one of the main elements of the Boxer Protocol by most of the foreign governments, but was nevertheless of great importance. By the beginning of the twentieth century the revenue collected by the Imperial Customs Service had become one of the pillars of the foreign position in China. Customs collected most of the money in Shanghai, and as long as it continued to do so, foreign interests seemed safe. The Qing government continued to be viewed as more or less acceptable to all foreign states (especially since the Japanese indemnity loans were repaid, and eventually payment of the Boxer indemnity would also be ensured). This was thought to be a precondition of China remaining open to economic exploitation and the balance between the various foreign powers staying intact. The foundation on which the Customs Service was built, however, was primarily the ability of Shanghai to continue to be one of the largest trading ports in the world. As long as there was no structural approach to the deterioration of the Huangpu River, there would be no guarantee that the complex system of foreign interests in China, as created between 1842 and 1901, would continue to exist in the long term.

worked out, the 'Whangpoo Conservancy Board' could finally get to work in 1906.[645] China financed these activities and controlled the Board through the Shanghai *daotai* and the commissioner of customs. The Shanghai consular body was kept informed of income and expenditure.

The Conservancy Board had to decide whether to work with De Rijke's plan of 1898, or to choose a new one.[646] The Dutch minister in Beijing thought that Dutch business stood a good chance of acquiring a better position in China, if only De Rijke—who had finished his work in Japan—were hired to carry out his design.[647] He was aware that De Rijke knew several contractors in the Netherlands who could be brought in to work on project.[648] This might add a new dimension to Sino-Dutch economic relations. Plans did not run smoothly and some objections were raised: a German and an American engineer criticised De Rijke's plan and together they presented an alternative plan, which was supported by Germany.[649] Fortunately for the Dutch, British firms and officials in Shanghai favoured De Rijke's approach. Dutch observers believed that the political insignificance of their country in Chinese matters worked to their advantage.[650] In 1906 De Rijke was appointed engineer-in-chief of the Huangpu improvement works.[651]

In the Netherlands, one of the contractors acquainted with De Rijke, S. ten Bokkel Huinink, responded to the news of De Rijke's appointment by forming a consortium with two other Dutch contractors with international experience in harbour works, J. Korthals Altes and G. van Thiel de Vries. Given the high risks and the large expenses involved, it was common for dredging contractors to form consortiums in order to obtain large projects. The three directors of this consortium, called East Asiatic Dredging Company (EAD),[652] travelled all the way to China in order to secure the contract for the Huangpu improvement works. In Shanghai they could count on the support of E.D. Van Walree of the NHM Shanghai branch and

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[645] In 1901 the foreign powers were strong enough to force their protocol on China, but if all the stipulations were to be carried out Chinese co-operation was indispensable. This gave the Chinese government the opportunity to make some modifications, which were added to the Boxer Protocol in a 1905 agreement with the foreign diplomatic body.

[646] In fact he had made two plans: one was to dig a new link between the Huangpu and the Yangzi, the other was to close the eastern passage around Gough Island (the 'ship channel') and deepen the western passage (the 'junk channel'). Eventually the Conservancy Board would choose the second option. After the work was finished, the junk channel was the only passage left, the name of which was changed to Astraea Channel, after the name of the first ship to pass through: Blom, 'Waterbouwkunde', 1007. According to a Dutch newspaper article, De Rijke actively promoted his plans by visiting Chinese officials. In 1905 he was even invited by the Chinese government to present his view on how the Boxer Protocol's Huangpu plans could be realised: 'Een Merkwaardig Man en een Internationaal Werk', *Algemeen Handelsblad* (30 Nov. 1905).

[647] Dutch Minister to China A.J. van Van Citters (Beijing) to Dutch Ministry of Foreign Affairs 17 Dec. 1904, ARA The Hague, BZ, B 222, 2 waterstaatwerk Wangpoo.

[648] Two of these were the unidentified Van Hattum and S. Ten Bokkel Huinink: Dutch Minister to China J. Loudon (Beijing) to Dutch Ministry of Foreign Affairs 23 Aug. 1902, ibid.

[649] Their plan was to leave the Huangpu more or less as it was, only deepening the ship channel: Blom, 'Waterbouwkunde', 1007.

[650] Although Dutch political insignificance was a motive for British officials and businessmen to prefer Dutch engineers and contractors to those larger countries, being dependent on British support to maintain its Southeast Asian possessions meant that the Netherlands apart from being insignificant, was guaranteed to be pro-British.

[651] His secretarial staff was supplied by the Maritime Customs: Hawks Pott, *Shanghai*, 156.

[652] In Dutch the firm was called Ten Bokkel Huinink, Korthals Altes, Van Thiel de Vries & Co.

F.B. s'Jacob of the Holland-China Handelscompagnie (HCHC). The latter firm agreed to act as guarantor for the Dutch contractor firm, and became EAD's agent for China.[653] Van Walree was willing to help EAD finance its activities in Shanghai.[654]

There was one final obstacle: apart from the Dutch there was a French, a Japanese and a German group trying to win the Huangpu contract, and their tenders were all cheaper than that of the EAD. Again political circumstances proved decisive. The British government supported the Dutch tender, the Netherlands being regarded as the most innocuous of the nations involved. The French were eager to keep German influence to a minimum, and since the Dutch were willing to co-operate with French interests were they to win the contract, France followed the British lead.[655] With this support, the recommendation of De Rijke, and the help of the HCHC and the NHM, in 1907 EAD was appointed by the Conservancy Board to carry out the Huangpu improvement works for circa seven million guilders.

It took a year before all of the required heavy-duty equipment had arrived in Shanghai—most pieces had to be towed from Amsterdam via the Suez Canal. The smaller and simpler equipment was purchased or constructed in China. To carry out the work, EAD sent European personnel to China and eventually appointed F.C. Quien, a Dutch merchant in Shanghai, as its chief local manager and representative.[656] In 1909 the promise made to French interests three years earlier was fulfilled: the assets of EAD were transferred to a new company, the 'NV Nederlandsch-Fransche Maatschappij voor Havenwerken' (NFMH).[657] This new company was owned jointly by three companies. Half of the NFMH was owned by a French company, SA d'Entreprises et d'Exploitations en Indo-Chine. The other half was owned by EAD and a German company, Kölnische Tiefbau. The latter firm in turn was owned by S. ten Bokkel Huinink and J. Korthals Altes—who also owned EAD—and a German contractor, A. Schumacher.

Unfortunately for those involved in EAD and the NFMH, the Huangpu project did not exactly establish Dutch engineers as the ideal dredging contractors. Trouble began as early as 1908, when a European employee was discharged by the company. This man subsequently made public that certain persons involved in the project had committed large-scale fraud.[658] During the official investigation he suddenly fell ill and died, which gave rise to rumours that he had been poisoned.[659] Although it was established later by a consular investigation team that his death had been caused by

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[653] The EAD was to pay the HCHC 5 per cent of the contract fee: minutes of the meeting of the supervisory board of Havenwerken 11 June 1914, HBG Gouda, KNMH.

[654] Together with the Mees & Co. bank in Rotterdam: 'Geschiedenis KNMH', HBG Gouda, KNMH, p.11.

[655] Van de Sande Bakhuysen to Dutch Ministry of Foreign Affairs 21 May 1907, ARA The Hague, BZ, B 222, 4 waterstaatwerk Wangpoo.

[656] Quien was not yet working for the EAD when the work started; he was probably appointed in late 1908.

[657] The 'Dutch-French Harbour Works Company', established 9 June 1909 in Amsterdam.

[658] The persons carrying out the actual dredging would get a bonus if they produced quantities of mud over a certain limit. In order to obtain their bonus some of them bribed supervisors who had to report on the amount of dredging done, so that the latter would report inflated figures: Van Citters to Dutch Ministry of Foreign Affairs 28 Sept. 1908, ARA The Hague, BZ, 1323, 268; *Algemeen Handelsblad* (17 Feb. 1909). The result of this procedure was that the 2 million taels reserved for dredging actually produced less than 2 million taels worth of work: Oudendijk to Dutch Ministry of Foreign Affairs 16 March 1909, ARA The Hague, BZ, 263, 87.

[659] Dutch consul-general (Shanghai) to Dutch Ministry of Foreign Affairs 14 Oct. 1908 , ibid. 1856, 151.

alcohol abuse rather than poisoning, it turned out that his allegation of fraud was true. The company acknowledged that some of its employees had participated in the swindle, and had to perform 250,000 cubic yards worth of extra dredging by way of fine.[660] This represented a severe financial loss for the company, the extra amount equalling about ten times as much as a single dredger could dig out in a week.[661] Although formally EAD was reorganised into the NFMH in 1909, it is unlikely that the Conservancy Board did not realise that this meant merely a change of name.

In 1909 it was obvious that De Rijke needed extra money in order to complete the project.[662] However, instead of releasing extra money for the river improvement, the Chinese authorities did not renew De Rijke's contract in 1910. Probably the Chinese had been irked by the discovery of the EAD fraud and De Rijke's failure to keep to his budget—there was not even enough money left for maintenance work.[663] When the original contract expired in 1910, the NFMH was not given a new contract for work on the Huangpu, or anywhere else in China. As a result the dregding materials in Shanghai could not be employed.[664] After investing large sums of money in acquiring and transporting the equipment to China, the company could not afford to leave it unemployed, and in early 1911 the NFMH was dissolved. Half of its assets were handed over to SA d'Entreprises, the other half to yet another new firm, 'NV Maatschappij tot Exploitatie van Baggermaterieel' (MEB). The MEB was established by Ten Bokkel Huining and Van Thiel de Vries; Mr Korthals Altes withdrew from

[660] Oudendijk to Dutch Ministry of Foreign Affairs 16 March 1909, ibid. 263, 87. Some indications suggest that the investigation team did not discover the entire magnitude of the deceit: Quien—who was not yet working for EAD when the fraud was committed—found out in 1912 that six out of ten of the barges used to collect scooped-up mud during 1907-1910 were some 10 per cent smaller than reported to the Conservancy Board. Again this means that not all of the dredging paid for was actually dredged. Quien advised financial director R.H. Dorsser of the Havenwerken to keep quiet about the matter so as not to let the Conservancy Board find out that it had been cheated. Quien did tell engineer-in-chief, H.M. von Heidenstam, who promised not to inform the Board: Quien to Dorsser 14 July 1912, HBG Gouda, Havenwerken, Geschiedenis, correspondentie 1910-1915. Van Dorsser, whose involvement in the Shanghai dredging business dates from 1911, subsequently accused his fellow directors, Ten Bokkel Huinink and Van Thiel de Vries, of incompetence at the very least: 'Some here have already said openly that it is inconceivable that the leaders were unaware of such large-scale deceit, and it is impossible to predict how the Supervisory Board will respond to this news': Van Dorsser to Ten Bokkel Huinink 6 Aug. 1912, HBG Gouda, KNMH.

[661] Estimate based on 'Geschiedenis KNMH', HBG Gouda, KNMH, p.19b, which indicates that dredging crews were expected to dig up at least 22,500 cubic yards and at most 27,500 cubic yards per week.

[662] Dutch consul general (Shanghai) to Dutch legation (Beijing) 4 July 1909, ARA The Hague, BZ, B 222, 4. So far De Rijke and EAD/NFMH had succeeded in creating the Astraea Channel and eliminating the Inner Woosung Bar: Hawks Pott, *Shanghai*, 157.

[663] Especially because the plans were not completed frequent dredging was necessary to keep the Astraea Channel open. The Dutch Minister in Beijing was convinced that the Dutch engineering reputation was seriously damaged: Dutch Minister to China F. Beelaerts van Blokland (Beijing) to Dutch Ministry of Foreign Affairs 11 Oct. 1909, ARA The Hague, BZ, B 222, 4. The NFMH and the Dutch Minister were convinced that the German government had persuaded the Chinese not to work with the Dutch anymore. Beelaerts to Dutch Ministry of Foreign Affairs 19 May 1910, ibid. Korthals Altes suggested that the Dutch Minister should consult his British and French colleagues about how to overcome German and Chinese obstruction: A. Korthals Altes to Dutch Ministry of Foreign Affairs 10 Oct. 1909, ibid.

[664] One report by the Dutch Minister in Beijing suggests that there was a plan, backed by the German government, for the Huangpu project to be continued by a Chinese contractor, who would in turn subcontract the NFMH to do the actual dredging: Beelaerts (Beijing) to Dutch Ministry of Foreign Affairs 27 Nov. 1909, ibid.

the Chinese dredging business.[665] Since EAD/NFMH had not produced enough profits to pay back the banks that had put up the starting capital, the MEB was now heavily in debt.[666] On behalf of one of the banks R.H. van Dorsser of the Nederlandsch-Indische Escompto Maatschappij became a director of the MEB, joining Ten Bokkel Huinink and Van Thiel de Vries. Keeping the equipment at Shanghai for the time being, the MEB hoped to acquire new contracts in other Chinese ports.

In 1912, after the new Chinese Republic had been established, the Shanghai Conservancy Board borrowed money from Deutsch-Asiatische Bank to continue the Huangpu project.[667] It was decided that the Board would obtain the money to pay for this loan from 'wharfage dues', a tax on imported and exported goods.[668] A Swedish engineer, H.M. von Heidenstam, was hired to supervise the work. In spite of their damaged reputation, the Dutch and French successors to EAD/NFMH were still the only owners of dredging equipment in Shanghai. They could underbid any competitor in terms of time and money, and thereby stood a good chance of getting the new Huangpu contract. Because of its huge debts, the MEB was practically owned by four banks: the NHM, the NIHB, the Nederlandsch-Indische Escompto Maatschappij, and the A. Schaaffhausen'scher Bankverein—the last-mentioned being a German bank. These banks decided to create a new company to re-unite the dredging equipment of the MEB and the SA d'Entreprises. They were willing to finance the new company's start-up, provided that they themselves were in control. Alternatively these banks could have decided to try and sell the MEB equipment to new Huangpu contractor, but in 1912 the prospects for turning the MEB into a profitable enterprise were very good. There were no competitors with dredging equipment already in China, there was no doubt that the Conservancy Board in Shanghai was able to finance the works, and other treaty ports were also likely to put out improvement contracts. In the long run, the banks might use their involvement in Chinese harbour contracting to expand into the financing of infrastructural works in China. From the beginning the possibility of also becoming active in other parts of the world was kept open. The owners of the MEB were also involved in harbour construction in the Netherlands Indies, which therefore was regarded by the banks as a possible alternative to the Chinese market.

In the spring of 1912 an agreement was reached between the interested parties: the banks were willing to finance the establishment of a new company, which would buy the MEB's Chinese equipment. The banks would be in complete control of the

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[665] Apparently the bankers and the SA d'Entreprises were not happy with him: unknown writer (possibly Van Dorsser) to W.R. Esser (Nederlandsch-Indische Escompto Maatschappij) 6 Apr. 1912, HBG Gouda, KNMH, Geschiedenis, correspondentie 1910-1915.

[666] In April 1912 the assets of the MEB—equipment and contracts for works in Java—were valued at ƒ2.94 million, while its debts amounted to ƒ2.14 million: MEB to SA d'Entreprises (Paris) 22 April 1912, ibid.

[667] From 1912 the Conservancy Board consisted of the commissioner of trade and foreign affairs for Jiangsu, the Shanghai commissioner of the Maritime Customs Service (a foreigner in Chinese service), the Shanghai harbour master (a foreigner in Chinese service), and three Chinese government officials. Besides the Board an advisory committee was created which represented the Shanghai merchants: one Chinese (for the Chinese Chamber of Commerce) and five foreigners (for the largest trading countries). The Conservancy Board continued to represent the Chinese government. Its authority extended over about a 50-kilometre stretch of the Huangpu: Hawks Pott, *Shanghai*, 158.

[668] Later supplemented by the proceeds of the sale of reclaimed land: ibid. 158.

company: they formed a syndicate to manage their joint control.[669] To make sure that the SA d'Entreprises would not bid against the Dutch group to get the new Huangpu contract, the new Dutch company also bought the materials owned by the French, and offered them limited control and part of the shares. As a result on 1 July 1912 Havenwerken was established, and subsequently obtained the Shanghai contract at a price of £240,000. At the time of its creation Havenwerken was owned by the four banks (7.5 per cent each), the SA d'Entreprises et d'Exploitations en Indo-Chine (35 per cent) and the owners of the MEB (Kölnische Tiefbau and EAD: 35 per cent). In 1913 another Dutch bank—the Twentsche Bank—stepped in, and about the same time Kölnische Tiefbau and EAD sold or traded their shares, probably to the banks. There were further changes in later years,[670] but the banks continued to hold on to the majority of the shares. Their position enabled them to control the annual meeting of shareholders, which appointed the supervisory board and the managing board.[671] From 1913 there were eight seats on the supervisory board: one for each of the five banks, one for the SA d'Entreprises, and two for technical advisors.[672] Bankers dominated the supervisory board, and among them the NHM was the most influential. The supervisory board convened at the NHM head office in Amsterdam, and from 1923 this bank had two delegates on the supervisory board. The first chairman of the supervisory board was A. Muller of the NHM managing board. Like one of his successors as NHM delegate, D. Crena de Iongh, as well as the NIHB delegate T.J. van Haren Noman, Muller was also on the supervisory board of the JCJL.[673]

[669] The function of the syndicate was mainly that the member banks would co-operate with respect to their interests in the harbour works company. Although the syndicate was disbanded in 1914, the banks continued to exercise their control in the Havenwerken in the same co-operative manner.

[670] Shortly after the establishment of Havenwerken each bank took fifty shares from the other two groups. In all there were 1000 shares of *f*1000 each, which means that until the Twentsche Bank came in in 1913, the four banks had 12.5 per cent each, EAD-Kölnische Tiefbau had 25 per cent, and SA d'Entreprises had 25 per cent: 'NMH: Geschiedenis, Doel, Organisatie', HBG Gouda, NMH Geschiedenis, diversen. Within a few years Kölnische Tiefbau and EAD had been dissolved; their shares in Havenwerken were probably taken by the banks, since these were closely involved with the two contracting firms. In 1923 the owners of the Dutch contractor firm Grotius acquired shares in Havenwerken, when it took over their company. Around 1930 the SA d'Entreprises and the Nederlandsch-Indische Escompto Maatschappij also disposed of their shares. J. Perchot, representing the SA d'Entreprises on the supervisory board, resigned in 1928. He was succeeded by A. Pirard, who did not represent the SA d'Entreprises, but a Belgian firm: SA d'Entreprise Générale de Travaux 'Engetra'. Pirard left in 1933 and was not succeeded by another foreigner. Whether this means that all French and Belgian shares were bought by the banks is obscure. The Nederlandsch-Indische Escompto Maatschappij disappeared from the supervisory board in 1932.

[671] This was so right from the beginning: under a special arrangement each bank, the French group, and the MEB all had six votes, meaning that together the banks could cast twenty-four out of thirty-six votes at the shareholders meeting: Statuten van de NV Nederlandsche Maatschappij voor Havenwerken.

[672] The first members of the supervisory board were Abram Muller (NHM), T.J. van Haren Noman (NIHB), W.R. Esser (Nederlandsch-Indische Escompto Maatschappij), W. Farwick (A. Schaaffhausen'scher Bankverein), L.J. Perchot (SA d'Entreprises), A. Déking Dura (retired civil engineer for the Dutch government), and A.G. Lamminga (retired civil engineer for the Netherlands Indies government). In 1913 they were joined by G.H. de Marez Oyens for the Twentsche: 'Havenwerkens Stamboom', 'Geschiedenis KNMH', HBG Gouda, KNMH, p.17. This situation did not change much in the following years: in 1923 a representative from Grotius acquired a seat (occupied until 1933), in 1923 the NHM got a second seat (occupied until 1935), in 1928 the SA d'Entreprises et d'Exploitations en Indo-Chine disappeared from the Board, and in 1932 the Nederlandsch-Indische Escompto Maatschappij gave up its seat.

[673] Moreover, Muller and Crena de Iongh would later also be on the supervisory board of the NSC.

The managing board of Havenwerken needed approval from the supervisory board for every important decision it took, whether this related to the hiring of managers or engineers, the signing of contracts, or the company's finances in general. Until 1938 Van Dorsser, formerly with the Nederlandsch-Indische Escompto Maatschappij, was financial director.[674] He was *de facto* chairman of the managing board, because the other two members were 'technical directors' and had less influence. In 1912 the posts of technical director were fulfilled by Ten Bokkel Huinink and Van Thiel de Vries, but they did not stay very long. By 1916 both had left Havenwerken.[675] After their departure and until the 1940s, the functions of technical director were assumed by civil engineers who previously had worked for the Dutch government.

Knowledge about the company was concentrated in two places. In the first place at the supervisory board. The managing board was unable to play an independent role, because it was located in Amsterdam and run by Van Dorsser, a financial man, who was not in close touch with the construction sites in China. He did not have any significant knowledge advantage over the supervisory board. In the second place knowledge was concentrated in the operational staff in China. These consisted of engineers with great technical and operational experience. One problem was that for each contract a new team of engineers was hired and sent to China for the duration of the project—usually a few years. The construction workers were hired locally through Chinese sub-contractors, also anew for each project. Apart from a single permanent representative, there was no lasting organisation in China. Consequently no managerial hierarchy developed there that could challenge the supervisory board as the main locus of corporate control. Throughout the 1912-1941 period the supervisory board remained firmly under the influence of the major shareholders: the five banks.

In 1912 their choice had been between limiting the damage caused by EAD's mismanagement, or seizing the opportunity to own a harbour construction firm with a strong market position that was almost certain of acquiring the new Huangpu contract. They chose the latter, accepting that it would be propitious to hold on to Havenwerken as long as it continued to be profitable. In a calculated fashion, they hoped that their involvement in harbour works in China might eventually enable them to expand into financing infrastructure projects. Consequently the main overall interest of Havenwerken was to generate a profit for its shareholders by conducting harbour works—primarily in China but possibly also elsewhere.

Harbour Works in China

The Shanghai harbour improvement project, which was completed in 1916, marked the beginning of many years of activities in China. Although initially Dutch engineers had thought that their expertise would be needed mostly for riverine flood control, this proved to be commercially unrewarding.[676] Money was available only

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[674] His successor was J.G. Drabbe, like Van Dorsser a man from the banking world.

[675] It seems unlikely that these two technical directors were left with many shares in Havenwerken after their other firms had been dissolved, given the financial state these firms were in: Van Dorsser to Ten Bokkel Huinink 6 August 1912, HBG Gouda, KNMH, correspondentie 1909-1914.

[676] In 1913 the company claimed that improving the Yellow River was technically and financially beyond its means: minutes of the supervisory board of the Havenwerken 21 Nov. 1913, HBG Gouda, KNMH.

for harbour works on the sea coasts of China. The company did not develop any large-scale activities in the interior, but did expand from dredging to designing and building new harbours. In the 1910s-1930s harbours were built by Havenwerken at Yantai (Chefoo; 1915-1921), Macao (1922-1929), Huludao (Hulutao; 1930-1931), and Lianyungang (Laoyao; 1933-1937). The contract value of such large-scale works could be as high as £1 million. During this period Havenwerken was the only firm in China capable of large-scale dredging—an inevitable ingredient of any major harbour improvement or construction contract. This meant that there were no direct competitors: other firms faced large transport costs to bring dredgers to China. Although during most years after 1912 the central government did not have the money to commission large infrastructural works, there was a market for Havenwerken.

High up on the list of potential clients were conservancy boards such as that in Shanghai. In the early twentieth century these were established in several treaty ports, such as Tianjin, Yantai, Niuzhuang,[677] and Guangzhou. In 1914 the Chinese government also created a National Conservancy Bureau. These conservancy boards were usually able to take care of smaller maintenance works themselves,[678] but needed a foreign contractor before undertaking any large-scale project. They represented local Chinese authorities and merchants in the main treaty ports, and co-operated with the Maritime Customs Service to finance their harbour improvement projects. Other potential clients were foreign and Chinese companies (e.g. shipping lines and railway companies), and various Chinese state institutions (e.g. local military authorities and local governments). Finally there were the colonial governments of Hong Kong and Macao. These potential clients were usually capable of financing harbour works by raising local trade duties or the funds generated by their own commercial activities.

Each harbour construction project constituted a huge undertaking that needed several years to reach completion. The work at Huludao may serve to illustrate the magnitude of Havenwerken's activities—Yantai, Macao, and Lianyungang were on a comparable scale. In order to create a new harbour at Huludao, breakwaters, quay walls, and retaining walls had to be erected and millions of cubic yards of sand had to be dredged. Apart from the between one and two thousand Chinese workers, there were about forty Dutch and other European engineers, accountants, medical staff, and mechanics, and about the same number of Chinese engineers, foremen, overseers, medical staff, and clerks. At the project site the company built houses for staff and their families, and sheds for the workers (accommodating 1800), kitchens, a twelve-room office building, a hospital (capacity ten staff plus seventy workers; including an operating theatre), a bakery, a laundry, a club, tennis courts, workshops (covering 1820 square metres; including a locomotive workshop), storage facilities, an electrical power plant, a seven kilometre pipe line (to carry water from a nearby river), a small ice plant, a quarry, rail tracks (including a forty-five metre bridge

[677] The Niuzhuang board was called Liao Conservancy Board: Blom, 'Waterbouwkunde', 1005.

[678] The Conservancy Board of Shanghai seems to have had the means to dredger some one million cubic yards of mud every year to keep the Huangpu open for navigation: Hawks Pott, *Shanghai*, 159.

across a chasm), and a concrete production plant. For the actual harbour construction it used a Titan crane, a floating crane, and several dredgers.[679]

Havenwerken's market position benefited from the fact that a large number of Dutch engineers was working for local or national authorities in China. This practice was stimulated by the Dutch government and societies of engineers in the Netherlands. De Rijke's example was followed by many Dutch colleagues, such as J.C. Vliegenthart (1909-1913 engineer-in-chief for the Conservancy Board of Tianjin),[680] H. van der Veen (from 1914 chief consulting engineer for the National Conservancy Bureau), F.J. Blom (from 1915 consulting engineer for National Conservancy Board), P.J. Ott de Vries (in the 1920s member of the International Committee of Engineers, Shanghai), F.J.M. Bourdrez (1932-1939 League of Nations engineer in service of the National Conservancy Bureau),[681] N.A. van den Heuvel (from 1935 head of the Institute for Marine Engineering, Nanjing), and Professor W. Schermerhorn (1936 consultant to the National Conservancy Board). From 1920 to

1928 the advisory committee of the Conservancy Board of Shanghai had one Dutch member.[682] Finally, there were also Dutchmen working as officials in the Maritime Customs Service. The work of these men enhanced the reputation of Dutch hydraulic engineering, which boosted that of the Nederlandsche Maatschappij voor Havenwerken. But even with a monopoly position and a good reputation—the 1908 incident appears to have been forgotten quickly after 1912—performing large-scale construction works in China remained a very challenging business. Apart from the political risks to be discussed later, the 'normal' business risks in China were considerable and should be taken into account in order to understand the nature of Havenwerken's involvement in China. The main business risks related to the purchasing of expensive equipment, the reliability of personnel, the reliability of client payments, natural disasters, and the continuity in the demand.

The first main business risk related to investments in materials. Decisions about when to purchase new dredgers and about their technical characteristics were of vital importance. Commissioning the building of new dredgers in the Netherlands and then bringing them to China was a very expensive undertaking, but was sometimes necessary in order to complete the work in time. There were many different types of dredgers; it depended on the circumstances and conditions which type was the most efficient. In 1937 the company had a fleet of twenty-four large vessels for dredging (including tugboats) and twenty-seven supporting vessels in China.[683] The costs of new dredgers could be only partially recovered by one particular contract; if the right equipment was purchased it could be re-used for several further contracts. But it took many years of building up experience in China for Havenwerken to find out which types of equipment were most cost effective in the long run. In 1937 an internal

[679] G.A. van Steenbergen and H. Volker, *De Uitvoering van de Havenwerken te Hulutao (Noord China)*, (n.p. 1933).

[680] Although Havenwerken did not work at Tianjin, the involvement of Vliegenthart did lead to the purchase of Dutch dredging equipment: Blom, 'Waterbouwkunde', 1000-1010.

[681] In 1939 Bourdrez drowned while exploring the upper reaches of the Yangzi for the Chinese government in Chongqing: 'In Memoriam Ir F.J.M. Bourdrez, 1901-1939', *China* 13 (Dec. 1939), 365-371.

[682] Membership was allowed to the five nationalities with the highest annual tonnage of ships visiting Shanghai plus a representative from the Chinese Chamber of Commerce.

[683] 'Beschouwingen over NMvH Materiaal' in: 'Geschiedenis KNMH', HBG Gouda, KNMH, appendix to p.196.

report noted that expensive special features designed for several dredgers in China had never been put to use.[684]

The second business risk, reliability of personnel, was also a difficult issue for Havenwerken, which did not work with a permanent managerial hierarchy in China. The scandal of 1908 had shown how much damage unsupervised behaviour by employees could cause. Apart from employees abusing their position, there were also the risks of financial and operational inefficiency, and of not meeting minimum quality standards. The head office in the Netherlands could monitor the engineers in China only to a limited extent. In 1912 Van Dorsser was assisted only by the technical directors and an administrative staff of two or three. During the 1920s the number of secretaries, accountants and the like probably still did not exceed a dozen.[685] Havenwerken's main presence in China was wherever it happened to be carrying out its contracting work. Local management was directed by two persons, a financial and a technical director. They were not allowed to make strategic decisions and were expected to report directly to Van Dorsser. Engineers were usually hired in Europe on a contract for a few years and then sent to China, but lower-ranking staff members—both Chinese and European—were often contracted in China. Some of the Chinese employees moved along with the company to the next project elsewhere in China after their contract had expired and the work was finished. The main body of workers—the coolies—was not employed directly by the company. They were recruited and supervised by Chinese foremen. These Chinese subcontractors were indispensable to the supply of labour and all sorts of supplies; they functioned in a way similar to the compradores in the traditional treaty port trade. The restrictions put on the decision-making capacity of local management helped Van Dorsser to exercise control from Amsterdam, but limited operational efficiency. The site engineers frequently complained that Amsterdam was overly cautious and was imposing too many restrictions.[686]

The third type of risk, that relating to contract payment, was larger in China than in many other countries. Because the Chinese currency was silver-based, it was difficult to predict how much a contract in taels or yuan would be worth in guilders by the time actual payments were made. Whether the client paid the full amount and on time depended partly on the political situation, which was always uncertain in China. But this aspect was less of a risk if Western influence was directly involved. The Hong Kong and Macao governments were considered trustworthy, as was the Chinese Maritime Customs Service. If Customs guaranteed payment, the contract was considered sufficiently secure. Havenwerken preferred working for Western governments and companies, or for those Chinese authorities that were backed by the Customs Service. At Huludao, where Havenwerken worked for the Chinese Northeastern government of Zhang Xueliang—formally subordinate to the Guomindang government in Nanjing—the company demanded to be paid in a certain number of instalments and based on a gold standard instead of the silver equivalent. This solution caused bad feelings: the Chinese authorities disliked this demand and

[684] Ibid.
[685] Ibid. p.48.
[686] Dankers, interview with J.G. Drabbe Hilversum 18 April 1985, private collection F. Dankers.

refused to co-operate in some respects.[687] For banking services Havenwerken used the NHM and the NIHM wherever possible; in other cases the HSBC—the bank with the most extensive branch network—was employed.

Havenwerken engineers and two of their wives standing on a floating caisson, which lies alongside a dredger, Yantai, 29 March 1929 (reproduced by kind permission of HBG)

Natural disasters posed a fourth important business risk. In August 1917 the Yantai works were hit by a heavy storm, which destroyed much of what had already been achieved. As a result Havenwerken was not able to complete the contract in time. The company appealed to the client, the Harbour Improvement Commission of Yantai, for more time and money. Although it took considerable negotiation, the Commission did grant the company one and a half year extra time plus *ƒ*250,000.[688] Later, during the 1920s at Macao, a typhoon caused very serious damage to the construction works. In this case the negotiations with the Macao government concerning financial compensation went on until after completion of the harbour. The final outcome appears to have been lost.[689]

The first four types of business risks were a threat to individual projects rather than to the company itself. The potential discontinuity in the demand for harbour works in China constituted a more fundamental problem for the directors. The building costs of a single dredger could be up to *ƒ*700.000, with the depreciation

[687] Minutes of the meeting of the supervisory board of Havenwerken 18 June 1931, HBG Gouda, KNMH.
[688] Minutes of the meeting of the supervisory board of Havenwerken 26 June 1918, ibid.
[689] 'Geschiedenis KNMH', ibid. 108.

Construction of a breakwater, Yantai, circa 1920 (reproduced by kind permission of HBG)

value annually being as much as to *ƒ*25.000.[690] Consequently, the company's physical assets depreciated heavily each year, which had to be compensated for by reserving a large part of the profit. There had to be a new contract by the time the current works were nearing completion, in order not to have expensive equipment age without being put to productive use. To address his problem, the company tried to broaden its activities by diversifying from dredging into construction and design. In 1913, when a Harbour Improvement Commission was formed in Yantai, Havenwerken offered to make a feasibility study of possible measures to improve the city's harbour.[691] When the Commission accepted, Havenwerken turned for support to the Dutch government. At this time Havenwerken had no experience with designing: De Rijke had worked as an independent advisor. The Dutch government agreed to assist the company by lending it a civil engineer. This specialist, O.C.A. van Lidth de Jeude, was sent to China to make a study of the Yantai harbour and subsequently designed a plan for its improvement. The Yantai Harbour Improvement Commission was pleased with his plan and made arrangements with the Chinese government and the diplomatic corps to finance them. Van Lidth de Jeude was appointed chief engineer, and Havenwerken was contracted to build the new harbour

[690] 'Beschouwingen over NMvH Materiaal' in: 'Geschiedenis KNMH', ibid. appendix to p.196.
[691] Blom, 'Waterbouwkunde', 1009.

in 1915.[692] Thus by the time the work at Shanghai came to an end, the company could move on to Yantai immediately.[693] Havenwerken continued its studying and designing activities elsewhere in China in order to enlarge its capacity to win new construction contracts.

Another measure taken to achieve this aim was to set up a representative office with the specific purpose of promoting it with official institutions in China.[694] During its first few years, Havenwerken employed Quien, who had also worked for the EAD and who had been working for foreign companies in Shanghai ever since the 1890s. His knowledge of local conditions in Shanghai was a useful asset when Havenwerken tendered for the second Huangpu contract in 1912. But soon the supervisory board and managing director Van Dorsser found out that working with a person like Quien with much local experience and no close relation with the people running the enterprise from the Netherlands also had its drawbacks. They considered the wage demanded by Quien excessive and were unhappy about his attitude towards them. Van Dorsser informed Quien that:

> '[...] the Supervisory Board consists of 7 members, each of them has a strong personality and his own way of viewing things; no tricks can be played on these people, in the way this was possible with the previous management [i.e., that of EAD/NFMH]. It can be observed from your letters that you consider the Gentlemen here to be fools, to whom every bit of information has to be repeated over and over again before they even begin to comprehend it. It is natural that you are much better informed of the situation in Shanghai, and that you should instruct and advise us; but take my advice and change the tone that you have used in some of your letters [...]'[695]

When the work in Shanghai was finished, Quien did not stay with the firm. Instead, Havenwerken set up a small representative office in Beijing in 1916, which some years later was reorganised into a separate company, the Nederlandsch Syndicaat voor China (NSC). The NSC was to represent not only Havenwerken, but also a wide range of Dutch banks and industrial firms. Some forty Dutch firms participated financially in the NSC.[696] The fortunes of this enterprise are described in the next chapter. The more traditional and cheaper agency system continued to be used in some places with the same aim of ensuring official representation. In Shanghai the company was represented by the HCHC,[697] during the 1930s by Chinese merchants

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692 The German firm H. Diedrichsen & Co. represented Havenwerken in return for 2.5 per cent of the contracting fee: minutes of the meeting of the supervisory board of Havenwerken 16 Feb. 1914, HBG Gouda, KNMH.

693 After Yantai Van Lidth de Jeude stayed with the company for many years, from 1919 as a technical director. He left only when he became a member of the Dutch cabinet in 1935, but in 1937 he joined the supervisory board.

694 According to J.C. Drabbe, who first worked for the NSC and later as director for Havenwerken, relations with Chinese officials were not based on bribes. These were avoided, not so much on moral grounds, but because the frequent changes in office made them ineffective: Dankers, interview with Drabbe.

695 Dorsser to Quien July 1912, 'Geschiedenis KNMH', HBG Gouda, KNMH.

696 Minutes of the meeting of the supervisory board of Havenwerken 5 June 1919, HBG Gouda, KNMH.

697 When the local office for China was moved to Shanghai in 1936, it was decided to end the HCHC's agency contract: 'Organisatie en Voorwaarden van de Vertegenwoordiging in China der NMVH', HBG Gouda, Havenwerken, diverse stukken etc.

in Nanjing and Guangzhou as well. The person appointed to run the NSC was Robert De Vos. This Belgian gentleman possessed very valuable talents for negotiating with the Chinese central authorities. To build and maintain a social network among influential Chinese, he espoused the grand and expensive life style common to Western diplomats in Beijing.[698] Although Dutch businessmen sometimes found it difficult to appreciate such behaviour, it was generally effective. Unfortunately De Vos usually had to carry out his work alone. The supervisory board regarded him in some respects as it had done Quien: a well-informed individual who at times acted too independently. Because of the head office's reluctance to delegate influence to the NSC, the latter's ability to generate a larger demand in China for the resources of Havenwerken remained limited.

Until the mid-1930s Havenwerken succeeded in acquiring sufficient contracts to keep most of its equipment employed in China. However, from the mid-1920s when China became highly unstable politically, the aim of profitability could no longer be achieved. The company tried to decrease the importance of the Chinese market by becoming active in other countries, at first in the Netherlands Indies and later also in Iran and in Southern Europe. Nevertheless, until World War II China remained its main market. Problems in this market were the main cause of the virtual end to profitability after 1923. From 1912 to 1923, dividends were paid each year, with an average of 9 per cent of the shares' nominal value. But in 1924, when the situation in China was seriously deteriorating, for the first time the supervisory board decided to keep all profits in the company. Except for 1925 (4 per cent), 1933 (3 per cent), and 1934 (3 per cent), no more dividends were paid before the Second World War. Therefore it can be said that the main local interest in China at first was to maximise profits, but that this changed during the 1920s because of the worsening of market conditions in China. After the mid-1920s the company's main interest in China was to scale down its operations gradually enough to avoid too much financial damage, in order to spread its presence over a greater number of countries.

Political Risks and Response

1916-1928

During the first decade of its existence, Havenwerken did not experience any important political risks at the two locations in China where it was active, Shanghai and Yantai. The Second Zhili-Fengtian War of 1924—the largest of the civil wars of the early 1920s—was the first major political threat to Havenwerken's interests.[699] The Zhili-coalition, led by Wu Peifu and the Fengtian-coalition under Zhang Zuolin, waged war on each other in an attempt to gain control over northern China and the capital, Beijing. After Zhang, whose power base was in Manchuria, defeated his Zhili armies, Wu was forced to retreat to Central China. It was just at this time that Havenwerken expected a contract for a new seaport in Haizhou Bay, roughly in the middle of the coastal shipping route between Shanghai and Qingdao. This new harbour was to form the eastern terminus of the Longhai railway, which then was only partly completed. The defeat of Wu Peifu, who until the war had controlled the

[698] F. Dankers to J.H. Warning (London) 28 Jan. 1985 and reply March 1985, private collection F. Dankers.

[699] On this war: A. Waldron, *From War to Nationalism: China's Turning Point, 1924-1925* (Cambridge 1995).

area in which the Longhai railway was being built, caused a power vacuum in this part of the country. The railway became a prize in the contest between various armies, which expeditiously used the finished stretches to move troops and supplies. In 1926-1927 the Guomindang's military advance from South to North China caused even more chaos in the provinces through which Longhai ran. Under these circumstances the Longhai Railway Administration was unable to finance the building of a new harbour, and the plans for the harbour were cancelled. This was a serious disappointment for the Dutch firm, and showed that civil warfare in China could affect all economic development plans outside the treaty ports.

Havenwerken engineers and Chinese coolies, Hong Kong, 1920s (reproduced by kind permission of HBG)

In 1925 foreign companies were shocked to discover that even in the main treaty ports they were not safe when, in June, the great anti-British boycott erupted in the southern seaports. Hong Kong was hit very hard by strikes among Chinese harbour workers. At this time Havenwerken was engaged in expanding Hong Kong harbour by constructing a new quay wall.[700] The company was able to continue its construction works, because most of its Chinese workers were from North China, and had no direct connections with the organisers of the strikes.[701] Although

[700] Worth £190.000. Quay walls were also called 'bund' walls in China. In 1922 Havenwerken made an agreement with Kwik Djoen Eng, owner of a major sugar concern in the Netherlands Indies, who wanted to invest part of his earnings in China. On his behalf Havenwerken made a study of existing plans for the North Point reclamation works at Hong Kong. In 1924 this resulted in contract with the Hong Kong Public Works Department for land reclamation plus the construction of a quay wall, financed by Kwik Djoen Eng. The work was completed in 1927.

[701] Minutes of the meeting of the supervisory board of Havenwerken 16 July 1926, HBG Gouda, KNMH.

Havenwerken did not suffer direct damage during the 1920s, the number and importantly the size of political risks was growing. There was no particular place in China where Havenwerken was guaranteed safe from these risks. This was worrying for a company that could not easily withdraw once it had signed a contract and stationed its personnel and dredgers at the building site. As stated earlier, in the mid-1920s the firm's leaders responded to the worsening prospects on the Chinese market by not remitting dividends to the parent firms. Given that Havenwerken's main interest was to remit profits to its owners, this shows that the supervisory board took the situation in China very seriously. Rather than risking losing a company with valuable assets that had proven to be very successful during the period 1912-1923, the supervisory board—i.e., the banks—preferred to sacrifice dividends. The board thought it wise to have extra money on hand to adjust the company's strategy as it was needed. In 1923 Grotius, a Dutch contracting firm active in the Netherlands Indies, was purchased. This marked the beginning of a policy to spread Havenwerken's activities to other parts of the world. During the early 1920s, the company had already been active in the Netherlands Indies and French Marocco,[702] but in 1927 for the first time it engaged in a major harbour construction work outside China when it signed a contract in the Canary Islands.

1928-1937

Despite casting its net wider, the company did not withdraw from China either. Besides the work in Hong Kong, the company was also engaged in a large project in Macao. There Havenwerken had been contracted by the Portuguese colonial authorities to construct a completely new 'outer harbour' east of the city, which was to replace the old 'inner harbour' to the west.[703] When the work in Hong Kong and Macao was completed successfully at the end of the 1920s, Havenwerken signed new contracts for further projects in China. In 1928 the Dutch firm made an agreement with the Hong Kong Public Works Department for the reclamation of land, which would enable the extension of Kai Tak Airport.[704] It was about this time that the company asked the Dutch government for active support for its position in China.

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[702] During 1920-1923 the company built a railway in Sumatra for the Netherlands Indies State Railways, and warehouses in Batavia for the JCJL. In 1921 Havenwerken obtained a contract via Perchot to undertake projects in Mazagan and Mogador, Marocco.

[703] Representing almost £1 million; financially this was the company's largest contract in China. In 1922 the Macao colonial administration gave the contract for the construction of a new harbour to Havenwerken, after the preliminary studies had been made by Portuguese engineers. The aim of the Macao administration was to make Macao less dependent on the opium trade and gambling as revenue sources: R. Wank-Nolasco Lamas, *History of Macau: A Student's Manual* (Macao 1998), 190-111. Since the company now worked simultaneously on two large projects, new materials had to be purchased in the Netherlands. To finance this Havenwerken formed for the Macao project a syndicate with three Belgian firms: SA d'Entreprise Générale de Travaux, Société Coloniale de Construction, and SA Ougré Marihaye. The Belgian contribution consisted of money; a Belgian financial representative was present in Macao: 'Geschiedenis KNMH', HBG Gouda, KNMH, pp.62-90. Work continued until 1929, by which time a large area of land had been reclaimed and the new Outer Harbour had been completed to replace the old Inner Harbour. Nevertheless, in shipping circles it was believed that no matter how much money Macao invested in its port facilities, its backwardness and corrupt government would keep it from ever seriously threatening the port of Hong Kong: Annual report 1922, Nedlloyd Utrecht, KJCPL, 233 verslagen hoofdagent 1903-1923 en 1925.

[704] Worth *ƒ*875,000: Havenwerken won the contract in 1928. 'Geschiedenis KNMH', HBG Gouda, KNMH, p.108.

Following the example of the other foreign powers, in the mid-1920s the government of the Netherlands decided to decline to accept further payments of the Boxer Indemnity. Ever since 1902 China had been paying the indemnity for the Boxer War to the foreign powers in regular instalments. However, by the 1920s most of these had come to regard the indemnity as a useful tool to further their national interests in China.[705] Instead of channelling the money into their national treasuries, the foreign powers decided to invest the remaining instalments in educational or economic projects that in varying degrees were supportive to China's development. Not only was it hoped that this would enhance the foreigners' image in Chinese public opinion, but it would also strengthen each power's influence in China. Educational projects produced closer ties with future political or business leaders,[706] while economic projects created new investment opportunities.

Havenwerken had the latter aim in mind in 1928 when it contacted the Dutch government, which was in the process of finding a suitable new destination for the Boxer Indemnity. The company pointed out that the Belgian government had arranged that 40 per cent of the Belgian Boxer money would be used by the Longhai Railway to order material from Belgian firms.[707] Therefore Havenwerken suggested that the Dutch portion of the Boxer money would be used to revive the Longhai harbour project.[708] Moreover, via the NSC the company also proposed that part of the money would be used to make a feasibility study of possible ways to prevent the Yellow River from flooding. In 1933 the government of the Netherlands decided that the Dutch indemnity share—i.e., everything paid since 1926 and still payable until 1945—would be given to Chinese custody. In return China agreed to use about a third of the money for cultural aims and the rest for water works, for which a Dutch engineer was to be employed by the Chinese government.[709] This increased Havenwerken's chances of obtaining new assignments.[710] In this way the Dutch government used its share of the indemnity to support Havenwerken, albeit somewhat less directly than the company would have wished.[711] While this arrangement was in the pipeline, at the close of the 1920s, Havenwerken was temporarily without work in China. Despite this setback, the supervisory board continued to regard China as the firm's primary market. All materials in China were kept there.[712] China was being reunified under the Guomindang and it was believed by many foreigners that the political turmoil of the 1920s would end in the new

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705 Germany, Austria-Hungary and Russia relinquished their indemnity shares after the First World War. This did not mean that the Customs Service and the Shanghai bankers stopped collecting the shares originally destined for these three countries. The Chinese government was allowed to ask the diplomatic corps to use it as a guarantee for new foreign loans: Van der Putten, 'Bokserindemniteit', 42.

706 The US government had followed this policy since as early as 1908. The Japanese did the same, but also used the money to train Japanese China-experts.

707 Oudendijk to Dutch Ministry of Foreign Affairs 7 Nov. 1928, Ministry of Foreign Affairs The Hague, Beijing IV, M 14, 183.

708 Minutes of the meeting of the supervisory board of Havenwerken 1 March 1933, HBG Gouda, KNMH.

709 Van der Putten, 'Bokserindemniteit', 40.

710 Ibid. 41.

711 This arrangement attracted the attention of other Dutch maritime construction contractors. In 1933 the Hollandsche Aanneming Maatschappij wanted to obtain a contract in Canton: ARA The Hague, BZ, DEZ III, 102 haven Canton. Presumably this attempt failed.

712 Minutes of the meeting of the supervisory board of Havenwerken 14 Dec. 1928, HBG Gouda, KNMH.

decade. Havenwerken expected to secure new contracts before too long, which indeed it did. The Dutch company was assigned the task of building a completely new seaport at Huludao, southern Manchuria.

In 1930 the Manchurian government of Zhang Xueliang,[713] which was allied to the Guomindang government in Nanjing, was looking for a way to divert the trade in Manchurian products away from Dalian (Dairen, Dalny), the main seaport of Manchuria. The part of south Manchuria where Dalian lay, the Liaodong peninsula, was controlled by the Japanese army, and the dominant economic power here was the Japanese South Manchurian Railway Company (SMR). The other Manchurian seaports were not ideal for the development of Chinese-controlled trade: Dandong (Antung) and Niuzhuang were too near to Japanese controlled areas and could be easily blockaded. In order to contain Japanese influence in Manchuria, Zhang Xueliang revived an old plan to build an entirely new harbour at Huludao on the western shore of the Gulf of Liaodong, north of Qinhuangdao and the Great Wall.[714] Profiting from his good relations with Zhang, De Vos of the NSC acquired the contract for Havenwerken, and the company immediately commenced its building activities—not aware that it was becoming enmeshed in a sensitive aspect of Sino-Japanese relations.

Zhang's plan was to link the new port with the Chinese-owned Beijing-Shenyang railway, which would then become a serious competitor for the SMR.[715] To underline this intention, new Chinese-owned railways were being built from Shenyang deeper into Manchuria, while others were planned to link the Beijing-Shenyang line with Rehe and Inner Mongolia.[716] Japan protested against this development, claiming that the building of Huludao harbour was in conflict with agreements made in 1905 when the SMR was transferred to Japanese ownership as part of the agreement to end the Russo-Japanese War. In the eyes of the Japanese the building of Huludao was a severe provocation, because it undermined the economic and strategic position they had been cultivating in Manchuria since 1905. This formed an important part of the background of the Mukden Incident of September 1931, when junior Japanese army officers staged a coup against their military and political superiors. They managed to set off a Japanese invasion that led to the occupation of all of Manchuria, including Huludao. Havenwerken's activities there came to an abrupt end.

The company was taken by surprise and once the invasion came, was unable to do anything but try to minimise the financial damage. At the time it had received only 400,000 yuan for the work, and no further payments were to be expected from China.[717] Therefore Havenwerken wanted Japan to pay the Y2.5 million to which it claimed to be entitled. In April 1932 the company asked the Dutch foreign ministry

[713] He was the son of and successor to Zhang Zuolin, the leading warlord in Manchuria and North China. Zhang Zuolin was murdered in 1928 by members of the Japanese military.

[714] In 1910-1911 the British engineer Hughes of the Liao Conservancy Board led a project to build the Huludao harbour. Because of lack of finances, the work was abandoned at a very early stage: Blom, 'Waterbouwkunde', 1005.

[715] According to W.G. Beasley, the SMR was hit harder by the decrease in soya bean prices on the world market than its Chinese competitors, because Chinese currency was silver-based: W.G. Beasley, *Japanese Imperialism, 1894-1945,* (Oxford 1987), 191.

[716] Van Steenbergen and Volker, *Hulutao*.

[717] Note 11 Oct. 1932, ARA The Hague, BZ, DEZ III, 102, havenaanleg Hulutao.

to protest about the damage in Manchukuo and Tokyo.[718] While Dutch representatives negotiated with the authorities in Japan, De Vos also did what he could. In November of 1932 he met the managing director of the Shenyang-Shanhaiguan line, who represented the Japanese side. The Japanese agreed to pay Y1 million and let Havenwerken take its materials away from Huludao.[719] Again De Vos had proved of immense value to the company. The Dutch minister in Beijing was amazed by this achievement; his colleague in Tokyo was annoyed that he was informed only afterwards, by the Japanese government.[720]

In spite of the negotiating success of De Vos, the events in Manchuria were a financial setback and a sign that Japan had become a new source of political risks. The Manchukuo market had been lost, since the Japanese had their own contractors and equipment.[721] Moreover, the Japanese occupation of Manchuria also affected the market in North China. There Japanese influence was so strong that the Chinese government was not interested in investing any money in new public works. During the early and mid-1930s Havenwerken finished a large number of medium-size projects in Central and South China.[722] Apart from various assignments which came its way from the Hong Kong Public Works Department,[723] the company took on works for the Chinese Public Works Department at Guangzhou (construction of a quay wall for ƒ350,000, 1930-1931), the Chinese Naval Headquarters at Xiamen (construction of a quay wall, 1931-1934), the Zhongshan district government in Guangdong province (design for a new harbour, 1931), W.S. Bailey & Co. at Hong Kong (shipyard extension for ƒ200,000, 1932-1934), Butterfield & Swire at Xiamen (construction of a warehouse for China Navigation Company for ƒ200,000, 1933-1934), the Gulangyu Municipal Council at Xiamen (construction of a jetty, 1934), Shell in Hong Kong (construction of mooring buoys for the Asiatic Petroleum Company), and the Chinese Naval Authorities of Nanjing (dredging for ƒ110,000 in 1936-1937).[724] Apart from this, Havenwerken made a study for a mine-laying project in the Yangzi for the Submarine Mine College of Jiangsu.[725]

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[718] Havenwerken to Dutch Ministry of Foreign Affairs 29 April 1932, ibid.

[719] Pabst (Tokyo) to Dutch Ministry of Foreign Affairs 24 Nov. 1932, ibid.

[720] Thorbecke to Dutch Ministry of Foreign Affairs 24 April 1933, ibid. It did take many years before the Huludao case could really be closed. In 1939 a final settlement was reached: Minutes of the meeting of the supervisory board of Havenwerken 24 Feb. 1939, HBG Gouda, KNMH.

[721] Minute, PRO, FO 371, 18114, F4416 Belgian activities in Manchukuo.

[722] The only activity in North China concerned an agreement between Havenwerken and the Harbour Improvement Commission of Yantai, which the latter party cancelled after Havenwerken had already shipped ƒ132,000 worth of materials to China. Dutch diplomatic complaints did not lead to a continuation of the contract, or compensation for the damage incurred. The reason for the cancellation is unknown. Thorbecke to Dutch Ministry of Foreign Affairs 7 March 1933, ARA The Hague, BZ, DEZ III, 102 havenbouw Chefoo; Havenwerken to Dutch Ministry of Foreign Affairs 29 April 1933, ibid.; Thorbecke to Dutch Ministry of Foreign Affairs 30 Sept. 1935, ARA The Hague, BZ, DEZ III, 102 Havenaanleg Hulutao.

[723] In 1934: ƒ203,000 worth of dredging at Kowloon, laying a water pipe line from Kowloon to Hong Kong worth HK$ 26,5000, and making six caissons for a ferry worth HK$673,140. In 1935: HK$44,000 worth of dredging and 2 caissons worth HK$52,243: 'Geschiedenis KNMH', HBG Gouda, KNMH, pp.156 and 167.

[724] As subcontractor for Kalgan Shih & Co.

[725] Dutch consul general (Shanghai) to Dutch Minister De Vos van Steenwijk 22 Oct. 1936, ARA The Hague, BZ, kol-pol, Peking 453.

The company's strategy remained unaltered. Although activities outside China expanded to new countries—Portugal in 1932 and Iran in 1934—China remained its primary market. Havenwerken ignored the northern part of the country and focused on the areas under Guomindang control. In 1933 for the last time it signed a contract to construct a new harbour in China: at a price of ƒ2.5 million the Longhai Railway Administration contracted Havenwerken for the building of a coal harbour for at Lianyungang (Lao Yao). This was in Haizhou Bay, where the larger multi-purpose Longhai sea harbour originally had been planned.[726] Although the supervisory board considered the risks too great, it decided to accept the contract out of fear that other foreign firms might take on the job.[727]

1937-1941

Four years later, in 1937, the Lianyungang coal harbour was nearly completed when the war between China and Japan broke out. The Chinese military recognised the great strategic value that Lianyungang possessed for the invading Japanese, and sank six of Havenwerken's vessels in an attempt to make the new harbour unusable. In spite of this, the Japanese eventually captured the port. By this time, in spring 1938, Havenwerken personnel had already left, but several Chinese maintenance workers were killed and the manager in charge was arrested by the Japanese, accused of giving assistance to the Chinese army.[728] Although the Dutch envoy succeeded in convincing the Japanese to let him go, they did not allow him to return to Lianyungang.[729] Consequently no personnel of the company remained at Lianyungang, and the Japanese military refused to let the Dutch remove their equipment from the site. The worst possible scenario had become reality: a major construction site had been captured by invading troops when it was almost completed but when all materials were still there.

After Japan had occupied the lower Yangzi provinces in East China, only the south coast of the country remained accessible to Havenwerken. Since 1936 the company had been working in Guangzhou for the Huangpu (Whampoa) Port Development Administration (dredging for ƒ993,000, 1937-1938), and the Ministry of Railways (building a quay wall for ƒ578,000, 1937-1938). Even here the war did slow down activities. On 16 August 1938 a Havenwerken lighter was confiscated between Guangzhou and Hong Kong when the Chinese navy discovered

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[726] On the functional relationship between the harbour and Longhai Railway in the 1930s, see Osterhammel, *Britischer Imperialismus*, 316-317.

[727] Minutes of the meeting of the supervisory board of Havenwerken 11 March 1933, HBG Gouda, KNMH.

[728] The Chinese army probably expected that the Japanese would land troops at Lianyungang in order to advance on Xuzhou, which lay 200 kilometres inland at the intersection of the Longhai line with the Beijing-Shanghai (or more precisely the Jinan-Pukou or Jipu) line. Indeed, as during the warlord wars of the 1920s, railways proved of enormous importance to troop movements during the Sino-Japanese war, and in early 1938 the Japanese launched a two major campaigns to capture Xuzhou, which eventually fell into their hands in May 1938. Their advance on Xuzhou was made from their bases in the south (Nanjing) and the north (Qingdao), rather than from Haizhou Bay. Lianyungang was occupied by the Japanese only in the wake of their attack on Xuzhou. Why they did not land at Lianyungang at an earlier stage puzzled H. de Fremery, a Dutch military observer in China: H.J.D. de Fremery, report 11 in: G. Teitler and K.W. Radtke (eds), *A Dutch Spy in China: Reports on the First Phase of the Sino-Japanese War, 1937-1939* (Leiden 1999), p.185.

[729] 'Geschiedenis KNMH', HBG Gouda, KNMH, p.201.

contraband—hemp, metal scraps, and resin—on board. The company protested, claiming that the Chinese crew had probably been intimidated by smugglers and forced to accept the contraband. It added that such incidents were practically beyond its control given the chaotic circumstances, and Havenwerken had never before been involved in smuggling.[730] The matter was not yet resolved when Japan invaded also the south coast and seized Guangzhou—and the firm's materials there—in October 1938. When the Guangzhou works were abandoned Havenwerken had already received part of the contract fee and in 1939 managed to obtain a more or less satisfactory arrangement with the Chinese government in Chongqing.[731]

The Japanese occupation of most Chinese coastal areas meant the end for the Dutch harbour works in the Far East. Attempts to obtain a contract at Shantou came to nothing and in Shanghai the material used for the contract with the Chinese Naval Authorities of Nanjing—which had been finished just in time—was confiscated by the Japanese. In Yantai the Japanese authorities dissolved the Harbour Improvement Commission, from which Havenwerken was still trying to obtain compensation for a contract cancelled in 1932. The Dutch minister in Tokyo presented a formal protest about this dissolution—without effect.[732] The final Chinese contract of the 1930s was a small one (for *ƒ*97,000) in Hong Kong in 1938. From 1939 to 1941 the main concern of Nederlandsche Maatschappij voor Havenwerken in the Far East was to get permission from the Japanese army to remove the Lianyungang materials. The Dutch government gave its support by representing the company's claims in Japan. This was to no avail. Japan did not return the equipment or pay for the damage. In 1940 Havenwerken discovered that the Japanese army was actually using Havenwerken materials to repair the damaged Lianyungang harbour.

In terms of organisation, Havenwerken's presence in China had always been minimal. In 1936 there were only a main office in Shanghai (which was also for the NSC; staffed by four Dutch and one Chinese) and a main materials depot in Macao (with one Dutch manager). Besides this there were temporary offices in the places where the company happened to be building, and Chinese agents in Nanjing and Guangzhou. The agency agreement with the HCHC was cancelled.[733] At the end of 1937 the permanent representative for Havenwerken and the NSC, De Vos, was discharged. A small office was retained only in Hong Kong. By 1939, when working in China had become impossible, the local organisation was almost completely dissolved. Only the dredgers were still there: some in the Macao depot, but most of them in Japanese hands.[734] By this time Havenwerken was experiencing severe difficulties. In China it had lost not just the market, but also most of its equipment. Because of local circumstances the work in Iran, at the time the company' main non-Chinese area of interest, turned into a financial disaster. From 1936 the company was losing hundreds of thousands of guilders each year; losses totalled 2.6 million

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[730] 'Memorandum regarding the Smuggling-Case on Board of our Lighter NHW 25', Ibid. 198.

[731] Dutch Minister De Vos van Steenwijk to Dutch Ministry of Foreign Affairs 11 May 1939, ARA The Hague, BZ, DEZ III, 102 haven Sjanghai.

[732] Dutch Ministry of Foreign Affairs to Dutch Minister (Tokyo) 7 Dec. 1938, ibid. havenbouw Chefoo.

[733] Minutes of the meeting of the supervisory board of Havenwerken 10 Jan. and 22 Oct. 1936, HBG Gouda, KNMH.

[734] In April 1938 a report by Nederlandsche Handel-Maatschappij on Havenwerken concluded that the contractor still had many resources tied up in China: Minutes of the meeting of the supervisory board of Havenwerken 14 April 1938, ibid.

guilders by the year 1940.[735] In December 1941, the two Dutch employees in Hong Kong were interned by the Japanese when they conquered the British colony, a fate which the Dutch materials manager in Macao escaped because this city remained in Portuguese hands during the Pacific War. Although he stayed in Macao as the firm's last representative in Asia during the war, Havenwerken was *de facto* removed from the Chinese market in 1941. [736]

Conclusion

Havenwerken's main local interest in China during the 1910s and early 1920s was to create profits and to remit them as dividends to its owners, which were mainly banks. Because of the increase in political risks from the mid-1920s, the company's main local interest became to hold on to its market position in China—either until local conditions had improved or until sufficient new activities had been initiated in other parts of the world. The hypothesis proves incorrect where it concerned civil war and Chinese nationalism. Until 1916 political risks were indeed insignificant, but the 1916-1928 period also remained relatively quiet for Havenwerken. The only main risk was that the civil war in the interior did have a negative effect on the demand for harbour works, which was demonstrated by the cancelling of the Longhai Railway harbour at Haizhou. During 1928-1937 the main source of political risks was not Chinese nationalism, but Japanese imperialism. In correspondence with the hypothesis, Japanese imperialism was also the main political risk during 1937-1941.

The risks related to civil war during the 1920s did not pose a direct threat to the position of Havenwerken. However, the civil wars decreased the demand for harbour works, because potential clients like the Chinese government or railway companies were unable to make new investments. Consequently the Chinese market lost its attraction, and the company responded to this by undertaking new projects in other countries.

Risks caused by the entrenchment of Japanese power in China were a more direct threat. From 1931 step by step Japan occupied the China coast from Manchuria in the northeast to Guangdong in the south. The effect was that geographically the market for Havenwerken shrank until all activities in China ceased in late 1938. From 1931 the company responded to these risks by continuing the strategy it developed in the mid-1920s: the position in China was maintained as much as possible while—gradually—new opportunities for expansion in other countries were gauged. The company's policy towards its activities in China was ambiguous. On the one hand, it relied fully on De Vos to assess local conditions, maintain external relations, and acquire new contracts, without creating an organisation to support his work. On the other hand no materials were removed from China, and hazardous contracts were accepted rather than allowing new competitors enter the Chinese market. Havenwerken had no effective answer to neutralise the risks related to the Japanese advance. Accommodating itself to Japanese interests in order to acquire contracts

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[735] 'Geschiedenis KNMH', HBG Gouda, KNMH, p.201.

[736] In spite of the misfortunes of the 1930s and 1940s, Havenwerken did survive. After 1945 there were a lot of new opportunities in many parts of the world, although China ceased to be the company's main market. Most equipment in China was destroyed during the war; the damage in China was estimated at some two million guilders. The company decided to maintain only a small presence in East Asia; in practice work was carried out only in Hong Kong. In the 1950s the remaining equipment in China was finally removed.

from the Japanese authorities was not an attractive option. For the Japanese military, harbours in China were strategic objects for which they had their own maintenance equipment. Moreover, after 1937 Japan's refusal to either return Havenwerken's materials at Lianyungang or to offer a financial compensation disqualified the Japanese as suitable partners in the eyes of Havenwerken's management. Eventually the firm's position in China was destroyed before the company had succeeded in withdrawing and transferring its main interests to other parts of the world.

CHAPTER 6

RAILWAY CONSTRUCTION: NSC

> 'The banks have been very reasonable. They took a risk at a time when it seemed acceptable, and when things went wrong they did not complain—but they also did not get involved any further.'
>
> J.G. Drabbe (formerly of the NSC), 1985.[737]

Overall Corporate Interest

After the end of World War I an opportunity arose for Dutch investors to participate in a large railway construction project in China. The NHM and the NIHB, being already involved in or closely related to banking, shipping, and harbour construction in China, decided to form a syndicate to handle the railway project. The syndicate was intended not just to win this particular railway contract, but to act as a permanent representative office for Dutch construction and industrial firms. Once the plans had been formulated, on 1 July 1919 the Nederlandsch Syndicaat voor China (Netherlands Syndicate for China, NSC) was formed. It replaced the representative office in China of Havenwerken, which along with the banks was one of the main participants in the syndicate—which soon thereafter was reorganised into a limited liability company.

Within one year of its creation, the NSC acquired the railway construction contract that had initially motivated the founders of the syndicate. This project, the Longhai (Lunghai) railway, was one of the largest railway construction projects in China. Building had started already in 1903.[738] In the first phase, from 1903 to 1909, a Belgian company had constructed a line between Kaifeng and Luoyang, both in Henan province.[739] At Zhengzhou this line crossed the highly important Beijing-Hankou line—another Belgian project.[740] The name of the Belgian company was 'Compagnie Générale de Chemin de Fer et de Tramways en Chine' (hereafter Compagnie Chemin de Fer).[741] About 1913 this company launched the second phase of construction, which was far more ambitious than the first. The Kaifeng-Luoyang line was to be extended eastwards to the Yellow Sea and westwards to Lanzhou in Gansu province, deep in the interior of China. The Belgian company would finance and build the railway and supply the building and operating materials. After completion the railway would cross five provinces and be the first major Chinese line running in an east-west rather than a north-south direction. At the time there were very few nation-wide lines of communication in China. To connect north and south

[737] Dankers, interview with Drabbe, private collection F. Dankers.

[738] K. Bossuyt, 'De Belgische Bijdrage in de Konstruktie van de Chinese Spoorweg Lung-Tsing-U-hai, 1912-1936' (unpublished PhD thesis; University of Ghent 1981), 27.

[739] This section was then known as the Pienlo Railway.

[740] The contract for which had already been signed in 1898 between China and the Compagnie Générale de Belgique: Bossuyt, 'Belgische Bijdrage', 16.

[741] Created in 1897 as a Belgian-French syndicate under Eduard Empain. In 1900 transformed into the Compagnie Générale de Chemin de Fer et de Tramways en Chine. Issued share capital was 1 million Belgian francs, which was owned by Belgian (76 per cent), French (21 per cent), and Russian (the Russo-Chinese Bank; 3 per cent) banks and private investors: ibid. 23-24.

there were the Grand Canal, the coastal shipping route, and the two major railway lines leading south from Beijing, one via Hankou to Guangzhou and one via Tianjin and Nanjing to Shanghai.[742] To connect eastern and western China there was only the Yangzi River. Thus the Longhai line was to become a kind of second Yangzi: as the river connected the interior provinces of Sichuan and Hubei to the east coast, the railway would do the same for Gansu, Shaanxi and Henan further to the north.[743] For this purpose a second Shanghai, i.e., a new major seaport, would have to be created at the point where the Longhai railway reached the sea. The latter aspect provided an important reason for the Dutch banks and Havenwerken to become involved in this railway. After all, they wanted to protect their lead in harbour construction in China.

World War I seriously delayed the construction of Longhai. The Compagnie Chemin de Fer was backed by Belgian and French financial institutions. Because of the war, they could not raise sufficient capital to carry out the work. The war also caused this company to suffer some one hundred million Belgian francs worth of damage, partly because Germany had confiscated its assets in Europe.[744] By the end of the war the Belgian firm was in danger of losing the Longhai contract. If the Compagnie Chemin de Fer remained unable to raise money for the construction of Longhai, the Chinese government would turn to other parties. The Japanese were very interested in bringing Longhai under their influence. When the Okura company proposed buying the entire Longhai business from the Belgian firm, the Belgians refused.[745] But they knew that they could not withstand such pressure very long. With Belgium and France lacking the financial capacity to undertake large-scale projects because of the war, the Compagnie Chemin de Fer looked for investors elsewhere, especially in Britain and the US. No one seemed interested in investing in Longhai, until the company turned its attention to the Netherlands—a country that had never participated directly in any Chinese railway concession.

Bringing together the Dutch and the Belgians was the achievement of Robert De Vos, whose name has been mentioned already in connection with Havenwerken. Formerly he had been consul for Belgium in Korea and Japan. Thereafter he worked for the Compagnie Chemin de Fer.[746] In 1919 that company sent him to raise money for Longhai in the Netherlands. This he did in an unconventional way: he encouraged the Dutch banks to create the NSC, subsequently he took an share of 7.5 per cent in the syndicate, became its chief representative, and then returned to Belgium, now to negotiate on behalf of this new organisation with the Compagnie Chemin de Fer. In this way De Vos shrewdly seized the opportunity to attain his personal goals. As a Dutch-speaking Fleming,[747] he considered the Belgian consular service and the

[742] The interior of Manchuria was connected by railways to Beijing, Yingkou, Dalian, and Vladivostok, and the Transsiberian Railway.

[743] According to the study of this projected harbour made later by the NSC, the main imported goods would probably be petroleum and manufactured items, and the main exported goods nuts, beans, and coal: G.J. van den Broek, *Openbare Werken in China, in het Bijzonder de Lunghaihaven en Spoorweg* (The Hague 1922), 27.

[744] Bossuyt, 'Belgische Bijdrage', 129.

[745] Ibid. 125.

[746] In 1912 De Vos was acting as representative in China for the Compagnie Chemin de Fer. It was De Vos who managed to obtain a contract for the extension of the Kaifeng-Luoyang line for his company: ibid. 35 note 20.

[747] At that time many Flemish people (who were Dutch-speaking) felt repressed by the Walloons and the French speaking Belgian upper-class.

Compagnie Chemin de Fer too overly dominated by French-speaking interests.[748] He preferred to continue his work in China by joining a Dutch organisation.

On 1 May 1920 an agreement was signed between the Chinese government, the Compagnie Chemin de Fer, and the NSC. The Belgian firm was to keep control of the Longhai concession, but the Dutch would participate in three distinct respects. In the first place they would raise roughly half of the money needed to finish Longhai. The NSC would see to it that this money would be used exclusively for orders with Dutch firms. In order to fulfil this financial obligation, the NSC was transformed from a syndicate into a limited liability company.[749] In the second place the Dutch would build and supply a section of the railway.[750] In the third place they would design and build the harbour, which was intended to be located in Haizhou Bay near the city of Haizhou where the railway ended.[751] The founders of the NSC believed that other Dutch investors would find Longhai attractive and that the Chinese government would be willing and able to fulfil its loan obligations. Both assumptions would turn out to be wrong.

As indicated, the primary motive behind the establishment of the NSC was to exploit the Longhai Railway as an investment opportunity. The major shareholders of the NSC were bankers: the NHM, the NIHB, and the Twentsche Bank each owned 10 per cent of the shares. Another 20 per cent was in the hands of Havenwerken, which itself was controlled by the same banks. Further shares were held by R. van Dorsser of Havenwerken (7.5 per cent), A. Muller of the NHM (2.5 per cent), and G.H. de Marez Oyens of the NIHB (2.5 per cent). Muller and De Marez Oyens were also on the supervisory board of Havenwerken. The remaining 37.5 per cent of the shares was owned mainly by Dutch producers of electro-mechanical equipment, such as Stork & Co. (5 per cent), Heemaf (5 per cent),[752] and De Vries Robbé & Co. (5 per cent). The total capital issued amounted to *ƒ*400,000.[753] Direct supervision for

[748] According to both J.G. Drabbe (Nederlandsch-Chineesche Vereniging and Havenwerken) and J.H. Warning (JCJL and son-in-law of De Vos): Dankers, interview with Drabbe; Warning to Dankers 10 Feb. 1985, private collection F. Dankers.

[749] On 2 May 1921: Baart, 'Aktiviteiten'.

[750] According to Bossuyt, Dutch firms would supply just the harbour, not the railway itself: Bossuyt, 'Belgische Bijdrage', 147. However, it seems probable that there was a realistic prospect for the delivery of Dutch orders also to the railway, given the number of Dutch machinery manufacturers participating when the NSC was formed in 1919.

[751] Ibid. 147.

[752] Hengelosche Electrische en Mechanische Apparaten Fabriek.

[753] In all there were forty shares. Werf Conrad, Holima, De Croo & Brauns, Alkmaarsche IJzer- en Metaalgieterij, Internationale Crediet- en Handelsvereniging Rotterdam, Mr A. Muller, Mr H.G. Schadd and Mr G.H. de Marez Oyens each held 2.5 per cent of the shares: 'Statuten van het Nederlandsch Syndicaat voor China' 1919, HBG Gouda, KNMH. The one Dutch company with large interests in China that was entirely unconnected to this syndicate was Royal Dutch. However, the idea that Royal Dutch would participate had occurred to some in the past. In 1913 when travelling in China H. Colijn, the former Dutch Minister of War who in the following year would become director with Royal Dutch, wrote to H. Loudon of Royal Dutch that a Dutch syndicate could only be created if the company were to participate. Colijn thought that the petroleum company might be interested in using the syndicate to look for oil. Elsewhere, during the same journey, he wrote that in China the Dutch should compete more actively with other Western nations; in the first place to strengthen their hold on the colonies, and in the second place to be less dependent on the colonies were they ever to be lost. In early 1914 Dutch Minister to China F. Beelaerts van Blokland wrote to Colijn that he welcomed the initiative, and that he was willing to give his support—as far as that was possible: Colijn to Loudon 6 Oct 1913 and Colijn 10 Oct 1913 , Vrije Universiteit Amsterdam, Colijn, 54, 3, copybook 3; Beelaerts to Colijn 9 Feb. 1914, ibid, 4, map 1914.

the NSC would be carried out by Havenwerken, which had the right to appoint the NSC's director in China. Five other firms—the three banks, Stork, and De Vries Robbé—in turn supervised Havenwerken's management of the NSC. It was probably in 1921, when the NSC was transformed from a syndicate into a limited liability company, that new shareholders were added to the list. The most important were the two banks Rotterdamsche Bankvereeniging and Amsterdamsche Bank, the train manufacturer Werkspoor, and the trading firm Internatio. Because of its wide range of owners, the NSC had the potential to become the main representative agency of Dutch business interests in China. In 1922 the managing director of the NSC, J.G. Drabbe, took the initiative to establish the Dutch China Association (Nederlandsch-Chineesche Vereeniging, NCV). The new association was based at the NSC office, and Drabbe acted as its secretary. The NCV published a journal called *China* and organised presentations about the country for Dutch school children. Its main aim was to expand awareness of China among the Dutch population, and to act as a rallying point for Dutch China experts. Its members were mainly Dutch businessmen and diplomats who had been stationed in China.[754]

From the outset the NSC was firmly under the control of the banks.[755] Several bankers on the NSC supervisory board held the same function in Havenwerken: G.A. Dunlop (NIHB), G.H. de Marez Oyens (NIHB), and J.H. Telders (Twentsche Bank). Two NHM bankers, A. Muller and D. Crena de Iongh, combined board membership of all three major China enterprises launched by their bank: the JCJL, Havenwerken, and the NSC. The permanent office of the NSC in China was extremely small: one director with one Dutch and one Chinese staff member, the very same persons who also represented Havenwerken.[756] The director—De Vos—reported to the NSC head office, which was in the office building of Havenwerken in Amsterdam. From there, Managing Director Drabbe, with the assistance of a single typist, administered the NSC. Drabbe, who had a banking background, held this function until he became financial director of Havenwerken in 1938. Given this construction, a managerial hierarchy never developed in the NSC. De Vos operated mostly alone, and just as with Havenwerken, the work of the NSC was intended to be project-based. After the railway was completed, the engineers would return to the Netherlands.

The NSC had three main overall interests. The first and dominant overall interest of the NSC was to serve the interests of the bankers. Initially this meant obtaining the Longhai contract. When the NSC succeeded and the syndicate formally became a limited liability company, the aim changed into building the railway and securing new investment opportunities for the banks. The banks undertook the raising of the Longhai loan on behalf of the NSC. The second overall interest was for the NSC to

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However, as it turned out the Royal Dutch company never associated itself with other Dutch firms in China or with attempts to obtain railway concessions.

[754] Dankers, interview with Drabbe.

[755] According to Drabbe, in 1929 the banks intended to decrease their involvement in the NSC in order to have more freedom to 'continue with their own industrial relations': ibid. A reflection of this change may be the fact that in 1929 the statutes were modified: a new class of 200 preference shares of *ƒ*1000 each was created. The number of normal shares was increased to 200 of *ƒ*5000 each. Of the shares fifty-five normal ones were issued, amounting to *ƒ*275,000: *Nederlandsche Staatscourant* 240 (9 Dec. 1929) appendix. The number of shareholders had probably not increased since 1921, and by 1934 there were still only fifty-five normal shares issued: *Nederlandsche Staatscourant* 226 (22 Nov. 1934) appendix. There are no indications that there were any changes in shareholdership between 1921 and 1939.

[756] In 1925 a bookkeeper was added: 'Geschiedenis KNMH', HBG Gouda, KNMH, p.45.

take over the task of Havenwerken's representative office: to stay in close contact with the Chinese authorities in order to acquire new contracts for Havenwerken. The third and least important overall interest was also to obtain investment or exporting opportunities in any other field interesting to the banks or the machinery manufacturers. In other words, the NSC was intended to perform specific tasks rather than create a profit.

Railway Construction in China

The NSC engineers who were sent out worked on a different section of the railway to that being taken care of by the Belgians. They were formally integrated into the Longhai Railway Administration, which was owned and supervised by the Chinese government.[757] However, in practice the Dutch carried out their part of the work without much contact with the Belgians or the Chinese government.[758] The financing and harbour designing activities were also carried out separately. This lack of integration was not just at the international level: the various tasks of the NSC were also not integrated. After the Longhai agreement was signed in 1920, De Vos at his Beijing office concentrated on finding new projects. In the meantime, the building of the Dutch Longhai section was done by a temporary Dutch Longhai construction team, while the banks tried to raise the capital. The designing of the Longhai harbour, finally, was undertaken on behalf of the NSC by Havenwerken's hydraulic engineers in China.[759]

Raising capital in Europe for Longhai proved a difficult task. The Dutch banks—on behalf of the NSC—intended to supply Longhai with 50 million guilders by issuing Chinese government bonds on the Amsterdam financial market. But an initial snag was that the Dutch stock exchange (Vereeniging voor den Effectenhandel, VEH) refused to allow any Chinese government bonds onto the Amsterdam market as long as China did not fulfil its existing obligations towards Dutch investors who participated in the 1913 Chinese government loan.[760] This problem was still not solved in February 1922 when the NSC tried to issue the first 16.7 million guilders worth of Longhai bonds. The news about China was not very positive at this time.

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[757] The Longhai Railway Administration was part of the Chinese ministry of communications. The two top officials were the Chinese director-general and the European engineer-in-chief, who was appointed by the Compagnie Chemin de Fer. Until 1926 this was a Frenchman, thereafter a Belgian: Groeneveld, 'Constructie', 64.

[758] A Chinese director for the eastern section was responsible for communications between the Dutch and the local Chinese authorities: E.R. Hondelink, *Nederlandsche Spoorwegbouw in China: De Oostelijke Lunghai-Lijn* (Den Haag 1927), 4-5.

[759] Van Lidth de Jeude, technical director of Havenwerken, complained about the fact that the nominal management of the NSC by Havenwerken meant nothing when it came to building the Longhai Railway. He and Robert De Vos worried that, through its Longhai activities, the NSC would become a more or less independent organisation: minutes of the meeting of Havenwerken Board 30 March 1921, HBG Gouda, KNMH.

[760] The fact that China did not was related to the strict rules imposed during the war by Britain on traffic between China and the Netherlands and to many of the bonds owned by Dutch nationals being issued in Germany or Austria. In November 1921, the Dutch Minister in Beijing Oudendijk, at the request of the NSC, asked the Chinese government to resolve this matter together with Britain: Memorandum Oudendijk to Chinese Ministry of Foreign Affairs 2 Nov. 1921, Ministry of Foreign Affairs The Hague, Peking IV, MI, 183.

Trace of the Longhai railway line between Lianyungang and Lanzhou

The Anfu-Zhili War of 1920 had eliminated the power of Premier Duan Qirui, but had not resulted in a strong new regime in Beijing. In 1922 the former allies Wu Peifu and Zhang Zuolin, turned against one another and fought the First Zhili-Fengtian War. Putting money into a large public works project in a disintegrating country that was boycotted by the VEH because it did not pay its foreign debts could hardly have been a tempting proposition. Consequently there was insufficient demand for Longhai bonds in Amsterdam

The bankers' group participating in the NSC decided to buy the first 16.7 million guilders worth of Longhai bonds themselves. At the same time they looked for help from the Dutch export bureau, the NUM (Nederlandsche Uitvoer-Maatschappij), which was established during World War I by the NHM and other financial institutions to keep Dutch exports going. In February 1923 the NUM decided to purchase 8.6 million guilders worth of bonds from the NSC banks.[761] In return the NSC and the Compagnie Chemin de Fer guaranteed that they would complete the railway up to the eastern terminus, Haizhou, even if there were not enough money to reach the western terminus. In 1923 an attempt was made by the NSC to issue the second group of Longhai bonds, again worth 16.7 million guilders. The banks

[761] Minutes of the meeting of the delegates of the supervisory board of the NUM 13 Feb. 1923, ARA The Hague, EZ, Directoraat Handel en Nijverheid, 387. The agreement was signed in April and the actual transaction was carried out in November 1923. The NUM bought the bonds in four equal parts, each transaction being carried out only after Dutch diplomatic representatives in China confirmed that contruction work was progressing as planned: minutes of the annual meeting of the shareholders of the NUM April 1924, ARA The Hague, EZ, Handel 388.

backed this move by buying 8.3 million guilders' worth of bonds, i.e., the money which they had just received from the NUM. This time the NSC managed to raise 5.8 million guilders from external investors.[762] The company now had contributed over 30 million guilders to the railway, some 60 per cent of the total sum to be contributed by the NSC. The remaining 20 million guilders' worth of bonds were never issued. The Belgian side had produced better results. In 1920 the Compagnie Chemin de Fer had agreed to raise 150 million Belgian francs. By 1923 the money raised by this firm reached the final figure of 137 million francs, or over 90 per cent.[763]

With yet a new large-scale civil war—the second Zhili-Fengtian War—erupting in 1924, the political situation in China continued to deteriorate. No further attempts were made in the Netherlands or in Belgium to issue government bonds. The two companies tried to do the job with the money available. But this soon proved impossible, and more money was needed. An attempt by the Chinese government to attract money from Chinese investors did not produce enough to solve the problem.[764] Again the NUM decided to provide extra capital, but this time only 750,000 guilders and on the understanding that the Netherlands would have to supply no further capital and that the funds for the Longhai harbour would be provided by Chinese or Belgian banks.[765] Although some adaptations had to be made—for example, some of the over 150 bridges were made of wood instead of steel—the Dutch section was actually finished without any further contributions of capital. It was the much larger Belgian section in the west that was not completed until many years later. Of the total of the almost Y243 million borrowed to build Longhai, almost Y107 million was provided by the NSC, Y134.5 million by the Compagnie Chemin de Fer, and Y1.4 million by Chinese investors.[766] By 1925 the Longhai Railway was heavily in debt, and the western part still had a very long way to go before it was completed.[767]

The construction of the Dutch Longhai section itself began in 1921.[768] Dutch engineers set up their headquarters in Xuzhou (Jiangsu province), which formed the intended intersection of the Longhai line and the Beijing-Shanghai line.[769] It was

[762] Groeneveld, 'Constructie', 53.

[763] Bossuyt, 'Belgische Bijdrage', 156.

[764] Groeneveld, 'Constructie', 54-55.

[765] Ibid. 54; Minutes of the meeting of the delegates of the supervisory board of the NUM 15 Jan. 1925, ARA The Hague, EZ, Handel, 387. It is possible that part of this arrangement was also that the entire amount of money supplied by the NSC would be used to spend on Dutch firms, whereas the Dutch would supply less according to the 1920 agreement. At least this might explain why Bossuyt reported that the Dutch would make only equipment deliveries for the harbour, while in fact Dutch firms did supply large amounts of equipment and according to Drabbe it was the task of the NSC to make sure that all 'Dutch' money would go to Dutch companies: Bossuyt, 'Belgische Bijdrage', 147; and Dankers, interview with Drabbe.

[766] Groeneveld, 'Constructie', 55.

[767] Some 930 kilometres were then finished; in the west Xi'an had not yet even been reached. The Longhai Railway had been carrying a heavy debt burden even before 1920. According to Ralph Huenemann much of the £4 million issued for the railway in March 1913 was probably used to strengthen Yuan Shikai's army: Huenemann, *Iron Horse*, 87.

[768] The first phase consisted of land surveys and expropriations: Groeneveld, 'Constructie', 58.

[769] The connection between Tainjin and Nanjing before integration into a Chinese national rail system was called the Tianjin-Pukou line. Before 1968 there was no bridge connecting Nanjing on the south bank of the Yangtse to the north bank, therefore the railway stopped at Pukou. After crossing the river by ferry, passengers could proceed by train from Nanjing to Shanghai.

their task to build the section of the railway from Xuzhou straight through Jiangsu province to Haizhou, the eastern terminus. In this way the Dutch would take care of the easternmost 200 kilometres of the 1770-kilometre long rail link between Lanzhou and Haizhou. The Xuzhou headquarters consisted of a small administrative staff.[770] The Dutch head engineer for the Xuzhou-Haizhou section was J. Déking Dura. Under his supervision there were three Dutch section engineers: E.R. Hondelink, A. Lutsenburg Maas,[771] and L.W.G. de Roo de la Faille. In 1924 Hondelink succeeded Déking Dura and was succeeded in his former post by a Belgian engineer.[772] Below the section engineers there were rail and bridge engineers, most of whom were not Dutch. They were supported by communications and rolling stock staff.[773] In all there were never more than sixteen Europeans engaged in building the Dutch Longhai section.[774] As was the case with harbour building, the actual construction work was done by Chinese workers who were recruited and supervised by Chinese subcontractors. The number of workers per subcontractor was small; in all there were some 300 Chinese subcontractors.[775] Exploitation of the line—which began as soon as a part was completed—was in the hands of Chinese railway personnel.

On 11 June 1925 the first train reached the Haizhou terminus, and a few weeks later the NSC officially handed over its section of the Longhai railway for exploitation by the Chinese government. Construction costs of the Dutch section amounted to circa Y10 million.[776] In practice exploitation had already begun before this date. In early 1924 Dutch Minister Oudendijk had already travelled a distance of 70 kilometres on Dutch-built tracks.[777] In spite of the railway section formally being completed, construction activities did not end in July 1925. Hondelink was still engaged in engineering work at Longhai until 1927. Although the raising of capital had not gone according to plan, at least the Dutch had been able to complete the eastern section—even though Hondelink complained that Amsterdam did not give the Dutch engineers in China sufficient support.[778] As far as had been possible, the NSC had ordered supplies from Dutch firms. Basic construction materials were bought in China, but more advanced equipment—such as rails, bridges, and locomotives—were imported from Europe. Although orders already placed with Belgian suppliers before the NSC entered the project were not cancelled, Dutch-made equipment used for Longhai still amounted to several million guilders—part of which was paid in bonds rather than money.[779] Dutch firms such as Du Croo &

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[770] There was also a Dutch doctor, J.W. Schotman, who wrote about his Longhai experience in *Het Vermolmde Boeddhabeeld* (3 Vols; Amsterdam n.d.).

[771] Adriaan Lutsenburg Maas wrote a letter to his mother every week during the whole four-year period that he worked for Longhai. Together with some of his other correspondence of the same period these are kept in the Algemeen Rijksarchief: ARA The Hague, 2.21.281.08 archief ir A. Lutsenburg Maas.

[772] According to Hondelink and Lutsenburg Maas, Déking Dura did not support his technicians' wish to modify the original Belgian blueprints sufficiently. Relations between Hondelink and Déking Dure appear to have been very bad: Groeneveld, 'Constructie', 65.

[773] Ibid.

[774] Hondelink, 'Lunghai', 7.

[775] Groeneveld, 'Constructie', 70.

[776] Ibid. 55.

[777] 'De Nederlandsche Spoorweg-Aanleg in China', *NRC* (March 1924).

[778] Dankers, interview with Drabbe.

[779] Groeneveld, 'Constructie', 55; policy 3664 (Nederlandsche Credietverzekeringsmaatschappij), ARA The Hague, Min. Financiën, dossierarchief 1918-1946, 40 China.

Brauns, Werkspoor, and De Vries Robbé exported large numbers of wagons, locomotives, and bridges to China.[780] Now that an important part of the Longhai Railway was in operation, repayment of the loan and interest was intended to be done out of the exploitation proceeds. However, political events in China seriously interfered with this scheme, as will be described below. China did not repay the Longhai loan and no new harbour was commissioned. In the end neither the banks nor Havenwerken managed to profit from the Longhai project;[781] only the NSC itself managed to achieve this by earning a commission. This was also the case with several Dutch firms that held shares in the NSC and that were able to export railway materials to China.[782]

Because the NSC worked exclusively in China, its local interest was identical to its overall interest: acquiring Longhai-related and other contracts for the banks, Havenwerken, and the smaller shareholders (the electro-mechanical and industrial exporting firms). As such the NSC was primarily a representative or agency firm, but when it became involved in the building of the Longhai railway, the NSC also developed into a railway construction firm, however, after the Dutch section of Longhai was completed, this development was cut short. Because Longhai was a major disappointment for the banks, they paid no further attention to the NSC. They did allow it to survive for the sake of Havenwerken, which was largely owned by them. But the bankers no longer regarded the NSC as a useful tool for the opening up of new investment opportunities for themselves in China. Moreover, because railway building was not a main local interest, the NSC did not develop into a regular railway construction firm.[783] Therefore, from the mid-1920s, the NSC's remaining local interests were to obtain new contracts only for Havenwerken and the cluster of smaller shareholding firms.

Political Risks and Response

1920-1928

The NSC, which became active in China in 1920, experienced both civil war and anti-foreign nationalism as serious political risks. As indicated already in the previous chapter, the military defeat of Wu Peifu in 1924 had a direct impact on the fortunes of the Longhai railway. Until the autumn of this year, the Longhai Railway Administration had been under the control of Wu, who was the leader of the so-called Zhili coalition that dominated North and Central China. In October 1924, Wu Peifu was leading his troops against the 'Fengtian' (or Manchurian) army marshalled under rival warlord Zhang Zuolin. Just when Wu's campaign seemed successful, one of Wu's allies, Feng Yuxiang, turned against him and moved his troops into Beijing.

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[780] According to Groeneveld: 550 thousand guilders worth of wagons (Du Croo), eight heavy locomotives (Werkspoor), and 194 bridges (Du Croo and De Vries Robbé). Furthermore, Dutch steam-powered pile-drivers were used: Groeneveld, 'Construction', 61. These materials were shipped from Europe via Shanghai or Qingdao to a temporary harbour near Haizhou: Hondelink, 'Lunghai', 25.

[781] It is now impossible to discover whether the banks earned a commission for issuing the Longhai bonds in Amsterdam, but even if they did so such a commission was dwarfed by the Longhai debt which was not repaid.

[782] For a profits and losses overview: Baart, 'Aktiviteiten', 223-224.

[783] It participated in two companies related to construction in China—the Far Eastern Syndicate (surveying group) and Syndicat de Hankow (construction syndicate)—but this did not lead to new construction activities by NSC: Ibid. 72-73.

This was a heavy blow to Wu's standing as the leading warlord in North and Central China. The Zhili coalition collapsed at a surprising rate. Troops engaged in fighting Zhang Zuolin lost confidence in Wu and deserted the front line; many commanders switched their allegiance to the other side. Wu Peifu withdrew to Central China, leaving Zhang Zuolin to establish his influence in North China. Whereas the political conditions had already been unstable ever since 1916, the situation was now very fraught indeed. Wu's defeat resulted in a power vacuum between the northern and the Yangzi provinces—just where the Longhai railway was situated. The increased autonomy of local military leaders in Jiangsu and Henan generated even more regional instability and more local fighting. The Longhai Railway Administration had great difficulty with operating its trains. Traffic on some sections of the railway became impossible, and trains were often requisitioned for military transports.

It was just about this time that nationalism was quickly becoming an influential element in Chinese-foreign relations. While the warlords were fighting each other, Chiang Kai-shek's Guomindang army left its Guangdong base and advanced north. By 1927 the anti-foreign sentiments accompanying this advance had become so hostile that most foreign Longhai personnel had to be evacuated. Only after Chiang Kai-shek had destroyed the power of the Guomindang's left wing and suppressed the overt opposition of the remaining warlords in 1928 did the situation gradually become less threatening. In 1928 the railway was under the control of Feng Yuxiang, who now was allied to the Guomindang. Later, in 1930, the Guomindang government took direct control of Longhai and removed all Europeans who were still involved in the administration of the railway.[784] Protests by foreign diplomats were to no avail.

Because of all the political insecurity, during these years the railway was financially less productive than had been foreseen. And whatever money was produced did not go to the foreign investors. The Dutch banks, the NUM, and other Dutch investors had bought a large number of Chinese bonds. The Dutch government, found itself implicated more directly when the Ministry of Finance liquidated the NUM in 1927 and became owner of its Chinese bonds.[785] The Chinese government was supposed to pay the bondholders regular instalments of the debt itself and its interest. However, after July 1925 no payments were made. The Belgian and French investors who had bought bonds from the Compagnie Chemin de Fer encountered the same problem. As already mentioned, Havenwerken was unable to secure the money (Y20 million) needed to initiate the construction of the Haizhou port.

There was no question of the supervisory board allowing the NSC to engage in any new large project as long as the capital already invested in Longhai had not yet been recovered. The company's bankers created an association of Dutch holders of Longhai bonds, dominated by themselves and the Dutch finance ministry. This association was represented in China not by the NSC but by the Shanghai branches of the NHM and the NIHB. De Vos complained to Oudendijk that the banks had

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[784] Bossuyt, 'Belgische Bijdrage', 187.

[785] K. Huysinga to Dutch Ministry of Foreign Affairs 4 April 1927, ARA The Hague, BZ, DEZ III, 102, Lunghai spoorweg.

ignored the NSC and that they were not prepared to worry about its position.[786] He argued that there was no unity, either between the Belgians and the Dutch, or even among the Dutch themselves. Indeed, the banks—especially the NHM—acted independently of the other Dutch parties involved. The problem with combining forces with the Belgians was that the two countries pursued different interests. The Dutch had fulfilled their construction obligation and now they wanted to have their loan repaid. But the Belgians were still engaged in building the western part of the railway line, and if they could not get their money back they could try to limit the damage by obtaining new materials orders. The Compagnie Chemin de Fer was represented directly in the railway administration, since the engineer-in-chief was a European appointed by the Belgian firm. The Dutch complained that the Compagnie Chemin de Fer used its influence in trying to sell more materials rather than in getting money for the bondholders.[787]

The Dutch bondholders association asked the Dutch government to help. The government was willing to do whatever was in its power, which was asking Minister Oudendijk in Beijing to remind the Chinese government of the unfulfilled obligation. For years Oudendijk and his Belgian and French colleagues sent notes to the Chinese foreign ministry protesting about this matter. They usually did this twice a year, each time when another scheduled date of payment had passed. Apart from this the Dutch government could not do much.

1928-1937

The NSC never recoverd from the Longhai debacle, and no new activities were initiated after the mid-1920s. The company merely continued to act as a representative office for Havenwerken and the Dutch industrial companies.[788] In 1926 the NSC was hired to make a study for a ferry project across the Yangtse between Nanjing and Pukou, and in 1930 it signed the Huludao harbour contract on behalf of Havenwerken. In 1934 an order to equip a paper mill in Guangdong was obtained for Werkspoor, Heemaf, and Stork. Unlike the contruction of the Longhai railway, these contracts were not carried out by the NSC iteself but by the firms it represented. All the while, the Dutch banks that controlled the NSC and that had invested heavily in Longhai bonds never ceased the battle to get their money back.

In 1928 when the Netherlands was intending to negotiate with the newly established Guomindang government about China's import tariff, the bondholders association demanded that the Netherlands would not agree to a tariff revision unless part of the import revenue were used for the Longhai debt. But the Dutch government was not at all prepared to have the signing of a new tariff agreement jeopardised by making it dependent on this matter.[789] The NSC was important, but not more so than Chinese-Dutch trade as a whole. Furthermore, even though the political situation stabilised after 1928, the fact that the people in control of the railway were not interested in co-operation with the foreign investors and builders

[786] De Vos to Oudendijk 29 May 1929, Ministry of Foreign Affairs The Hague, Peking IV, MI5, 193 Lunghai.
[787] For instance Dutch Minister De Vos van Steenwijk to Dutch Ministry of Foreign Affairs 23 Oct. 1935, ARA The Hague, BZ, DEZ III, 279, 770.
[788] Furthermore the NSC represented certain patents for Dutch firms.
[789] Dutch Ministry of Foreign Affairs to Dutch Ministry of Finance 17 Dec. 1928, ARA, Min. Financiën, dossierarchief 1918-1940, 687 NUM in liquidatie, 4.

was as definite an obstacle to repayment as the chaos in the years before 1928 had been. In a letter to the Dutch foreign ministry Oudendijk remarked that tying the Longhai matter to the new tariff would lead to nothing, since he was convinced that the Chinese—in this case General Feng Yuxiang—were simply unwilling to pay the Longhai debt. Oudendijk believed that the railway would yield enough money if only it were be administered more efficiently and if Feng stopped using the existing proceeds for military purposes.[790] A request made by the NSC and the bondholders to the Dutch government in 1929 asking that the Dutch share of the Boxer indemnity to be used to strengthen their position also produced no effect.[791]

In 1933 the Dutch bondholders association with its Belgian and French counterparts even went as far as to approach the League of Nations. The Guomindang government was not entirely immune to this kind of pressure, since it wanted to conclude new international loans. Moreover, extra pressure came from Japanese side when the Japanese Consul General in Nanjing announced that Japan was quite prepared to take over the Longhai bonds.[792] In 1936, in return for a new Belgian loan of 450 million francs to build a new railway to connect the Longhai line with Chengdu in Sichuan province, China proposed that it would recommence the Longhai interest payments that had been halted in 1925. The Chinese government demanded that all interest growth up to 1 July 1936 would be annulled and that repayment of the debt itself would not begin until 1 July 1947, and the bondholders felt they had no option but agree and hope that they would get at least something.[793] After a few years interest payments stopped again because of the war with Japan. Eventually China's foreign Longhai debt was never repaid. The Longhai railway itself was finished only in the 1950s.[794]

Because after 1925 the NSC was merely an agent for other companies, and had no other activities than this representative work, political risks did not form an important threat. This lack of risk is the main reason why the banks allowed the NSC to continue to exist.[795] During the 1930s the only actute political risks were those arising from a Japanese occupation of China, but these effectively stymied any demand for Dutch harbour works or for Dutch industrial exports. The NSC had no other strategy than to wait and see what would happen, and when the Sino-Japanese war began the NSC ceased to exist as a Dutch company in China.[796] In view of its modest size and limited range of activities, its withdrawal from China did not cause its owners much damage.

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[790] Oudendijk to Dutch Ministry of Foreign Affairs 12 Jan. 1929 , ARA The Hague, Min. Financiën, Gen. Thes., 687 NUM, 4. In fact, Bossuyt calculated that throughout the 1920s the earning capacity of Longhai was above the average for Chinese railways: Bossuyt, 'Belgische Bijdrage', 228.

[791] NSC to Dutch Ministry of Foreign Affairs 31 Dec. 1929 , ARA The Hague, Min. Financiën, Gen. Thes., NUM, 4.

[792] Dutch Minister De Vos Steenwijk to Dutch Ministry of Foreign Affairs 13 Feb. 1936, Ministry Foreign Affairs The Hague, Peking VII Lunghai onderneming, MI 1936.

[793] Bossuyt, 'Belgische Bijdrage', 195-203.

[794] After 1928 the westward extension of Longhai was continued. When Xi'an was reached in 1937, the Sino-Japanese war interrupted any further work. In the late 1940s construction was carried through until Lanzhou was finally reached in 1952. Ibid 211.

[795] Executive and advisory boards to the shareholders of the NSC Feb. 1928, ARA The Hague, Min. Financiën 1918-1940, 687 NUM in liquidatie, 4 Chinese schatkistbiljetten.

[796] De Vos retired in 1938, and NSC was reorganised into the Nederlandsch Syndicaat voor Industrieelen Export (Netherlands Syndicate for Industrial Exports), which was no longer aimed at the Chinese market.

Conclusion

The main local interest of the NSC was primarily to acquire profitable contracts for financial services in which the shareholding Dutch banks—the NHM, the NIHB, and the Twentsche Bank—would participate. In the second place its interest was to acquire harbour construction contracts for Nederlandsche Maatschappij voor Havenwerken. In the third and last place its interest was to acquire export orders for Dutch producers of electro-mechanical equipment. Out of this mixture of interests grew the NSC's activities as a railway construction company. However, when Longhai turned out a bad investment for the Dutch banks, these lost their interest in the NSC. After 1925 the company existed exclusively as a representative agent for Havenwerken and the Dutch industrial exporters. In the first phase of its activity in China, 1920-1928, the NSC was threatened not only by civil war but also by the effects of nationalism. The effect of these political risks proved so destructive to the NSC's involvement in Longhai that, after 1928, the NSC was reduced to no more that a very small representative office on behalf of its shareholders. During 1928-1937 not Chinese nationalism but Japanese imperialism was the only political risk. The Japanese invasion in 1937 effectively ended the NSC's activities in China; consequently there was no more relevant risk during 1937-1941.

Civil war posed a risk to the NSC because it brought instability to the area in which the Longhai line was being constructed. The greater the instability, the more difficult it was for the NSC to complete its section or to issue bonds in Amsterdam. Although the Dutch firm succeeded in completing its construction activities, it did not manage to attract sufficient numbers of Dutch investors. Most of the bonds issued ended up with the Dutch banks and the Dutch government, while some 40 per cent was never even issued. Moreover, although the eastern section of Longhai was completed in time, warfare hampered the railway administration's ability to operate the line profitably and to pay back the loan. The banks did not get their money back, and Havenwerken did not win a contract for a new harbour in Haizhou Bay. Therefore, checkmated by the civil wars, the NSC failed to achieve the two more important of its three main aims: the involvement of the banks was not profitable, and Havenwerken did not win any contract at all. The company's response was to limit its activities and to act merely as a representative agent, which did not require either new investments or expose the company to undue political risks.

During the mid-1920s Chinese nationalism was also an important political risk. To the instability caused by the civil wars, the rise of nationalism inspired a violent anti-foreign attitude among the Chinese population. This made it too dangerous for foreigners to continue their work for the Longhai Railway Administration and they had to be evacuated. Nationalism also motivated the Chinese government to expel foreign involvement in the managing of Longhai. These developments decreased the NSC's chances of influencing the Longhai Railway into repaying its Dutch debt or placing new contracts with Dutch companies. Therefore, the effect of this risk was largely the same as the effect of the civil wars. The NSC's response of limiting the scale and scope of its involvement may be regarded to be a way of dealing with nationalism as much as with the internecine fighting among the warlords.

Finally, Japanese imperialism threatened the NSC's remaining local interests after the mid-1920s, namely securing contracts for Havenwerken and the Dutch exporters of industrial and infrastructure equipment. A Japanese-occupied China was likely to turn to Japanese firms for such contracts—which indeed turned out to be the case from 1937. Between 1925 and 1937 the NSC could not produce any response to this risk, other than not making new investments in a larger organisation or in more offices. Because its owners were not interested in using the NSC for any other purpose than acting as their agent in China, investments for relocating the NSC from China to other countries were also not made. The risk of a Japanese invasion became reality in 1937 and ended the NSC's activities on the Chinese market.

CHAPTER 7

ELECTRONICS: PHILIPS

> 'China being a vast and almost virgin country from an electrification point of view, of approximately 400,000,000 people, was [in 1924] naturally looked upon by all of us as possessing enormous potentialities for the future. Since the beginning of 1924 more than 7 years have passed, and although China has been more or less pacified, and [in spite of its] development and its vast resources, as evidenced by the number of new power stations, increased building activities etc. I regret to have to confess that, in my opinion, the members of the China Lamp Committee [i.e., Philips, Osram, and GE], jointly and individually, did not succeed in obtaining their due share of considerable increased consumption of electric lamps.'
>
> A. Masseurs (Philips) to H. Page (GE), 7 April 1931.[797]

Overall Corporate Interest

Philips was established in Eindhoven, the Netherlands, on 15 May 1891 as a manufacturing firm for incandescent electric lamps, or light bulbs.[798] Two aspects of the incorporation were highly significant for the company's ownership structure. In the first place Philips began its existence as a family firm, being entirely owned by Frederik Philips and his sons Gerard and Anton.[799] At least until World War II, the Philips family continued to play a prominent role in both management and ownership. In the second place the company was created without help from external investors. Frederik Philips happened to own a bank, and used his bank to finance the lamps firm.[800] He let his sons act as managing directors of the light bulb factory and supplied them with the credit needed to get the new company on its feet. By the time investors from outside the family became involved in the company for the first time, Gerard and Anton were experienced business managers and well-acquainted with the light bulb industry.

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[797] Philips Eindhoven, PCA 882 China, 167 correspondentie Loupart 1929-1936.

[798] The full name was 'Philips & Co.'; from 1912-1991 'NV Philips' Gloeilampenfabrieken'; from 1991 'Philips Electronics NV'. The English name used abroad during the 1920s-1930s was 'Philips Glowlampworks Ltd'.

[799] Anton, who was much younger than Gerard, did not become partner in the firm until 1899. When Frederik died in 1900, Gerard and Anton were the sole owners of Philips & Co. The Philips bank became the property of a brother of Gerard and Anton.

[800] A. Heerding, *Geschiedenis van de NV Philips' Gloeilampenfabrieken II: Een Onderneming van Vele Markten Thuis* (Leiden 1986), 49. The bank was named 'Fred. Philips', established in 1871 and became part of Mees & Hope in 1969.

Participation by non-family investors first occurred in 1912,[801] when company shares were issued on the Amsterdam financial market.[802] Further shares were issued in 1919 and on eight other occasions in the 1924-1930 period.[803] Although from 1912, and certainly by the 1930s, Philips was largely owned by outside investors, these did not have much influence. Apart from the shares held by a small group of very large shareholders, ownership was highly fragmented and company data supplied by management at the shareholders' meetings was very limited.[804] Moreover, in 1920 measures were taken to remove voting rights from the external shareholders.[805] But while the small shareholders had no direct influence in the company, there also were three major shareholders who did have a high degree of control. The first major shareholder was the Philips family, which after the restructuring of 1912 still was the largest single shareholder.[806] The second major shareholder was the bank Labouchere Oyens & Co., which managed the first share floatation in 1912 and which led a syndicate of institutional investors. The third major shareholder was General Electric (GE), the world's largest manufacturer of electrical equipment and a major competitor of Philips.[807] Unlike the other shareholders, GE participated in Philips not to obtain dividends but to create a stable basis for the strategic alliance to

[801] Initially, when new capital was attracted from outside the Philips bank, only money from members of the Philips family was used. On 9 Oct. 1907 a new company was created, the NV Philips' Metaalgloeilampenfabriek, to engage in the manufacture of incandescent lamps with a metal wire. The existing firm, Philips & Co., only made the older type of lamps which had a carbon wire. The owners of the Metaalgloeilampfabriek were Gerard Philips (holding 30 per cent of the shares), Anton Philips (30 per cent), Henri Louis Philips (20 per cent), Eduard Philips (10 per cent), and Henri van Anrooy (a brother-in-law of Gerard and Anton; 10 per cent). The managing board was made up of the same persons as that of Philips & Co.'s: Gerard and Anton Philips. The other three shareholders constituted the advisory board. Although technically a separate firm, the Metaalgloeilampfabriek functioned as a department of Philips & Co. The reason for working with separate companies was to enable the Philips brothers to enter the still new business field of metal-wired lamps in which the outcome of lawsuits over patents were difficult to predict: Heerding, *Philips* I, 175.

[802] For this purpose on 29 August 1912 the assets of Philips & Co. and the NV Philips' Metaalgloeilampenfabriek were transferred to a new company, the NV Philips' Gloeilampfabrieken: ibid. 359.

[803] In 1924, 1925, 1927, 1928 (twice), 1929 (twice), and 1930: I.J. Blanken, *Geschiedenis van Philips Electronics NV III: De Ontwikkeling van de NV Philips' Gloeilampenfabrieken tot Electrotechnisch Concern (1922-1934),* (Leiden 1992), 66 and 316.

[804] For instance, profit and loss figures provided to the advisory board were not the same as those provided to the shareholders: Blanken, *Philips* III, 315.

[805] In 1920 the 'NV Gemeenschappelijk Bezit van Aandelen Philips Gloeilampfabrieken Eindhoven' was established, which purchased all outstanding Philips shares and instead issued its own shares, which carried the same dividend rights as Philips shares but only limited voting rights: M. Metze, *Kortsluiting: Hoe Philips Zijn Talenten Verspilde* (Nijmegen 1991), 193-194.

[806] In 1912 the family held 71 per cent of the regular shares; a syndicate led by the bank Labouchere Oyens & Co. held another 17 per cent—however, of this half was in the hands of the bank of Frederik Philips. The remaining 12 per cent of the regular shares (100 per cent amounting to 3.5 million guilders) plus all of the cumulative preferred shares (totalling 2.25 million guilders) were owned by a large number of external investors: Heerding, *Philips* I, 359-360. Labouchere Oyens & Co., which was established in 1881 and from 1913 was owned by the Rotterdamsche Bankvereeniging, managed the original floatation in 1912: ibid. 367.

[807] Not to be confused with the British 'General Electric Company Ltd' (GEC), one of Britain's main light bulb producers.

be formed between the two companies in 1919.[808] This alliance was a precursor to the Phoebus cartel that was formed in 1924 on the initiative of GE and that included all of the world's major light bulb manufacturers.

The three major shareholders in Philips did not exercise control through the shareholders' meeting but through the supervisory board, which was established in 1912. By the time Philips became active in China, the Philips family was represented on this board by various family members, Labouchere by G.H. de Marez Oyens, and GE by J.M Woodward.[809] The background of the latter two was relevant with respect to the Chinese market. De Marez Oyens also was on the managing board of the Nederlandsch-Indische Handelsbank, and on the supervisory boards of Havenwerken and the NSC. Woodward was on the board of International General Electric, a GE subsidiary that owned and supervised the American firm's foreign assets, including those in China.[810]

Whereas before 1912 control of the firm had been concentrated in the hands of Gerard and Anton Philips, from this year they had to share it with the supervisory board. The two managing directors were obliged to report monthly to the supervisory board, and to make strategic decisions in conjunction with the board.[811] When Gerard retired as managing director and joined the supervisory board in 1922, his sixteen-year younger brother Anton remained as the sole director. It was Anton who from the 1920s transformed the company from a light bulb manufacturer into the giant electronics producer it was by the time he died in 1951. He was an autocratic leader who built a huge business empire through his energetic efforts and his talent for marketing strategy. However, after his brother retired Anton Philips still did not rule the company entirely on his own. During the 1920s, governance was divided between him and the supervisory board. While the board needed Anton's experience and managerial influence to direct the company, Anton needed the board's consent for any important decision. The did board did not derive its influence primarily from its formal right to supervise the managing director; rather its influence was based on the fact that the board relied only to a limited extent on Anton to acquire knowledge about the company. Until the mid-1920s the organisational structure of Philips was relatively underdeveloped, as the firm consisted only of an electric lamps division and the various departments within this division—such as production, marketing, and research—had a straightforward structure and were not bureaucratised. This gave Anton Philips little opportunity to allocate large financial means without knowledge of the supervisory board, and as a result the board was the dominant partner in its relationship with the managing director.

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[808] Ibid. 411. GE sold its interest in Philips in the 1950s. GE also took an interest in Philips' main German competitors AEG (in 1929, raised to 25 per cent in 1930) and Siemens ($11 million in shares in 1929): Wilkins, *Maturing*, 67-68.

[809] During 1912-1941 the members of the advisory board were Eduard Philips (1912-1941), Henri L. Philips (1912-1935), C.H. Wagenaar Hummelinck (1912-1914), G. van Mesdag (1912-1939), G.H. de Marez Oyens (for Labouchere bank; 1912-1934), G. Swope (for GE, 1919-1922), J.M. Woodward (for GE; 1922-1934), Gerard Philips (1922-1939), August Philips (1930-1939), J.W. Beyen (1933-1950), C.H. Minor (for GE; 1933-1950). Eduard and Henri were brothers of Gerard and Anton, while August was their cousin. Wagenaar Hummink and Van Mesdag were leaders of industrial firms, and chosen because of their knowledge of the sector: Heerding, *Philips* I. The board had circa five members.

[810] Blanken, *Philips* III, 66.

[811] Each month a financial report was submitted: ibid. 384.

But as time passed, this relationship gradually grew more balanced. From the mid-1920s Philips developed into a multi-divisional concern with an organisation that covered a large number of countries.[812] During the first half of the 1930s the concern's greatly expanded size and complexity were of necessity given a new control structure. Forced by the rigours of the Great Depression to develop efficient means to monitor and allocate corporate finances, management was formalised and by the second half of the 1930s a managerial hierarchy had developed. This managerial hierarchy consisted of managers who supervised the various divisions, departments, and foreign assets.[813] They reported not only to Anton, who by the 1930s no longer managed all main operations directly, but also to a group of top-managers.[814] Eventually—after the Second World War—this group was formalised as the company's managing board, the former managing director becaming its chairman.[815] Thus, during the 1930s the managerial hierarchy became the main element in the company's control structure. Philips was growing too large and complex for the supervisory board to have access to detailed knowledge and managerial influence. More than it had done during the 1910s and 1920s, the supervisory board depended on the concern's top management—Anton plus the other leading managers—to govern. Yet, the members of the supervisory board were by then very experienced and probably still highly influential. Therefore, during the 1930s control of Philips was shared more or less equally between the supervisory board and the top executives.

The company's main overall interests were defined by this relationship between the dominant groups of stakeholders. To understand what these stakeholders' interests were it is necessary to take a closer look, first at the ownership side and then at the management side. With regard to the owners, the interests of the family, Labouchère bank, and GE should all be taken into account. The family may be assumed to have been interested in both profitability and growth, while the bank was interested only in profitability. GE' s interest in Philips was related to specific policy issues, which may be characterised as those related to regulation of the international light bulb market. In spite of co-operation in this field, the brands of Philips and GE continued to compete and in the long run the two concerns remained each other's rival. Therefore, during the 1920s and 1930s, the main interests on the ownership side were a mixture of growth, profitability, and restricted co-operation with GE. On the management side, the main party during the 1920s was simply the managing director: Anton Philips. During the 1930s this was extended to include also the top-managers of the main departments or divisions in the 1930s. Each divisional leader tended to favour policy measures that benefited its own division. Still, it may assumed that the outcome of their behaviour at the company level contributed to the same goal: in the end all managers, including Anton, favoured growth of the company.

[812] Ibid. 417. During the 1920s Philips was organised along informal structures; when compared with Osram and Vereinigte Glühlampen- und Elektricitäts, it made a chaotic impression: ibid. 75.

[813] Ibid. 418.

[814] Ibid. 105.

[815] During the 1930s the main members of the informal managing board were, besides Anton Philips, J.H. Gaarenstroom (lamps marketing), H.F. van Walsem (legal), O.M.E. Loupart (radio marketing), P.F.S. Otten (general), and F.J. Philips (production). See also Wennekes, *Aartsvaders,* 304.

In the 1920s the supervisory board was the dominant party in its relationship with management, while in the following decade both sides were equally influential. Therefore throughout the 1920s-1930s period, Philips' primary interests combined those of the supervisory board and management: profitability (for the family and the bank), growth (for the leading managers and the family), and co-operating in certain respects with GE (for GE). Before circa 1930 expansion was subordinate to profitability and the relationship with GE, but thereafter all three aims assume equal importance.

The Light Bulb and Radio Trade in China

By the early 1920s China was one of the more attractive areas for rapid expansion in light bulb sales. The largest markets were in the Western countries, where competition was intense and little scope for fast expansion existed. By contrast, China was a very large country where the introduction of electricity was only just beginning. During the 1920s the major coastal cities of China were electrified, which created a strong new demand. China was expected to become a major market for lamps, and therefore it represented an excellent opportunity for expansion, and eventually profit. As yet there was no strong indigenous industry for electrical lamps, but the leading international lamps manufacturers, GE and Osram, were rapidly building up a presence on the Chinese market.[816] Osram was Europe's largest producer of lamps and a joint venture of the giant electronics and electromechanical concerns from Germany, AEG and Siemens.[817] Even though General Electric, which owned a light bulb factory in Shanghai, was a major shareholder of Philips, the American and Dutch firm competed on many local markets. Not only was China attractive for expansion, but Philips also had to act fast if it wanted to keep up with GE and Osram.[818]

About 1920 Philips entered a phase of intensive foreign marketing. With the Dutch home market being relatively small, exports were more important to Philips than to its German and American competitors. Because the First World War had upset international market conditions, new possibilities had opened up for the Dutch company. Previously Philips used mainly agency firms to sell its light bulbs in foreign countries, but after the war it systematically began to establish foreign distribution subsidiaries to replace the agents.[819] An important reason behind this

[816] Osram already had a strong position in China in 1922: Blanken, *Philips* III, 68.

[817] GE was a large shareholder in AEG, and thus also held an interest in Osram, which was established in 1919. Apart from Siemens and AEG, the Auer Gesellschaft also participated: I.J. Blanken, 'Philips in Japan: De Verhouding tussen Philips en Japanse Elektrotechnische Bedrijven, c.1930-1950' in: C.A. Davids, W. Fritschy and L.A. van der Valk (eds), *Kapitaal, Ondernemerschap en Beleid: Studies over Economie en Politiek in Nederland, Europa en Azië van 1500 tot Heden,* Amsterdam, 553 n8.

[818] When Philips was still preparing the formation of the PCC in June of 1923, it proposed to GE, via Woodward and IGE, that a price cartel should be arranged for China which would include Osram. At the time competition between the various firms kept selling prices in China very low. The likely motive behind this proposal was that Philips wanted to make it possible for the new subsidiary to finance itself. Once initial investments had been earned back and turnover would be high enough, Philips would be able to cut prices periodically when and if it seemed opportune. It seems less likely that Philips wanted to co-operate with its rivals to maximise profits also in the longer run, because in 1923 the company was still engaged in catching up on the light bulb business of GE and Osram. Philips Eindhoven to J.M. Woodward (GE Paris) 7 June 1923, Philips Eindhoven, PCA 882.2 correspondentie 1923-1949.

[819] Blanken, 'Philips in Japan', 553.

policy was that agency firms were less efficient in terms of costs and control than were subsidiary firms. The agent's commission drove the selling price up and it was difficult for the company to control his sales policy. Establishing a small subsidiary was often sufficient to replace the agent, and this kept investment costs low. In China the growth rate of the market was high enough to justify the expectation that expenses could easily be met and that a profit would soon be made. In other words: investing in China promoted expansion, but did not involve the risk that corporate continuity or profitability would be negatively affected. At that time the firm of John Richards & Co. in Shanghai acted as Philips' agent, and in February 1923 Philips stationed a representative in China to supervise and expand the agency business in East and Southeast Asia, excluding Japan.[820] Shortly after his appointment, A.G.H. Masseurs, the new representative, reported to Eindhoven that Richards & Co. was too small to manage the growing trade in electric lamps. Instead, Masseurs suggested, he himself should establish and manage a branch office to stimulate sales.[821] His advice was acted upon and China became the first non-European country where Philips established a distribution subsidiary.[822]

For the time being Philips was only interested in selling light bulbs in the largest cities, therefore it could comfortably limit its activities to the main treaty ports. The Western presence and the availability of a great number of foreign and Chinese intermediary firms in places like Shanghai, Tianjin, Qingdao, and Guangzhou made it relatively easy for Philips to integrate into the local business environment. Other Western corporations already operated distribution subsidiaries in China, and Philips was able to learn from them how to contact local dealers, promote sales, and transport and store goods. The process was also helped by the fact that when Masseurs started the Shanghai office, he managed to secure the services of the compradore and one British manager of the now redundant agent John Richards & Co.[823] On 18 October 1923 at the Dutch consulate general in Shanghai, Philips' distribution subsidiary for the Chinese market was incorporated as the Philips China

[820] China kroniek, Philips Eindhoven, PCA 882.

[821] A. Masseurs (Shanghai) to Philips Eindhoven 25 March 1923, Philips Eindhoven, PCA 882 PCC. Initially Masseurs proposed that the sales organisation would be a joint venture, in which Philips would be the major shareholder but in which shares would also be taken by three Dutch electro-mechanical firms—Heemaf, Du Croo & Brauns, and Draka—the manager of the engineering department of Richards—Mr Frost—and Masseurs himself. This reduced the financial risk for Philips, and the electro-mechanical activities gave the new firm a broader basis than just the light bulb trade: A. Masseurs (Philips Shanghai) to Philips Eindhoven 25 March 1923, Philips Eindhoven, PCA 882 China kroniek. Philips rejected the inclusion of shareholders other than itself, but did accept the need to establish the new subsidiary as a distribution firm for both bulbs and electro-mechanical equipment. This was put into practice from December 1924 when the PCC obtained an agency contract for Draka, a Dutch manufacturer of electric wiring. Its full name was NV Hollandsche Draad- en Kabelfabrieken (also Holland Insulated Wire & Cable Works). Since 1913 Philips had held a large number of Draka shares, and Anton Philips, and possibly of the members of the Philips advisory board as well, were on the advisory board of Draka: Heerding, *Philips* I, 378. The PCC continued this work until late 1936: Philips Eindhoven PCA 882.2 PCC, China Draka. In spite of its work for Draka, the PCC's interests in electro-mechanical equipment remained far less important than those in light bulbs, and later than those in radio equipment. In 1936-1937 the PCC acted also as agent for Fokker, the Dutch aeroplane manufacturer, but did not succeed in selling any planes.

[822] When Philips first contracted an agency firm in China can no longer be traced—certainly later than 1900 when Philips' only two Asian agencies were located in Yokohama and Surabaya: Heerding, *Philips* I, 64. There are indications that Carlowitz & Co. held Philips agencies in China in 1919: China kroniek, Philips Eindhoven, PCA 882.

[823] Masseurs (Shanghai) to Philips Eindhoven 25 March 1923, Philips Eindhoven, PCA 882 PCC.

Company (PCC).[824] The office was located in the International Settlement of Shanghai.[825] Masseurs was appointed managing director, and a compradore contract was signed with the compradore of Richards & Co.[826] Eindhoven kept the office on a tight rein: Masseurs had to consult the head office on almost any decision. Moreover, he had only limited financial and organisational means. The number of employees was small and grew only very slowly the 1920s. By 1929 PCC had a sales and an accounting department plus a warehouse, with a total of twenty-five employees, of whom seven were expatriates.[827] Masseurs reported to J.H. Gaarenstroom, Anton Philips' assistant for lamps marketing at the head office in Eindhoven.

In seeking a model for local agency relations, Masseurs could follow the examples set by Shell's Asiatic Petroleum Company and other pioneering foreign distributing companies. Like Shell—before it established its up-country network—PCC used foreign trading firms as agents in the larger Chinese cities to sell to Chinese dealers. Agency contracts were signed with Carlowitz & Co. for Hankou, Qingdao, Jinan, Beijing, Shenyang, and Tianjin;[828] the Holland-China Handelscompagnie for Hong Kong and Guangzhou; and the Dutch firm of L. van der Hoeven for Harbin.[829] Representatives of PCC regularly visited the agents and the Chinese dealers to analyse local market conditions. Furthermore, the PCC tried to acquire orders directly from large customers such as railway and tramway companies, and electro-mechanical engineering firms. Although much smaller than Shell's network, the PCC agency system was able to distribute light bulbs in all major cities, the only places where there was a demand for the time being. Should future market developments make further expansion desirable, then Philips could open new branch offices in other cities or contract agents in the interior of the country.

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[824] Akte van Oprichting 18 Okt. 1923, Philips Eindhoven, PCA 882.1 PCC. The PCC was formally owned by three other Philips subsidiaries: NV Philips' Metaalgloeilampenfabriek, NV Expeditiekantoor voorheen A. Wouters & Co., and NV Eindhovensche Drukkerij voorheen Schaefer & Co. The reason for this is unknown. The PCC was established as a *firma onder vennootschap* for three years, its registration being renewed every three years until 1941. Philips had preferred to establish the PCC as a *naamloze vennootschap* but at the time the Dutch consular service was unqualified to register Dutch firms as NV. Philips did request the Dutch Ministry of Foreign Affairs to initiate a change in the relevant regulations; therefore it is possible that from its first renewal of registration in 1926 the PCC was an NV or limited liability firm: Philips Eindhoven to Dutch Ministry of Foreign Affairs 20 Aug. 1923, ibid. A third option, registration as *commanditaire vennootschap* was rejected by Philips because using the same name as the parent was prohibited, and Philips had a strong desire to name the subsidiary either Philips China Ltd or Philips China Company. Finally, Masseurs informed Philips that although it was possible to incorporate the PCC under British law—which many businesses in China did—he did not think that this was a good idea, because the managing director would then have to have British nationality: Masseurs (Shanghai) to Philips Eindhoven 25 March 1923, ibid.

[825] At 41 Szechuan Road, in the Brunner Mond Building owned by ICI. Kennisgeving 27 Aug. 1923, ibid.

[826] His name was Sui Kai King.

[827] Lijst van PCC werknemers 1929, Philips Eindhoven, PCA 882 China kroniek.

[828] Carlowitz & Co. was possibly the largest German trading firm in China. It was a major importer of heavy machinery, railroad and mining equipment, and weapons: Feuerwerker, *Foreign Establishment*, 82.

[829] Masseurs (Shanghai) to Philips Eindhoven 8 Aug. 1927, Philips Eindhoven, PCA 882.1 PCC. Van der Hoeven was also agent for the APC and honorary consul for the Netherlands.

Chinese coolies carrying a case of Philips light bulbs in the harbour of Shanghai, 1929 (reproduced by kind permission of Philips Electronics)

In market development, Philips also benefited from Shell's activities in the preceding decades. Kerosene light often was more expensive but produced a better light than vegetable oil light. However, light from electric lamps was more expensive but better than light from kerosene lamps.[830] The availability of kerosene made commercial activity less dependent on daylight and the existence of such activity meant that a market for electric lighting was present. Therefore, apart from foreigners and their businesses, Chinese manufacturing firms and railway companies were also important consumers of electric light bulbs. As the use of electric light caught on among private Chinese consumers in the large cities, the market for kerosene became more confined to rural China.[831] Electricity production in China proper doubled between 1926 and 1935 (from 751 million kWh to 1,569 million kWh); in 1934 private homes accounted for two-thirds of total electricity consumption.[832] In 1930 the Chinese

[830] Another similarity shared between kerosene and electric bulbs was that both were sold mainly during winter, when daylight hours were fewer.

[831] Nevertheless, Shell's up-country inspectors sometimes reported new electric light companies outside the large cities. For instance, see up-country inspector's diary Apr.-May 1928 Hangzhou sales area, Shell London, E.G. Masters papers.

[832] Osterhammel, *Britischer Imperialismus*, 148-149. In 1933 63 per cent of electrical power was produced by foreign-owned utilities, and almost the entire output was consumed in the larger cities: Feuerwerker, *Foreign Establishment*, 91.

market for electric lamps probably consisted of almost 20 million lamps.[833] In the same year Philips sold 1.1 million light bulbs in China, against 81.5 million bulbs world-wide.[834] For reasons that will be explained below, sales in China were never more than 1.6 per cent of Philips' total sales.

In the mid-1920s the company's marketing strategy changed drastically. The expansion of its sales increasingly met opposition from GE and Osram, not just in Europe but everywhere.[835] They had also become increasingly interested in developing new growth markets like China, and before long all parties were worrying about the low prices which were the inevitable outcome of intense price wars. In addition to the co-operation that already existed between Philips and GE, Osram and General Electric now offered Philips a share in a new cartel for electric light bulbs that would cover most parts of the world. There are indications that Anton Philips felt confident that his concern was strong enough to continue expansion rather than stabilise the company's market share by joining the cartel. However, the Philips supervisory board did not want to take such a risk and decided in favour of participation in the cartel. Safeguarding profitability, not expansion, was given maximum priority.[836]

On 20 December 1924 the agreement for the so-called Phoebus cartel was signed by the major European light bulb producers.[837] This agreement did not cover the American market and GE did not participate directly—it was legally restrained from doing so by anti-cartel laws in the US. Only its foreign subsidiary International General Electric joined the cartel. Without the direct participation of American companies, Philips was the second largest member of Phoebus, coming in behind Osram. An immediate result of the cartel arrangement was that Philips was not allowed to let its sales in China exceed 1.6 per cent of its world-wide sales, which in turn had to remain at 20.2 per cent of the combined turnover of all Phoebus

[833] In 1930 Philips sold 1,135,138 light bulbs in China. According to the local cartel ('China Lamp Committee') agreement this was about 10 per cent of the cartel total, which must have been circa 11.4 million. In April 1931 the cartel estimated to be holding 55 per cent of the market. If this figure applied to 1930 the total market was 20.7 million lamps. However, the tone of the cartel report suggests that a share of 55 per cent in April 1931 was less than what the cartel occupied before, therefore the 1930 market total must have been somewhat less than 20 million lamps. Verkoopstatistiekgegevens per artikelengroep en per land, Philips Eindhoven, PCA 81:87, boek 2b 1928-1939, 869a; minutes of the meeting of the China Lamp Committee of 15 April 1931, Philips Eindhoven, PCA 882 China kroniek; A. Masseurs (Shanghai) to Philips Eindhoven 28 April 1931, ibid.

[834] Philips concern totaal: gloeilampen 1930, Philips Eindhoven, PCA 81:87 verkoopstatistiekgegevens per artikelgroep en per land, boek 2a 1928-1939, 869a.

[835] Osram experienced severe problems on its home market when the German economy entered a phase of depression in 1923, which forced it to push sales in non-Western markets: Blanken, *Philips* III, 91.

[836] The members of the advisory board unanimously decided that the security offered by the cartel was preferable to the uncertainty of competition—even if competition would possibly induce greater benefits to the firm: ibid. 1902.

[837] Ibid. 107. The cartel was co-ordinated by a firm that was established for this purpose in Geneva in 1925: the SA Phoebus Compagnie Industrielle pour le Developpement de l'Eclairage. Phoebus, the Latinisation of the Greek Phoibos (meaning 'bright'), referred to Phoebus Apollo, the Graeco-Roman god in his capacity of god of light. In addition to the fact that the reference to Apollo was suitable for an organisation of light bulb manufacturers, it was also fitting for a market-regulating cartel because the ancient Greek cult of Apollo was associated with the ideal of keeping within one's limits ('nothing too much').

members.[838] Because of this, China lost its characteristic of a market where rapid growth could be achieved in the light bulb trade. Phoebus froze Philips' position on the markets for electric light bulbs in the rest of the world as well. On the one hand this change in market relations compelled Philips to look for new expansion opportunities, which it found by diversifying into the manufacture and distribution of radio equipment. Philips China Company also developed new interests in the local radio market. On the other hand, in the light bulbs market itself the PCC now had to come to terms with GE and Osram about how to apply Phoebus to local conditions.

Price wars fought between the large light bulb manufacturers in 1923-1924 had pushed other Western firms out of the Chinese market,[839] and large-scale production by Asian manufacturers had not yet got underway. Consequently, in 1924 Philips, GE, and Osram, found that among the three of them they occupied almost the entire Chinese light bulb market. By this time all three companies had wholly-owned distribution subsidiaries in China,[840] and after the establishment of Phoebus these subsidiaries concluded a local cartel arrangement for China. This local cartel was institutionalised as the China Lamp Committee (CLC), consisting of the managing directors of Philips China, Osram China, and China General Edison (CGE; GE's China subsidiary). The cartel partners agreed to limit their shares of the mutual sales figures to a ratio of 45-45-10 for GE, Osram, and Philips respectively.[841] Apart from limiting sales figures, the China Lamp Committee also decided about agency selling prices. Masseurs felt increasingly uncomfortable about this situation. He complained that often near the end of each fiscal year, Philips had to turn down orders from customers and raise prices to prevent transgressing the 10 per cent market share limit.[842] Furthermore, each CLC partner agreed to lowering prices—needed to keep outside competitors away—only in those parts of China where it occupied a weaker

[838] In 1938 the turnover ratio Philips: Phoebus was 23.7 per cent. For Osram these figure were 28.2 per cent and 31.0 per cent respectively: Ibid. 115 and 121

[839] Osram and GE were represented in China by their agents, GEC (China) and Andersen, Meyer & Co. Both agents were member of Phoebus, GEC for the GEC/British Thomson-Houston group and Andersen Meyer for International GE (which held GE's foreign interests).

[840] GE's manufacturing and distribution subsidiary in Shanghai, China General Edison Company, was established in 1917: Wilkins, *Maturing*, 28-29. Osram's distribution subsidiary in Shanghai, Osram China, was established probably about 1924: W.C. Kirby, *Germany and Republican China* (Stanford 1984), 24.

[841] Why Philips accepted such a small part in this highly restrictive scheme is uncertain. Possibly CGE and Osram China had shown a greater preparedness to take financial risks in China and had performed far better than Philips China until December 1924. Special arrangements were made for Hong Kong and Manchuria where the British firms the GEC and the British Thomson-Houston Company (BTH), and the Japanese firm the Tokyo Electric Company (TEC) respectively were also allowed to market their lamps. Although the GEC of Britain ('General Electric Company, Ltd') and GE of the US ('General Electric Company') had almost identical names, they were not related either through a common history or through shareholding. BTH, in which GE had held a controlling interest since 1906, was formed in 1894. The TEC, in which GE had held a controlling interest since 1905, and Shibaura Engineering, in which GE held a minority interest since 1910, later merged to become Tokyo Shibaura Electric or Toshiba: M. Wilkins, *The Emergence of Multinational Enterprise: American Business Abroad from the Colonial Era to 1914* (Cambridge MA 1970), 94. Both the GEC and the TEC were member of Phoebus. The GEC was represented in China through its subsidiary the GEC of China, and had the right to use the Osram trademark for lamps in Hong Kong.

[842] Masseurs (Shanghai) to H. Page (GE Shanghai) 7 Apr. 1931, Philips Eindhoven, PCA 882 China, 167 correspondentie Loupart 1929-1936.

position than the other CLC members.[843] The result was that CLC was slow to respond to the Chinese and Japanese light bulb manufacturers, who entered the market with low quality, cheap electric lamps that quickly became popular with the Chinese consumers during the 1920s.[844] The economic depression after 1930 greatly stimulated the relative advantage of cheaper products. Consequently, the position of the three CLC firms deteriorated from almost complete domination in 1924 to about 55 per cent in 1931.[845]

Philips' individual market share was likewise diminishing, and Masseurs claimed that he was unable to turn the tide, unless the way the cartel companies co-operated would change. At a meeting of the China Lamp Committee in April of 1931, Masseurs suggested that a closer form of co-operation than simply a turnover and price regulating agreement was needed to stop the upsurge of Chinese and Japanese competition.[846] His colleagues from CGE and Osram China agreed, and a collective proposal was submitted to the parent companies of the three firms. The plan was to merge the three distribution organisations into a joint venture, in order to cut overhead expenses and to make a more effective pricing policy possible. Moreover, the CLC representatives wanted to include GE's lamp factory in Shanghai into the new organisation, so that also Philips- and Osram-brand light bulbs would be manufactured locally.[847] This increase in output would enable the factory to lower production costs, which would greatly enhance the capacity of the projected joint venture to wage price wars against the Asian competitors.

The war in Manchuria which broke out in September 1931 subjected Japanese light bulbs in China proper to a consumer boycott,[848] but this did not provide much relief for the CLC. The nationalism on which the boycott was based benefited the Chinese producers much more than it did the CLC.[849] Philips, GE, and Osram decided to approve Masseurs's proposal to initiate the integration of their distribution operations, but they refrained from including the GE factory in the new joint venture. A new collectively-owned distribution firm was formed as an American corporation under the name China United Lamp Company (Culco), which became operational on

[843] In 1927 Philips had a strong position in the lower Yangzi area and in Hong Kong and Beijing. Osram was strong in Harbin, GE in Shenyang, Tokyo Electroc in Shenyang, and the Japanese non-cartel brands in Qingdao, Shenyang, Harbin: Masseurs, 'Reis door Noord China' 12 Oct. 1927, Philips Eindhoven, PCA 882 China kroniek.

[844] This does not include the Tokyo Electric Company. Because of Phoebus, the Japanese market was closed to Philips, and TEC had the right to market in Manchuria. Competition in Manchuria and China proper came largely from small Japanese producers who were not part of Phoebus: Blanken, 'Philips in Japan', 555-556.

[845] Masseurs (Shanghai) to Page (Shanghai) 7 Apr. 1931, Philips Eindhoven, PCA 882 China, 167 correspondentie Loupart 1929-1936.

[846] Masseurs (Shanghai) to Philips Eindhoven 28 Apr. 1931, Philips Eindhoven, PCA 882 China kroniek.

[847] In fact, the general manager of China General Edison proposed as early as April 1923 that his factory would produce lamps for the Asian markets of Philips and Osram: A. Masseurs (Philips Shanghai) to Philips Eindhoven 19 April 1923, Philips Eindhoven, PCA 882.2 PCC, correspondentie 1923-1946. There had also been attempts to create a common selling organisation. These had failed because 'firstly, it was only a half measure and, secondly because of petty jealousy of the various Members, who each wanted to dominate the still born organisation": Masseurs (Shanghai) to Page (Shanghai) 7 Apr. 1931, Philips Eindhoven, PCA 882 China, 167 correspondentie Loupart 1929-1936.

[848] Blanken, 'Philips in Japan', 555.

[849] In 1931 the China Lamp Committee estimated the output of Chinese competitors at 500,000 lamps per month: meeting of the China Lamp Committee of 15 April 1931, Philips Eindhoven, PCA 882 China kroniek.

1 July 1932. The former China Lamp Committee representatives formed the executive members of the Culco board. Masseurs was elected managing director and H. Page from CGE became chairman.[850] Having transferred its lighting interests to Culco,[851] the PCC continued to exist as a distributor for radio equipment. Masseurs was succeeded as managing director of the PCC by W. Jongeneel, who had previously been stationed in Japan.

Although Culco purchased its light bulbs from the Shanghai GE factory, these were still marketed under the existing—and formally competing—brand names. The agency networks of GE, Osram, and Philips respectively were also maintained.[852] Philips was allotted 18.7 per cent of Culco's shares; GE owned 46.6 per cent and Osram 34.8 per cent.[853] This entitled Philips to 18.7 per cent of dividends, but the number of Philips light bulbs sold by Culco was still determined by the international Phoebus agreement.[854] Culco paid a royalty for each bulb it sold to the owner of the brand name under which it was sold. Another element of the reorganisation was that whenever the GE factory in Shanghai was unable to supply the entire number of light bulbs required by Culco, the latter would order additional bulbs from the European factories of Osram and Philips. As a result, substantial numbers of lamps were still imported from the Netherlands and sold to Culco by the PCC in the first few years after 1932 (see table V). However, after 1935 when Culco obtained all its lamps from the CGE factory, the PCC's role in the distribution of light bulbs came to a definite end.

The representatives of Culco's parent companies formed an advisory committee that convened once or twice annually in Europe, and that functioned in the capacity of a supervisory board.[855] Although Culco was a joint venture, it was in fact heavily dominated by GE. This firm held the largest number of shares, and by early 1934 three out of five members of the board were Americans.[856] In addition, GE was Culco's main supplier and main agent. H. Page, chairman of the Culco board, was

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[850] At the time of incorporation the board of Culco consisted of W.S. Fleming (of Fleming, Franklin & Allman, FFA), C.S. Franklin (FFA), J.R. Browne (FFA), H.E. Page (CGE), A.G.H. Masseurs (PCC), V. Meyer (Andersen Meyer), and E. Roessler (Osram). FFA was a Shanghai law firm, its representatives were only temporary board members. Minutes of special meeting of stockholders of CULCO Fed. Inc. USA July 1932, ibid.

[851] The personnel supplied by Philips to Culco—apart from Masseurs—were one European employee as typist and a small number of Chinese employees as bookkeepers, office boy, or warehouse worker: Masseurs (Shanghai) to Philips Eindhoven 3 June 1932, ibid.

[852] The agent for GE was Andersen, Meyer & Co. Agent for Osram was the General Electric Company of China of the British GEC: A. Masseurs (Philips Shanghai) to Philips Eindhoven 25 March 1923, ibid. Andersen Meyer was established before the First World War as a Danish trading house in Shanghai. However, during the 1920s US manufacturers such as GE invested in this firm, and in the early 1930s GE acquired a controlling interest: Wilkins, 'American Multinational Enterprise', 263 and 275.

[853] The basis on which this decision was made is no longer known.

[854] Phoebus situatie China 14 Oct. 1939, Philips Eindhoven, PCA 882 China kroniek.

[855] In 1934 the members of the advisory committee were R.G. Henderson (chairman, for GE), J.H. Gaarenstroom (for Philips), and C. Jensen (for Osram). In 1935 a Hungarian firm, Vereinigte Glühlampen, took a 7.5 per cent interest in Culco. This became effective from 1 July 1935. Vereinigte's agent for China was China Engineers Ltd, its brand was Tungsram: Uittreksel uit minutes of the 6th meeting of the Culco advisory committee (Paris) 3 Oct. 1935, Philips Eindhoven, ibid. As a result, the stakes of the other shareholders diminished slightly (Philips' stake was reduced by 1.7 per cent to 17 per cent). This alteration in ownership did not result in changes in the way Culco was controlled.

[856] Minutes of the annual meeting of Culco stockholders 7 Mar. 1934, Philips Eindhoven, PCA 882.3 PCC, Culco board meetings 1932-1939.

also managing director of CGE, and Culco's largest sales agent, Andersen Meyer & Co., was a GE subsidiary.[857] Although important decisions regarding price and dealer policy had to be approved by the advisory committee, it was above all the fact that Masseurs was managing director of Culco that ensured Philips' continued involvement in the Chinese light bulb business.

Table V. Turnover of lamps sales of Philips China Company, 1928-1938 (from 1934 figures for May 1934-April 1935 etc.)

Year	*Number of lamps sold*	*Turnover in Guilders*
1928	1,054,499	464,243
1929	1,079,632	462,638
1930	1,135,138	377,118
1931	1,019,207	342,569
1932	441,390	207,057
1933	680,919	207,677
1934	455,006	106,215
1935	36,039	7,696
1936	0	6,628
1937	0	2,995
1938	0	0

Source: Philips Eindhoven, PCA 81:87, Verkoopstatistiekgegevens per artikelengroep en per land, boek 2b 1928-1939, 869a.

Despite their efforts in reorganising the CLC into Culco, the Western manufacturers were unable to recapture their lost market share. In November 1933, Masseurs reported to GE that competition with Chinese light bulb makers was more serious than ever. There now were fourteen Chinese producers, who between them made 50,000-60,000 lamps per day. Some of them were even capable of manufacturing light bulbs with the same quality as those of the Western firms.[858] Such good quality lamps were marketed in ways identical to those employed by Culco: they were branded and packed in individual cartons, presented in window displays, and advertised in newspapers. And they were cheaper. Masseurs asserted that Culco's condition was 'precarious'. After amalgamating the various sales departments and moving Culco's office to the GE factory, he thought that the only step left to lower costs was by a full merger between Culco and CGE—that is, the GE factory.[859] A

[857] The largest company brands group sold by Culco were the GE brands, which were handled by Andersen Meyer & Co., a controlling interest in which was acquired by GE in the early 1930s. Andersen Meyer was a large trading and manufacturing firm in China: Wilkins, 'American Multinational Enterprise', 263 and 275.

[858] These were Oppel, the Shanghai Lamp Company, and Hwa Teh. Apart from the fourteen Chinese factories, there was also a Japanese factory in Hankou: Masseurs (Shanghai) to R. Henderson (IGE London) 30 Nov. 1933, Philips Eindhoven, PCA 882 China Philips Lamp Company, 167 correspondentie Loupart 1929-1936.

[859] Masseurs (Shanghai) to Henderson (London) 30 Nov. 1933, ibid. Masseurs may have been eager enough to bring the factory within his Culco organisation, in line with his original proposal, by exaggerating the acuteness of the problems. Also in June 1933 he had written a memorandum in which he

formal merger never took place, either because GE refused to share control of its factory, or because Osram and Philips refused to see their shares in Culco drop to insignificant levels, because the factory represented a greater financial value than Culco.

On 1 September 1934 Philips lost much of the influence it had in Culco: on that date the resignation of Masseurs became effective. Because of certain ‘allegations’ that were made against him, Masseurs could not maintain his position in Culco or even in Philips.[860] After having served Philips in China for eleven years, Masseurs returned to Europe. He was replaced by the director of the PCC, W. Jongeneel, who was able to devote only a small portion of his time to Culco. Consequently, Jongeneel functioned as a non-executive board member.[861] After Masseurs's departure, the executive section of the board of Culco consisted of two GE representatives and one Osram representative.[862] Even when Philips no longer had direct access to its operational management, Culco still represented a financial interest for Philips, and through Jongeneel and Gaarenstroom Philips was still involved in strategic decision making.

Meanwhile, a solution still had to be found for the deterioration of Culco's market position. The advisory committee and the board of Culco decided to respond to Chinese competition by taking a more active role in distribution. From 1 January 1935 all agency contracts for the Shanghai area (including Zhejiang and Jiangsu provinces) were cancelled.[863] Credit-based dealer relations similar to those developed by Shell and BAT were introduced in this area, with the aim of bringing down the selling prices. A suggestion by the European parent firms that branch offices for direct distribution in all major treaty ports be opened was rejected by the Culco board on the grounds that North China was unstable, expenses would increase, and the credit risks would be unacceptable. However, the board did decide to commence direct distribution to Chinese dealers in the treaty ports in the entire Yangzi area and in Fujian province. Furthermore, a single foreign agent—presumably Andersen Meyer—would be appointed for each of the main treaty ports outside the Yangzi area. This meant a substantial reduction in the number of agents.[864] Part of the new sales policy was the opening of a sales office in Shanghai to co-ordinate Culco's relations with the dealers. All members of staff in this office were Chinese and it was managed by a Chinese office chief.[865] In the following year,

proposed the merger: ‘Rationalisation of China Lamp Business’ 2 June 1933, Philips Eindhoven, 921.61 elektronische firma's China. However, it is not unlikely that the Chinese light bulbs firms indeed had an increasingly powerful position.

[860] The unknown matter also affected relations between Culco's parent firms. Osram in particular was very unhappy about both Masseurs and the arrangement made with him by GE and Philips after his resignation that Masseurs would receive 55,000 guilders in return for his resignation: Gaarenstroom (Eindhoven) to Henderson (London) 18 Sept 1934 and Osram Berlin to IGE London 19 Nov. 1934, Philips Eindhoven, PCA 882.3 PCC, Culco board meetings 1932-1939.

[861] Why Philips did not station a new full-time representative on the Culco board is uncertain.

[862] They were Page (CGE) as president, J.J. Mokreis (CGE) as treasurer, and Roesler (Osram China) as managing director. The non-executive directors were besides Jongeneel: P. Pruessman (CGE), N.F. Allman (law firm Fleming, Franklin & Allman), and J.S. King (CGE): minutes of the Culco stockholders meeting of 15 Jan. 1936, ibid.

[863] Minutes of the Culco board meeting of 31 Oct. 1934, ibid.

[864] Minutes of the Culco board meeting of 14 Nov. 1935, ibid.

[865] E. Roesler, ‘Dealer Business in Shanghai and Details of the Workings of the District Selling Organisation in 1935’, Philips Eindhoven, PCA 882.2 PCC, balans 1932-1937.

Chinese inspectors were employed to visit agents in both North and South China. As with many other foreign subsidiaries in China, Culco's management believed that to continue doing business with the Chinese their firm had to be less foreign. However, there is no indication that the dismissal of foreign agents and staff was directly related to Chinese nationalist demands that foreign economic influence should diminish. Culco's board merely declared that it wanted to reach new markets in the interior of China and to replace expensive expatriates.[866]

Not only were Culco's foreign staff and agents removed as much as possible and local business relations handled by Chinese employees, it was also considered necessary to convert Culco from a foreign joint venture into a foreign-Chinese joint venture. In 1936 the shareholding in Culco was adjusted. The old, foreign shareholders exchanged their old shares for so-called capital A-shares. The new, Chinese, shareholders obtained capital B-shares which carried no voting rights. Culco became a 25 per cent Chinese-owned company, with control still fully in foreign hands.[867] However, the possibility that eventually part of control would have to be surrendered to Chinese investors was also considered:

> 'That sooner or later Chinese capital participation in Culco ought to be sought on a regular unrestricted shareholding basis is fully appreciated by the Management and the Board [...] It might suffice to mention here that the latter form of Chinese capital participation should be confined to Chinese non-dealer groups. [...] As regards to the instability of Chinese conditions [...], such instability was a feature of the last 50 or more years of Chinese history and will be so for the time to come, and should not prevent us from seeking closer co-operation with the Chinese element. Besides, Culco is operating as a concern with extraterritorial rights under the American 'China Trade Act' which should enable us to direct the Company's affairs in a manner sufficiently independent from the influence of Chinese conditions and in accordance with the wishes of the Partners.'[868]

The members of the board of Culco believed that co-operation with Chinese partners was necessary for business reasons, that is, to integrate into Chinese wholesale and retail systems. This was seen as possible *in spite of* political instability, not as a means to decrease the company's vulnerability to such instability. And it was regarded as possible thanks to the existence of extra-territorial rights, not as a way to prepare the company for a future loss of these rights. If this statement reflected the actual view of the board, then the new strategy indicated an adaptation to the acute need of fighting competition. It did not represent a clear resolution to prepare Culco for a long-term future in a China after the end of the unequal treaties. Although Philips no longer played an important role in defining Culco's policy, the company was kept informed of these changes via Jongeneel's membership of the board of Culco.

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[866] Memorandum re Culco staff 1 July 1936, Philips Eindhoven, PCA 882.3 PCC, Culco board meetings 1932-1939.

[867] Under the new situation the old shareholders owned Y750,000 worth of new A-shares (in the same proportions as their ownership of old shares), and the Chinese authorised dealers held Y250,000 worth of new B-shares. The dealers were given these shares instead of their bonuses for the year 1935: minutes of the Culco board meeting of 6 July 1936, ibid.

[868] Roesler (Shanghai) to Culco advisory commitee 21 Nov. 1935, ibid.

This changed in early in 1937, when Philips reorganised the PCC and withdrew Jongeneel to the Netherlands. After his departure, there was no one left at the PCC who was qualified to sit on the Culco board. Culco continued to sell light bulbs in China until 1941, but no financial data are available for the 1937-1941 period.[869] Royalties and—if available—dividends were probably still remitted by Culco, because the joint venture continued to sell Philips-brand light bulbs until the beginning of the Pacific War.[870] In 1939, when it employed a staff of twelve,[871] Culco was still functioning according to the terms of the Phoebus agreement. Even the German occupation of the Netherlands in May 1940 did not cause Osram and Philips to end their participation in the China United Lamp Company.[872] In spite of Philips' continued financial interest in Culco, there are signs that from 1937 the advisory committee did not, or almost not, convene any longer.[873] Perhaps the cause for this was the dominance of GE within Culco. Between 1934 and 1939 Culco gradually transformed from a being jointly controlled subsidiary into a company that was managed entirely by GE.[874] Possibly GE consolidated its hegemony in China by concessions on other markets, and the other Culco-owners were left only with royalties and dividend.[875] Therefore, even though Philips still held shares, it no longer had any influence in Culco.

Culco's dividend figures are available only for the 1933-1935 period and are shown in table VI. However, these figures are of limited value: they were kept artificially low in order to evade taxation by the US government.[876]

[869] Osram and GE are no longer in possession of any data whatsoever about Culco: statements by GE Fairfield 10 Aug. 1998 and Osram München 17 Aug. 1998.

[870] Certainly until mid-1940.

[871] *Post Mercury Directory* 12 (Jan. 1939).

[872] In July 1940 CGE, Osram China, and PCC were still working together in Culco: Mokreis (Shanghai) to Philips Eindhoven 29 July 1940, Philips Eindhoven, PCA 882 China kroniek.

[873] This is stated by GE: Phoebus situatie China October 1939, ibid.

[874] In 1939 GE demanded that E. Roessler of Osram would leave as Culco's managing director; he was succeeded by Mokreis of CGE. The motive for this change remains a mystery, but it probably signified the end of direct Osram representation on the Culco board: Phoebus situatie China October 1939, Philips Eindhoven, PCA 882 China kroniek.

[875] These are only the owners with voting rights. From 1936 25 per cent of the shares were owned by Chinese firms who did not have voting rights.

[876] Culco was incorporated under American law. Like other foreign firms in China, extra-territoriality protected Culco from taxation by the Chinese government. But, in addition to this, under the US China Trade Act no company tax was payable to the US government, which could only claim a capital tax. Because the Culco board feared that the American tax authorities might impose excessive-profit and dividend taxes, it decided that 'royalties should always be sufficiently high to reduce the remaining profits shown in our official statements to an absolute minimum.' Thus the bulk of the money remitted by Culco to its parents was not paid as dividend but as royalties in return for the right to use the trademarks of GE, Osram, Vereinigte, and Philips. Naturally American tax officials might eventually suspect that the royalty payments were merely a bookkeeping tool to manipulate profit figures. To neutralise this threat, for several years—at least in 1934 and 1935—royalty agreements between Culco and its parents were drafted. This was done after real profits were known and the desired rate for royalties was established, resulting in an artificially low profit statement. To mislead the US government, these royalty agreements were back-dated to 1932, to create the impression that royalty rates were defined before profits were known: Osram Berlin to Henderson (London) 7 June 1934, Philips Eindhoven, PCA 882.3 PCC, Culco board meetings 1932-1939; P. Meinhardt (IGE London) to Jensen (Osram Berlin) and Gaarenstroom (Eindhoven) 24 Apr. 1935, ibid.; Meinhardt (IGE London) to Gaarenstroom (Philips Eindhoven) 28 June 1935, ibid.; Roesler (Shanghai) to Culco advisory commitee 18 July 1935, ibid. For instance, the 1932-dated agreement made in 1935 listed the royalty rates for the 'coming years': 0.04 Shanghai Tael per bulb sold for 1932, Y0.05

Table VI. China United Lamp Company profit and dividend, 1933-1935 (in US dollars)

Year	*net profit*	*dividend combined*	*dividend for Philips*
1933	18,383	23,407	4,377
1934	35,879	36,402	6,807
1935	94,663	65,464	11,685

Source: Culco board meetings 1932-1939, Philips Eindhoven, PCA 882.3 PCC.

For instance, for the year 1934 Culco paid Y437,664 as royalties, and only Y31,469 as dividend to the parent firms.[877] Unfortunately, the scarcity of financial data combined with this tax-related measure make it impossible to determine the amount of money Philips derived from Culco during 1932-1936. The only certainty is that until 1936, Culco was profitable and made annual remittances to Philips and its partners. Meanwhile, the PCC continued to exist alongside Culco. However, because Culco had the monopoly on the trade in Philips-brand lamps, the PCC focused on importing Philips radios.

Until the mid-1920s Philips was mainly a manufacturer and distributor of electric light bulbs, but because of the Phoebus cartel the international lamps markets was very restricted and the opportunities for further expansion were limited. Anton Philips responded to this challenge by diversification into new products. The most important of the new products was radio valves to be used in transmitters and receivers, and the receiver sets themselves. This proved a highly successful enterprise in terms of profits and growth, and Philips benefited from the exploding demand after 1925, becoming market leader for radio equipment in Europe by 1930.[878] Although the radio market in China was even less developed than the electric light bulb market, a demand existed and grew quickly from the late 1920s. Initially the PCC imported radio equipment in China without important changes being made to its organisation. In 1928 and 1929 the PCC sold 5,617 and 6,290 radio valves respectively and in the latter year the first forty-five Philips radio sets were sold in China. Not the sets themselves, but the valves that were used in the sets were

for 1933, 0.04 Sh. Tael for 1934, and again a higher figure for 1935, because profits for 1935 were expected to be higher. About the China Trade Act adopted 1922 and amended 1925 see Wilkins, *Maturing*, 53. Also Roesler (Shanghai) to Culco Advisory Committee 25 Nov. 1932, Philips Eindhoven, PCA 882.3 PCC, Culco meetings of board of directors 1932-1939.

[877] Meinhardt (London) to Gaarenstroom (Eindhoven) 28 June 1935, ibid.; Roesler (Shanghai) to Philips Eindhoven 15 March 1934, ibid. The royalties remitted to Philips did not correspond exactly with the amounts the company was entitled to. Formally divideds of Culco were to be divided according to the shares held by its parent firms; because of the necessity to mislead the American government, profits remitted were disguised as royalties, but royalties had to be paid according to the number of light bulbs sold of each brand. Although market shares for the brands were very similar to the shares held in Culco, it was impossible to control precisely the proportions of lamps sold per brand. To give each shareholder the dividends to which he was entitled, the royalties paid by Culco had to re-divided among the parent firms according to their ownership of shares in Culco. Only for the period July 1932-December 1934 were royalties paid according to shareholding, instead of according to sales figures. In 1935 this detail was taken care of through documents drafted especially to mislead tax inspectors: Roesler (Shanghai) to Culco advistory committee 18 July 1935, ibid.; Meinhardt (London) to Gaarenstroom (Eindhoven) and Jensen (Berlin) 15 Aug. 1935, ibid.

[878] Blanken, 'Philips in Japan', 554.

profitable and the main article in the radio trade. The radio market in China was similar to the light bulb market to the extent that the PCC's main competitors again were GE–via its ties with Radio Corporation of America (RCA) which exported radio valves to China–and Siemens and AEG–via their joint venture Telefunken which sold valves and radios in China.[879]

Table VII. Turnover of radio (valves and sets) sales of Philips China Company, 1928-1938 (from 1934 figures for May 1934-April 1935 etc.)

Year	*Radio valves*	*Radio sets*	*Guilders (tubes + sets)*
1928	5,617	0	22,678
1929	6,290	45	28,558
1930	8,945	237	135,599
1931	13,154	904	62,581
1932	5,508	660	91,438
1933	14,290	703	98,494
1934	10,145	724	61,365
1935	4,965	1,138	73,314
1936	9,144	1,327	96,537
1937	2,444	2	-/- 499
1938	26	0	0

Source: Philips Eindhoven, PCA 81:87, Verkoopstatistiekgegevens per artikelengroep en per land, boek 2b 1928-1939, 869a.

From 1929 Philips regarded radio valve sales in China as part of the PCC's main task, of equal value to light bulb sales. Masseurs reported his radio-related activities separately from the light bulb business to the commercial head of the radio department in Eindhoven, O. Loupart.[880] A large new radio department was added to the Philips China Company in 1930 and new office space was rented to accommodate it.[881] Consequently the PCC grew from twenty-five employees in 1929 to sixty in 1930.[882] Probably because radio sales were aimed primarily at government and business clients who were located in a small number of cities, the PCC did not employ agents: sales were made directly to the consumers or dealers. Meanwhile, the PCC's sales figures for valves and sets had jumped up enormously and the company established itself as the leading distributor of European radio valves in China. A market sharing agreement was made with Telefunken according to which the larger

[879] RCA was established in 1919. Initially GE had a large interest in this company: Wilkins, *Maturing*, 70. It was most likely represented in China through Andersen Meyer. Telefunken (or Gesellschaft für Drahtlose Telegraphie mbH, Berlin) was established in 1903 and represented in China via the agency of the Siemens China Company

[880] O. Loupart (Philips Eindhoven) to Masseurs (Shanghai) 2 Aug. 1929, Philips Eindhoven, PCA 882 PCC, 167 correspondentie Loupart 1929-1936. Correspondence related to light bulb sales went to NV Philips Gloeilampfabrieken, and correspondence related to radio sales went to NV Philips' Radio, both were in Eindhoven.

[881] Masseurs (Shanghai) to Philips Eindhoven 17 Mar. 1930, Philips Eindhoven, PCA 882.1 PCC.

[882] PCC sales promotion meeting no 1, 31 Jan. 1930, Philips Eindhoven, PCA 882 China kroniek; Filiaaloverzicht 77 China, ibid.

part (71 per cent) was allotted to the Dutch company.[883] Competition from Chinese manufacturers was non-existent, and the situation looked promising. The Philips China Company was ready for its main challenge: to dislodge RCA's position on the Chinese radio market.

But as early as 1931 Philips halted, and even reversed this policy of expanding the PCC. The reason for this was the Great Depression, which inescapably caused Philips' turnover and profit figures to fall. In response, the concern embarked on a major restructuring process: to protect the firm's continuity, costs had to be cut back throughout the company. Everywhere, including China, the number of employees was reduced.[884] This affected the ability of the PCC to fight off American competition on the Chinese market. Shortly thereafter the very existence of PCC seemed threatened, when the PCC's activities in lamps distribution were transferred to Culco in July. Warned by Masseurs, Philips was already aware that this might destroy the PCC's financial basis:[885] In 1932 its turnover in radio equipment was too small to pay for its personnel costs and consequently the PCC was doomed to lose money.[886] Philips believed that its interests in the light bulb market could best be

[883] Loupart (Eindhoven) to Telefunken Berlin 19 Jan. 1933, Philips Eindhoven, PCA 882.2 PCC, Telefunken 1932-1937. In 1930 the Shanghai Power Company (SPC) even asked Philips for a tender for a broadcasting station. F.R. Froemel (Philips Shanghai) to Philips Eindhoven 16 May 1930, Philips Eindhoven, PCA 882 China, 167 correspondentie Loupart 1929-1936. The SPC, the operator of the largest power station in China, had been sold in the previous year by the Shanghai Municipal Council to the American & Foreign Power Company, a former GE subsidiary with GE chairman Owen Young on its board during the 1920s and 1930s: Wilkins, *Maturing*, 131.

[884] The additional office space rented in 1930 to accommodate the expanded radio department was excessive by late 1931. Part of PCC's space in the Brunner Mond Building was sub-let to the Java-China-Japan Line: Masseurs (Shanghai) to Philips Eindhoven 19 Nov. 1931, Philips Eindhoven, PCA 882.1 PCC.

[885] Masseurs realised early on that PCC could only survive as long as it continued its activities as a distributor of light bulbs. After he succeeded in convincing Philips that to protect the company's light bulb interests, creating Culco was the best solution, he argued that without its lamps department PCC could not exist as a radio distributor. In April 1932 he sent a letter to his superiors in the Netherlands in which he underlined his warning that: '[...] the Philips China Company stands or falls with the distribution of light bulbs': Masseurs (Shanghai) to Philips Eindhoven 22 April 1932, Philips Eindhoven, PCA 882 China kroniek. The answer to this new problem, according to Masseurs, was that the PCC should retain the right to distribute light bulbs in the Shanghai area. Possibly this was rejected by Philips, because its share in Culco would have been much smaller than it already was without inclusion of its Shanghai sales, or by GE and Osram, who refused to accept such a limitation of Culco's operating area. Masseurs argued that in fact GE and Osram did retain their distributing role: GE via Ansersen Meyer and Osram via the Shanghai branches of its parent firms AEG and Siemens. The difference was that GE and Osram could rightfully claim that all light bulb distribution interests of their subsidiaries China General Edison and Osram China were handed to Culco, and that Philips could not say the same if it assigned the Culco sales agency for Shanghai to the PCC. Masseurs ignored the likelihood that GE and Osram would object if the PCC, which was shareholder in Culco, would continue to be an active factor in the Chinese lamps market: Masseurs (Shanghai) to Philips Eindhoven 22 Apr. 1932, ibid. As an alternative solution, Masseurs suggested that Philips should sell radio valves for American radios in China, but that was not in line with the policy of Philips by which it tried to promote the European standard of radio valve technology. By June 1932 he seemed to have accepted the fact that the PCC could not be saved. He informed his superiors that, should an agency firm take over the PCC's radio business, Culco was happy to take over the office space it rented in Shanghai from Philips: Masseurs (Shanghai) to Philips Eindhoven 3 June 1932, ibid. Because Philips did not wish to eliminate completely the PCC, the office space was kept and not transferred to Culco.

[886] These were 14 per cent of the turnover in early 1932, and were expected by Masseurs to reach 80-100 per cent from July 1932: Masseurs (Shanghai) to Philips Eindhoven 22 April 1932, ibid. Apart from Draka wiring, during the 1930s the PCC also sold Philips equipment for cinemas, factories, and postage and telecommunication offices.

served by joining Culco, even if this were to stir up troubles for the PCC. In spite of this, before July 1932 no decision regarding the PCC's future was made. The organisation was neither dissolved nor offered any new means to increase turnover; it was simply expected to continue its radio sales as before.

Soon after July 1932 it became clear that the radio business was indeed too small to support organisational costs—even though by now the PCC had shrunk to twenty-one employees.[887] A major obstacle to generating a larger turnover was believed to be the fact that most radio engineers, operators, and technicians in China had been educated in the US or in American missionary schools. With such a background, they tended to favour US-made radio equipment—which used RCA valves. There were also suspicions that American radio manufacturers were able to benefit from their government connections in China, established through the building of transmitting stations.[888] Still not knowing what to do with the PCC, in late 1932 the management of Philips asked the accountancy department in Eindhoven to investigate whether the PCC could be maintained as a distribution subsidiary. The resulting report concluded that given the growing importance of the Chinese market, there was no reason to end Philips' radio activities in that country.[889] At the time itself, the Chinese market did not constitute a major part in the company's total output: in 1931 only 0.3 per cent of all radio sets produced and 0.1 per cent of all radio valves went to China.[890] The problem of low turnover was noted, but considered to be of a temporary nature.

For the time being, the PCC was allowed to continue without being reorganised. But in the year 1933 prospects did not become any brighter. On the contrary, the preference shown by the Chinese for American radio equipment became very pronounced: in this year 110,000 (88 per cent) of a total of 125,000 radio valves sold in China were American.[891] At last a decision about the subsidiary's future was made in Eindhoven. In November 1934 Loupart, the top executive manager responsible for radio sales, wrote a long letter to Jongeneel. In it he announced the new course to be followed by the Philips China Company:

> '[...] in China we must strive to minimise our fixed costs as much as possible and make our sales organisation more flexible, in order to be able to retain our earning capacity even during adverse times. This can be achieved by creating a so-called agency organisation, a network of sole-distributors which will cover <u>the whole of China</u>, while simultaneously dismantling the Philips China Company [...] Naturally we must <u>avoid</u> at all cost a further reduction of our turnover figures, which at the moment already are very poor.'[892]

Loupart wanted to switch from direct distribution to a network of agents spread over some twenty to twenty-five locations, and reduce the PCC to four or five persons

[887] Ibid.
[888] Masseurs (Shanghai) to Philips Eindhoven 18 Jul. 1931, Philips Eindhoven, PCA 882 China, 167 correspondentie Loupart 1929-1936.
[889] Conclusies betreffende filiaal overzicht no 77 China 3 Jan. 1933, Philips Eindhoven, PCA 882 China kroniek.
[890] Philips concern totaal, Philips Eindhoven, PCA 81:87 verkoopstatistiekgegevens per artikelgroep en per land, boek 2a 1928-1939, 869a. Also after 1931 these percentages remained minimal.
[891] Philips Eindhoven to W. Jongeneel (Rotterdam) 24 Feb. 1933, Philips Eindhoven, PCA 882 China kroniek.
[892] Loupart (Eindhoven) to Jongeneel (Shanghai) 26 Nov. 1934, ibid.

whose task would be to supervise the agents. Financial risks would be largely eliminated, because there would be few fixed costs. If turnover was low, the agents' commission would be correspondingly low. However, Loupart's aim was not merely the reduction of the financial risks represented by the PCC. He was also thinking about future opportunities to rebuild the PCC and return to direct distribution. That is why the PCC was not dissolved entirely. If the Chinese market continued to grow and agency sales kept up with that growth, a point would be reached at which it would be possible to finance direct distribution.

The new course for the PCC as outlined in Loupart's letter reflected Philips' main interests: profitability was to be protected, but at the same time the company should keep open the opportunity to expand. The aim of expansion now was more important than it had been in the previous decade. Loupart did not simply hope that the agents would gradually increase the number of Philips radio's they sold, he actually instructed Jongeneel to make sure that from the start the agents would sell substantially more than the PCC had so far done. This must have struck Jongeneel as unrealistic. After all, one of the main reasons why many Western firms created their own distribution subsidiaries in China was the belief that high sales figures impossible to achieve under the agency system. This meant that at this point, Philips' interests in the Chinese radio market were conflicting, and so were Loupart's orders. Switching to agency representation and increasing sales at the same time was a contradiction.

Jongeneel, who did not want to dismantle his own organisation, shrewdly exploited this ambiguity in Loupart's instructions. He refrained from contracting any agents, and pleaded for the PCC to be allowed to keep its distribution task. In July 1935 Jongeneel travelled to Eindhoven and convinced Loupart to give him extra time to make the PCC profitable. Loupart was in a difficult position because as head of the radio department he had to stop the PCC running at a loss, but at the same time it was not in his interest to limit his own division's activities in China. Arguing that the company's future on the Chinese market was important enough to justify extra investments, he allocated a final sum of Y48,000 to help Jongeneel increase his sales figures. But about half a year later this money was used up and the PCC was still not profitable. In April 1936 Loupart repeated the order to switch to agency representation.[893] But even then Jongeneel continued to delay;[894] he suggested that to save costs the PCC should merge with a Chinese radio manufacturer,[895] or that he would purchase the PCC's assets and continue representing Philips as its agent.[896] Jongeneel even managed to get permission to send two Chinese engineers to Eindhoven to be trained. The idea was that they would eventually find employment

[893] The PCC market share for radios in 1935: 8.1 per cent. Not to make a loss the PCC turnover would have to be at least Y612,000 per year: Loupart (Eindhoven) to Jongeneel 8 Apr. 1935, Philips Eindhoven, PCA 882.1 PCC.

[894] Jongeneel (Shanghai) to Loupart 21 Oct. 1936, ibid. In 1936 Jongeneel claimed that prospects were getting better. Indeed, in July 1936 the Dutch aircraft manufacturer Fokker contracted the PCC as its sales agent for China: The contract ended 31 Dec. 1937 and was not renewed; no planes were sold in that period: Contract PCC en Fokker 17 July 1936, Philips Eindhoven, 882 China kroniek. Furthermore, in November 1936 Jongeneel reported that the Chinese government had ordered from the PCC fifty-eight radio transmitters for aeroplanes: Jongeneel (Shanghai) to Loupart 27 Nov. 1936, ibid.

[895] Loupart and H. van Walsem (Eindhoven) to Jongeneel (Shanghai) 18 Jan. 1936, ibid.

[896] Loupart (Eindhoven) to Jongeneel 18 Nov. 1935, ibid.

with potential PCC customers, such as the Jardine Engineering Corporation or the Chinese Bureau for Aeronautical Affairs.[897] It is remarkable that Jongeneel had the opportunity to delay the restructuring for such a long time. There explanation for this was not only Jongeneel's stubbornness, but also Loupart's ambiguous attitude. The latter was willing to make new investments as soon as more favourable opportunities opened up in China, which was illustrated by the fact that until 1937 Loupart seriously considered participating in establishing radio factories in China. These considerations—which never reached the stage of actual investments—will be looked at in more detail in the section on political risks. Only when Loupart ordered Jongeneel to return to the Netherlands and the latter left China in early 1937 was the PCC finally reorganised.[898]

After 1936 only one Dutch technician and four supporting staff members were retained.[899] They manned a small representative office in Shanghai, which in practice was a technical service centre.[900] Radio equipment was delivered directly to the newly appointed agents in Shanghai and Hong Kong—there were no agents in the smaller cities because Jongeneel had advised against this.[901] After 1936 sales handled by the PCC dropped sharply, but no data are available which would shed light on the agency business. Therefore, no conclusion can be drawn about the functioning or usefulness of the post-1936 agency system. Given the military value of radio transmitters and radio valves, it is likely that the Japanese occupation or blockade of the treaty ports from 1937 severely hampered the distribution of radio equipment. But sales were at least sufficient to support the five-person Philips China Company. Although the PCC continued to exist in Shanghai for several years—probably until the beginning of the Pacific War[902]—it engaged only in giving

[897] In October 1936, in the middle of their training programme, the management of Philips decided to send them back to China—probably because for the time being there was no prospect of intense activity in the Chinese radio market. Note for C.M.M. Mollerus (Philips) 12 Oct. 1936, Philips Eindhoven, PCA 144.81 directievergaderingen AV (bijlagen); minutes of the AV meeting of 13 Oct. 1936, ibid.

[898] To get him to comply, Loupart promised Jongeneel an important function once he was back in Eindhoven. Moreover, Jongeneel was told not to reveal to the other PCC employees that his departure was definite, instead he should announce that he was going to Europe on leave: Loupart (Eindhoven) to Jongeneel 18 Nov. 1935, Philips Eindhoven, PCA 882 China kroniek.

[899] Ibid.; *Post Mercury Directory* 12 (Jan. 1939). Jongeneel formally kept his function as managing director of the PCC, but was not involved anymore in the PCC: China kroniek, Philips Eindhoven, PCA 882. The technician Mr De Jager was in charge of the Shanghai PCC office from 1937.

[900] Loupart also wanted it to supervise the agents, but it lacked manpower to do this. At the office no-one had power of attorney to sign contracts or registration forms on behalf of Philips: Mokreis (Shanghai) to Philips London 29 July 1940, ibid. Jongeneel warned that it would be impossible to carry out government business out by a reduced PCC, and advised that the agents also be transferred: Jongeneel (Shanghai) to Loupart 27 Nov. 1936, ibid.

[901] The Agent for Shanghai was Innis & Riddle. For Hong Kong it was Cotton Radio Co: S. Joor, 'Orientatie China' 30 Sept 1946, Philips Eindhoven, documentatie China. The original plan for twenty to twenty-five agents was probably not carried out because Jongeneel thought that it was better for prestige and for acquiring government order if a small number of large agents was used rather than recruiting a large number of agents who sold only one product type in a small territory: Jongeneel (Shanghai) to Loupart 27 Nov. 1936, Philips Eindhoven, 882 China kroniek. In 1938 and 1939 the former Dutch Minister to China, W.J.R. Thorbecke, was contracted by Philips to travel to China and analyse local developments and look for possible investment opportunities. Thorbecke did similar work for other Dutch firms, such as Buhrmann's Papiergroothandel and possibly also Unilever: A.A.D. Berg (Holland oost-Azie Lijn Rotterdam) to NV Vereenigde Nederlandsche Scheepvaartmaatschappij The Hague 17 Jan. 1939, ibid.

[902] The registration of the PCC had to be renewed every three years. The renewal went ahead in 1941 but later it was concluded that the procedure was not legally correct, because the request for renewal was made

technical support and did not undertake any commercial activities. No data are available concerning profits by the PCC during the 1920s. Masseurs claimed that because of competition from Chinese light bulb factories, by 1931 this trade was barely making a profit. He mentioned this as a motive behind the creation of a joint venture.[903] It seems that he exaggerated, because the remittances made by the PCC were Y453,000 for 1930 and Y677,100 for 1931.[904] Probably the PCC was profitable until 1932, and lost money after the establishment of Culco in that same year. By 1935 the PCC was making an annual loss of 50,000 to 75,000 guilders per year.[905] After 1937 the financial operations of the PCC were insignificant.

During the time it was active in China, Philips' local interests changed several times. In 1923-1924 the company's main local interest in China was to enlarge its output of light bulbs at as little cost as possible. From the establishment of the Phoebus cartel in 1924 until 1937 its main local interest was to maximise profits from light bulb sales and to expand in radio sales—again without involving high costs. After 1937, when its sales of bulbs and radios in China ended, Philips' interest in China no longer played a role in the concern's overall strategy. Throughout all these years the company's involvement in the Chinese economy remained small: administrative and storage facilities were concentrated in Shanghai, the number of employees never exceeded sixty, and distribution to other parts of China was handled by treaty port agents.

Political Risks and Response

1928-1937

During its first years in China, the PCC's position was not affected by political risks, but, during 1928-1937 there were two risks directly relevant to the firm's future in China. The first was the possibility that the Guomindang government would drive foreign radio companies out of the country by establishing a state-protected national radio manufacturing industry. The second was the possibility that the Japanese authorities would ban Western light bulbs and radios from the Manchurian and North Chinese market.

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only on behalf of Expeditiekantoor Wouters and Drukkerij Schäfer, not by Philips' Metaalgloeilampenfabriek: D.J. Sannes, 'Situatie Philips China Company' 6 Nov. 1939, ibid.; E.T. de Boer (Philips Eindhoven) to T. Waller (Hilversum) 18 Apr. 1941, ibid; NV Eindhovensche Drukkerij voorheen Schäfer & Co.(Eindhoven) to the Dutch consular court for Central China (Shanghai) 31 May 1941, ibid; Dutch consul-general Shanghai to Thomson & Co. Shanghai 6 Sept 1941, ibid; De Boer (Eindhoven) to Loupart, Van Walsem, Naber and Walterscheid (Philips Eindhoven) 16 Feb. 1946, ibid. Therefore 1941 marks the end of the PCC's existence. A new subsidiary was created in September 1946: 'Philips China NV (Philips China Company)' based in Eindhoven with its office in Shanghai: China kroniek, ibid. Its task was to distribute radio equipment and electric light bulbs in China but, to keep expenses low, initially only a manager, a salesman, and an assistant were employed. Among the first Chinese orders was one for 1 million light bulbs and 10,000 radio receivers, but again American competitors were selling more: S. Joor 'Orientatie China' 30 Sept 1946, Philips Eindhoven, documentatie China. In December 1948 a separate subsidiary for Hong Kong was created: Philips Industries (Far East) Ltd. China kroniek, Philips Eindhoven, PCA 882.

[903] Masseurs (Shanghai) to Page (Shanghai) 7 Apr. 1931, Philips Eindhoven, PCA 882 China, 167 correspondentie Loupart 1929-1936.

[904] Filiaal overzicht no 77 China 3 Jan. 1933, Philips Eindhoven, PCA 882 China kroniek.

[905] Loupart (Eindhoven) to Jongeneel 8 Apr. 1935, Philips Eindhoven, PCA 882.1 PCC.

The possibility of the Chinese government setting up a radio industry first emerged as a distinct threat in 1932. In November of this year the Guomindang government asked Telefunken to supply manufacturing equipment for a radio valve factory. This factory was to be built in Shanghai and to be operated by the Central Broadcasting Station in Nanjing.[906] Philips was also involved, because it had a market-sharing agreement with Telefunken and the new factory would affect Telefunken's market position. Without informing the Chinese government of this agreement, the Germans consulted the Dutch company about how to approach this issue. Philips was the leading European radio valve company both in Europe itself and in China, with Telefunken in second position. On the other hand, RCA valves—which were not compatible with European-made radio sets—had captured the greater part of the Chinese market for radio valves. Giving China the ability to produce first its own radios valves, and eventually also complete radio sets, would diminish the Chinese demand for imported radio equipment. But at the same time it would strengthen the position of European radio technology, and curb the influence of RCA. Therefore the plans of the Chinese government for the new factory represented a treat as well as an opportunity to Philips.

The two options given to Telefunken by the Chinese government were either to sell the factory equipment in return for cash, or to supply it in return for an interest in the factory. In the first scenario Telefunken would also supply technicians and raw materials after the factory became operational. In the second scenario Telefunken would obtain a majority share in the factory, as the value of its equipment represented the larger part of the total costs.[907] Telefunken offered Philips half of the factory's output of radio valves, and Philips agreed to co-operate in return for concessions elsewhere in the world.[908] With respect to the technical characteristics of the factory, Philips imposed two limitations. In the first place, no American radio valves should be produced. The second proviso was that not the most modern types of Philips' valves should be produced, because doing this in China would be too expensive. Eventually an agreement was signed between Philips and Telefunken according to which equipment and technical support were to be supplied to China in equal shares by the two partners.[909] Their explicit motivation for this agreement was to prevent a factory being built using American technology.[910] However, during the

[906] The request came after Telefunken had built a broadcasting station in Nanjing, probably also for the CBS: Telefunken Berlin to Philips Eindhoven 24 Nov. 1932, Philips Eindhoven, PCA 882 China kroniek.

[907] The Germans estimated the factory costs at 350,000 Reichsmark, of which 250,000 for production equipment: Telefunken Berlin to Philips Eindhoven 24 Nov. 1932, Philips Eindhoven, PCA 882 China kroniek.

[908] Because of the 1931 agreement to share the market according to a 71-29 ratio in Philips' favour, the Dutch firm demanded a major concession from the Germans in return for a 50-50 interest in the new factory. Suggestions by Loupart were that Telefunken should withdraw from two major markets (Australia + Central America, Australia + part of Africa, Australia + Portugal, Balkans + Near East were mentioned). Philips Eindhoven to Jongeneel (Rotterdam) 24 Feb. 1933, ibid.

[909] However, supplies of radio valves were as before to be divided 71-29 between the partners.

[910] Reglung betreffend Fabrikation in China zwischen Philips und Telefunken n.d., Philips Eindhoven, ibid. In 1933 Philips found out that it was out of the question that Telefunken in collaboration with Philips would supply the entire factory. An American firm was going to build it, but it remained possible that all or part of the machinery would be purchased through Telefunken: Jongeneel (Shanghai) to Philips Eindhoven 2 Sept 1933, Philips Eindhoven, 822.2 PCC, Telefunken 1932-1937; Telefunken Berlin to Philips Eindhoven 23 Jan. 1934, ibid.

next few years the Chinese government put its plans for the radio valves factory aside, and negotiations ended.

During 1934-1936 Philips wanted to limit its involvement in the distribution of radios in China, while the PCC's director, Jongeneel, was trying to achieve completely the opposite. One of his suggestions about how to preserve the PCC was that the company should begin manufacturing radio equipment locally, in co-operation with the Chinese government. Jongeneel gave his superiors in Eindhoven the impression that he could easily find official Chinese partners for this plan. In January 1936 Loupart responded very positively. After the plans with Telefunken for a valve factory in 1932 and Culco's policy of issuing shares to Chinese merchants, the idea of a Sino-Dutch joint venture was less revolutionary than it probably had seemed to Philips during the 1920s. Loupart believed that a joint venture was a good way to increase his company's presence in China without incurring too many costs or risks. He instructed Jongeneel to look for possible partners in the areas controlled directly by the Guomindang government or by the provincial Guangdong regime that was allied with the Guomindang.[911] North China was thought to be too unstable politically. For each region and product type—radio receivers or transmitters, amplifiers, and other electrical equipment—a different local joint venture partner should be identified and invited to Eindhoven to discuss a possible co-operative contract.[912]

Loupart also indicated what the eventual contracts should look like. The Philips China Company and the Chinese state-owned or state-supported firm should own a factory jointly. Management and some 70 per cent of ownership should be Chinese; Philips' contribution would consist of production equipment and of technological co-operation:

> '[...] the Chinese should be in charge and play the central role, while we play only a supportive and indirect role—albeit one that forms a crucial element in the whole scheme.'

This was the first time in the history of the Dutch electronics firm that it was prepared to sell valuable new technology without retaining control over the factory in which it would be applied. Philips would supply only the semi-finished materials, and purchase the end products against a reduced tariff. It was thought necessary to include some regulations to prevent the factory from making certain products, in order to protect the PCC's other activities. An important motivation which drove Loupart to favour investments along such lines was that the factory would inevitably become the monopolist supplier, because it was supported by the government and it

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[911] Loupart and Van Walsem (Eindhoven) to Jongeneel (Shanghai) 18 Jan. 1936, Philips Eindhoven, PCA 882 China kroniek. They based part of their plan probably on a report written for Philips about the same time: 'Ontwerp voor een Werkplan in het Verre Oosten voor de NV Philips', Philips Eindhoven, PCA 882a Verre Oosten (rapportage). The author, probably former diplomat and future Philips representative W. Thorbecke, also suggested to using of Chinese agents and inspectors, to co-operate with influential Chinese officials, and making market sharing agreements with Japanese manufacturers, also for Manchukuo.

[912] As a partner for producing radio sets in the Nanjing-controlled area, the China Radio Corporation was suggested by Jongeneel. Loupart believed that China was not yet ready to produce radio valves—presumably meaning the newest types.

could supply distributors cheaper than importers could. Then the danger of Chinese competition capturing a stronger position in distribution would be compensated for by the fact that Philips would be paid by the factory for each item sold to the distributors, and receive 30 per cent of dividends. Allowing its Chinese partner a majority share in the joint venture gave Philips not only an excuse to demand that all financial capital should be supplied by its Chinese partner, it was also expected to give Philips a lead over its American and German competitors. Loupart was convinced that in radio manufacturing, Philips was the first foreign firm to accept that management would be Chinese. To create a dependable management team, the company wanted to educate Chinese engineers in Eindhoven. An agreement was made with Telefunken for co-operation with respect to the acquisition of contracts for radio factories.[913]

In early 1936 Philips was informed by the Director of the Central Broadcasting Station, who was in Europe, that the Chinese government was again planning to build a factory for radio valves. Foreign co-operation was desired, but at least 51 per cent of the share capital would remain in the hands of the Chinese government. Loupart informed Jongeneel that he should do his utmost to win this contract, even if Philips had to give China the means to manufacture valves of RCA's standard. While Telefunken put forward its own offer separately from Philips, Jongeneel handed Philips' proposal to the Chinese government. As could be expected on the basis of the instructions already given by Loupart in early 1936, this included supplying production equipment coupled with technical assistance, in return for a service charge and preferential treatment as a supplier and customer of the factory.[914] The two foundations on which the offer for the radio valves factory was based were, in the first place, that not a single piece of machinery was to be sold without a long-term technical assistance contract attached. Chinese personnel was to be trained in Eindhoven, and Dutch engineers were to be stationed at the factory to supervise operating of the machines. In the second place, the offer was based on a determination to avoid taking financial risks as much as possible. The Chinese had to pay for all equipment in cash, in Dutch currency, and in the Netherlands before receiving anything. This was in spite of Loupart's idea of taking a 30 per cent share in the factory: his colleagues in Eindhoven were firmly opposed to this. They did not believe that the Chinese were able to manage a business enterprise of any kind effectively, and therefore refused to allow Philips become involved in the factory through a minority share.[915] Therefore no matter whether or not Philips won the contract, and in spite of the ideas of both Jongeneel and Loupart, it was unlikely that this would help Jongeneel in his attempts to maintain the PCC's position. Before the

[913] Both firms would try to separately acquire a Chinese contract for participating in radio factories. In case of success, the factory deliveries of production machinery, technical assistance, raw materials, and profits would be shared among Philips and Telefunken on a 50/50 basis. Supplies of radio valves would be made on a 71/29 basis, the larger share being for Philips. Even patent rights on new technologies possibly developed by such a Chinese radio factory in the future were already divided between the two European firms for the world outside China. Reglung betreffend Fabrikation in China zwischen Philips und Telefunken n.d. [ca 1936], Philips Eindhoven, PCA 882 China kroniek.

[914] Philips Eindhoven to Jongeneel (Shanghai) 5 May 1936, ibid.

[915] Sannes, announcement for the meeting of the managing board, 19 June 1936, Philips Eindhoven, PCA 144.81 directievergaderingen. Philips preferred a lower price in order to increase the chances of getting the contract, but Telefunken insisted on a high price in order to acquire as much as shares in the joint venture as possible.

Chinese government announced with which foreign company it preferred to work, the war with Japan broke out and the project was again shelved.

This leads to the second political risks of the 1928-1937 period, that presented by Japanese imperialism. When Japan installed the Manchukuo regime in 1932, Culco responded by selling only Philips light bulbs that were made in Japan by Tokyo Electric in Manchuria. For this purpose Philips' trademarks were registered with the Manchukuo government, and Tokyo Electric, a Japanese firm that was controlled by GE, was licensed to produce light bulbs under the Philips trademarks.[916] The Japanese domination of Manchuria and its growing influence in North China deterred Philips from investing in these parts of the country. Instead the company focused on East and South China. In 1932 Sino-Japanese fighting in Shanghai severely but only briefly disrupted the company's main market area in China.[917] This was shrugged off, being interpreted as an incident that had only a temporary effect on turnover. By this time Philips's involvement in China was so limited that the company did not regard the Japanese occupation as very relevant to its interests. By the time the Sino-Japanese War began in 1937, Philips had only limited assets in China. This fact was not a result of the effects of political risks, but of the company's reluctance to invest heavily in addressing competition. The firm's willingness to participate in setting up new radio factories in East and South China under conditions that were interesting only in the long run, indicated that before 1937 Philips did not perceive Japanese influence as an imminent threat in these parts of the country. Without important local interests, political risks were hardly relevant after 1937.[918]

Conclusion

Philips was active in China between 1923 and 1941, during which time its main local interest initially (1923-1924) was to increase light bulb, and thereafter (1924-1937) to defend the profitability of these sales and to boost radio sales. At no time was the company prepared to take a major financial risk to achieve these aims. In the final years (1937-1941) there was no more local interest relevant to its overall corporate

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[916] J.L. Hamming (Philips Eindhoven) to TEC Kawasaki 16 Aug. 1934, Philips Eindhoven, PCA 882.3 PCC, Culco board meetings 1932-1939. Philips trademarks were registered also in Nanjing since 1929.

[917] This is illustrated by the decline in factory output experienced by China General Edison—which was caused by lower sales in Manchuria and Shanghai—from 480,000 large light bulbs in July 1931 to only 64,000 in February 1932. However, Masseurs believed that the main reason for the low production figures in early 1932 was that GE had created excessive stocks of light bulbs in late 1931: Masseurs (Shanghai) to Philips Eindhoven 22 April 1932, Philips Eindhoven, PCA 882 China kroniek.

[918] After 1937 the attitude adopted by Culco and the PCC towards the Japanese appears to have been identical to that of most Western companies in China: trying to keep a distance from politics and come into contact with official authorities only when it was necessary to keep business going.In July 1940 the Japanese-controlled 'new Nanjing government' led by Wang Jingwei asked all companies to re-register their trademarks at a new trademark bureau. To continue business in occupied East China, Culco was forced to re-register. Of course this would be interpreted by the Japanese as a sign of recognition of Wang's puppet regime. Nevertheless, the board of directors of Culco decided to comply with the new registration rule. However, instead of submitting the original trademark certificates, which had been requested by the new government in Nanjing, the plan was to hand in photostats. Before coming to this conclusion, Osram China and CGE consulted several law firms in Shanghai and the legal department of BAT. Culco held photostats of all of Philips' Chinese trademarks: Mokreis (Shanghai) to Philips London 29 July 1940, ibid. As an excuse for not submitting the original certificates, Culco stated that the originals were in Europe: Mokreis (Shanghai) to Allman, Davies & Kops Shanghai 5 Nov. 1940, ibid. PCC, being only a small service office, does not seem to have experienced any major political dilemma or conflict during 1937-1941.

interests. Because of its reluctance to invest much money and because the market for light bulbs and radios was confined to the major cities, Philips did not become involved in China beyond the main treaty ports. Civil wars did not directly affect the company during 1923-1928, but during 1928-1937 two important political risks emerged: Chinese nationalism and Japanese imperialism. During 1937-1941 political risks were irrelevant, as the company had hardly any interest left in China.

The risk posed by Chinese nationalism consisted of the possibility that the Guomindang government would establish a Chinese radio manufacturing industry. This would eventually limit the demand for imported radio equipment, and consequently of Philips' chances of selling its products in China. Philips nevertheless offered to co-operate with the Chinese government in establishing a Chinese-controlled radio industry. It was willing to supply China with valuable new technology to produce radio valves, as long as the firm might obtain favourable service, supply, and purchase contracts and as long as it would not have to bear a financial risk. Such a service and royalty arrangement would have been very lucrative, and the company was even prepared to give China the technology needed to make RCA-type valves. However, what the company definitely refused to do was to become involved in ownership or management of the new radio factory. Consequently a Sino-Dutch factory agreement, had it actually materialised, would not have provided Philips with an opportunity to expand on the Chinese radio market. As it turned out, there was to be no agreement with Philips or any other foreign company, because the Sino-Japanese War started before any definite plans were made.

The risk of Japanese imperialism was perceived as a problem because it affected sales in Manchuria and North China negatively, but until 1937 Philips did not see this as a fundamental threat. There is no indication that the company expected that the Guomindang regime would not be in a position to defend East and South China against the Japanese. Furthermore, during the mid-1930s the company's involvement in China was already very small and therefore the risk of great damage to its assets was limited. Other than concentrate its efforts in East and South China, Philips did nothing to respond to the growing Japanese political influence.

CHAPTER 8

SOAP AND MARGARINE: UNILEVER

> 'We must take some risks, and I am the first to admit that the proposed investment in North China is a risk, and that the figures do not look outstandingly attractive, but risks we can afford to take, and in my opinion should take, so as to seize this exceptional opportunity of establishing ourselves "at the bottom of the market" in one of the few remaining large and undeveloped soap markets of the world.'
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> J.H. Hansard (Unilever), 1939.[919]

Overall Corporate Interest

Unilever was created on 1 January 1930 through a merger on the basis of equality between the 'NV Margarine Unie', a Dutch margarine company, and 'Lever Brothers Limited', a British soap company. The two most important products made by Unilever in the 1930s were margarine and soap. Both products required similar raw materials: non-mineral oils and fats. In the nineteenth century non-mineral oils and fats were used as fuel, lubricants, food, soap, paints, varnishes, and linoleum. By the 1930s, technological change had made petroleum into the main raw material for most of these products. Only soap and food remained major products of non-mineral fats and oils.[920] From birth, Unilever was the world's largest company engaged in the processing of non-mineral fats and oils. In soap manufacture there were only two other giants: the American companies Procter & Gamble and Colgate-Palmolive. In the margarine business Unilever was the single most important producer.[921]

In the period before the merger, the Margarine Unie and Lever Brothers competed not only in terms of raw materials, but also in terms of consumers. The main products of the Margarine Unie were margarine and other edible oils and fats, while Lever's main product was soap. But the Margarine Unie also made soap and Lever Brothers also made margarine. Another motive for the merger was that the two parties complemented each other in several important aspects. While the Margarine Unie was active primarily in Europe, Lever Brothers owned subsidiaries not only in Europe, but also in the United States, throughout the British Empire, the Belgian and Dutch colonies and in China. Although Lever's interests were geographically more diverse, the Margarine Unie had better financial resources plus a leading position in

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[919] J. Hansard, visit report China, Japan, and Manchukuo 1939, Unilever Rotterdam, DIR 10, 182.1.

[920] K.E. Hunt, 'Grondstoffen', in: J.H. van Stuijvenberg (ed.), *Honderd Jaar Margarine, 1869-1969* (Den Haag) , 30-31.

[921] In 1932 only 11 per cent of the world's margarine was made in the US, whereas Europe produced 75 per cent—of which a great proportion came from Unilever's factories: W.G. Hoffmann, 'De Ontwikkeling van de Margarine Industrie', in: J.H. van Stuijvenberg (ed), *Honderd Jaar Margarine, 1869-1969* (Den Haag 1969), 25.

edible fats, which were believed to have better prospects as a tool for corporate expansion than soap.[922]

Lever Brothers was a British concern in all major respects: the mother company and most subsidiaries had their headquarters in Britain. Its managers were British, as were most owners of regular shares. Until his death in 1925, its founding father William H. Lever owned all shares that had special controlling rights. Upon his death, half of them was inherited by his son, while the other half was held by the executors of his will. The men who acted as executors were the three most senior directors of Lever Brothers. In 1930 they were F. D'Arcy Cooper, H. Greenhalgh, and J. McDowell. The Margarine Unie was essentially Dutch, but in two respects more multinational than Lever Brothers. In the first place, many important subsidiaries had originated outside the Netherlands, often as independent firms that were later acquired by the Margarine Unie. Consequently, management and shareholdership involved various nationalities besides the Dutch. Secondly, the company had combined its extensive British interests into a separate company. This British company—'Margarine Union Limited'—was based in London and its regular share capital was owned by British private investors. The Margarine Unie and the Margarine Union were firmly interconnected by a so-called equalisation agreement: they operated under the same name, pooled their profits, had identical boards of directors, and were responsible for each other's debts.[923] The structure of dual nationality had been inherited from Van den Bergh, one of the predecessors of the Margarine Unie, and was a product of fiscal considerations.[924] Close examination shows that the two parts were not fully equal: the Dutch company controlled the British company through special shares.[925] The controlling shares in the Margarine Unie itself were divided between three families: Jurgens (about 42 per cent), Van den Bergh (about 42 per cent), and Schicht (about 16 per cent). Although the Schicht family was based in Central Europe, most members of the two dominant families had a Dutch background. The Jurgens and Van den Bergh families had created the predecessors to the Margarine Union in the 1870s, and then the Margarine Union

[922] At least by F. D'Arcy Cooper, Chairman of Lever Brothers: W.J. Reader, *Unilever: A Short History* (London 1960), 39-40. Reader identified this mixture of competition and complementation as the main motives for the merger: idem, *Vijftig Jaar Unilever, 1930-1980* (London 1980), 1-9.

[923] Memorandum of agreement 2 Sept. 1929, Unilever Rotterdam, HIS 153, 1266 NV Margarine Unie correspondentie 1927-1930 etc.

[924] Van den Bergh was at first Dutch, and then established a separate firm in Britain, which became a limited liability company in 1895. Until 1919 this British company functioned as holding company of all Van den Bergh interests. In 1919 a second holding company was established in the Netherlands, which took over all assets in continental Europe. The two holding companies were connected through an arrangement very similar to those applied later, in 1927 and 1937, to unite the mother companies of the Margarine Union and Lever Brothers & Unilever. According to Wilson, dual nationality was introduced to Van den Bergh in 1919 probably because new tax laws in Britain would otherwise have resulted in the Dutch shareholders of this company having to pay double tax on their dividends: in the Netherlands as well as in Britain. Apparently until 1918 it was possible for shareholders of British companies living abroad to be exempted from British taxation: C. Wilson, *Geschiedenis van Unilever* (3 Vols; repr.; n.p. 1984), II, 258-259. It seems that the Margarine Union copied this arrangement, again with the purpose of avoiding double taxation. However, although Van den Bergh may have consisted of two independent mother companies, the Margarine Union did not, as overall control was concentrated in Rotterdam. Apparently the Dutch tax authorities nevertheless acquiesced in the company's assertion that the British side was fully independent.

[925] The Margarine Union 1928-1929, Unilever Rotterdam, HIS 115, 1092.11.4 The Margarine Union 1928-1929.

itself in 1927. The Schicht family joined only in 1928-1929, when their business was taken over by the Margarine Unie.[926] Despite its strong multinational character, the Margarine Unie was a Dutch company with the main parts of its background, managerial hierarchy, ownership, leadership, and control, all being Dutch.

The merger which created Unilever was only a partial one: neither the organisations themselves nor their ownership were entirely amalgamated.[927] In fact, the only immediate change in organisation was the merger of the boards of directors. An ingenious legal manoeuvre was devised to merge Lever Brothers and Margarine Unie at the board level while keeping assets and regular shareholders separated. The Margarine Unie and the Margarine Union were renamed 'Unilever NV' and 'Unilever Limited' respectively. Control of Unilever Ltd was separated from Unilever NV and divided equally between two new holding companies: a Dutch one named Elma NV and a British one named United Holdings Ltd. The controlling shares in Unilever NV were also divided between these two holding companies. The shares in Elma were owned by the Jurgens, Van den Bergh, and Schicht families—analogous to their previous holdings of controlling shares in Unilever NV—while those of United Holdings were acquired by the Lever group—W.H. Lever's son and the top managers of Lever Brothers. In exchange, the Lever group transferred all controlling shares in Lever Brothers to Unilever Ltd. An arrangement between Elma and United Holdings ensured that neither holding company could make important decisions without the consent of the other.[928] The result was that the controlling shares in Unilever were divided equally between the persons who had controlled the Margarine Unie and Lever Brothers prior to 1930.

Ownership of regular shares in Margarine Unie and Lever Brothers remained in the hands of the same external investors, and was not merged. It was only in 1937 that the exchange of assets between the parent firms was time practised on a large scale for the first time. To facilitate this, Unilever Ltd (the old Margarine Union Ltd) was taken over by Lever Brothers, and became a separate margarine division within the soap organisation. After Unilever Ltd had disappeared as an independent company, Lever Brothers was renamed Unilever Ltd and concluded its own equalisation agreement with Unilever NV.[929] In 1937 the former Lever Brothers thus

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[926] Interview with Mr Krekel Rotterdam 20 Dec. 1950, ibid.

[927] According to the Chairman of Lever Brothers, F. D'Arcy Cooper, amalgamation of the entire share capital was not feasible because of the fact that the capital of Lever Brothers consisted largely of preference shares, whereas the capital of the Margarine Union was made up predominantly of ordinary shares: 'The Merger with Margarine Union', Unilever Rotterdam, 'Progress' 30/187 (April 1930), 37-39. D'Arcy Cooper told this to both employees and shareholders of Lever Brothers. It is unclear why this was an obstacle: in 1937 the preference shares of Lever Brothers and the ordinary shares of the British Margarine Union were amalgamated after all. This was achieved by dissolving Unilever Ltd after it had transferred its assets to Lever Brothers and its shareholders were given shares in Lever Brothers (renamed to Lever Brothers & Unilever Ltd). When this happened the old Unilever Ltd shareholders were told by the Special Committee that this was done to avoid double taxation: Minutes of the Special Committee meeting of 5 Mar. 1937, Unilever UK, Special Committee, General Matters 1931-1942. This suggests that the people who carried out the merger of 1930 simply wanted to keep ownership of Lever Brothers and Unilever Ltd separate.

[928] Memorandum of agreement 2 Sept. 1929, Unilever Rotterdam, HIS 153, 1266 NV Margarine Unie correspondentie 1927-1930 etc.

[929] Formally Lever Brothers now was named 'Lever Brothers & Unilever Limited'; the name of the NV was changed to 'Lever Brothers & Unilever NV'. The concern as a whole was now called 'Lever Brothers

acquired ownership of the extensive British margarine interests of the former Margarine Unie. To compensate for this, Unilever Limited transferred all its assets outside Britain and the British Empire to Unilever NV. This included substantial soap interests in the US, Latin America and the Far East. In other words: in 1937 Unilever NV and Unilever Limited redivided ownership of their interests along geographical lines, seemingly moving away from the former partition according to product—margarine and soap respectively. Because the regular share capital still was not affected and because the relationship between the parent firms was fully equal, the former Lever Brothers (as Unilever Ltd) continued to exist as a genuinly British company and the former Margarine Unie (as Unilever NV) as a fully Dutch company.[930]

Although the merged companies now had the same name, their interests were not fully identical. Even after the exchange of assets in 1937, Unilever NV and Unilever Limited did not become involved in soap and margarine to equal degrees. The share capital of a group of subsidiaries can be transferred from one mother company to another very easily, but reorganising the relations between the corporate centre and its subsidiaries, and among subsidiaries themselves, involves more radical changes. The British margarine companies continued to exist as a separate division in Unilever Ltd, and, as the case of Unilever's soap company in China will show, soap firms outside the British Empire remained oriented towards London more than towards Rotterdam. In other words: although the original hierarchies of the Margarine Unie and Lever Brothers gradually grew closer through a large-scale exchange of assets, their main interests remained tied to different markets. While the British side of Unilever's managerial hierarchy was interested primarily in soap, the Dutch side kept its main interests in edible oils and fats.

Formally, operational knowledge of the Unilever concern was concentrated at four places: in the boards of directors of Unilever NV, Unilever Ltd, Elma, and United Holdings. Because the membership of the boards of Unilever NV and Ltd was identical, these two boards functioned as one.[931] From their members the so-called Special Committee was selected, which consisted initially of eight and later of four members. It was this Special Committee that acted as the managing board of Unilever. The two holding companies, Elma and United Holdings, appointed the Unilever boards and the Special Committee. They were controlled by the major shareholders—the Jurgens, Van den Bergh, Schicht, and Lever families—and thereby functioned as the two halves of Unilever's supervisory board. Therefore, from 1930 the company was controlled by an alliance of top-managers and major shareholders. The common, external shareholders did not have access to operational knowledge and consequently they had no direct influence on corporate strategy. In the development of the relationship between salaried managers and major shareholders in Unilever and its predecessors, the 1930s represented a transitory phase in which management quickly became the dominant group. In 1937 ownership

& Unilever'. But since this change was reversed in 1952, it will be ignored in this study. In the 1980s 'Unilever Limited' was changed to 'Unilever plc'.

[930] E.A. Hofman, 'De Tweeledige Structuur van Unilever en de Egalisatie-Overeenkomst', *Tijdschrift voor Vennootschappen, Verenigingen en Stichtingen* (1968), 19.

[931] The three Boards were identical except for the fact that the Lever Brothers one had less members than the other two. In 1930 five directors from the Margarine Union were added to Lever Brothers' Board.

of United Holdings and Elma was acquired by Unilever Ltd and NV respectively, which meant that Unilever's boards had the right to nominate their own members.[932] In other words, from 1937 management was in complete control of the Unilever concern. In practice, operational knowledge was concentrated in the Special Committee.

This rise to power of the leading exponents of the managerial hierarchy is also reflected in the identity of the chief executives. On the Margarine Unie side this position was occupied by Paul Rijkens.[933] Rijkens had begun his career in the margarine industry as an employee at the London office of Van den Bergh.[934] He speedily moved up the career ladder, and as one of the architects of the Van den Bergh-Jurgens merger that created the Margarine Unie, he became the Unie's second man behind Anton Jurgens. In 1933 Anton, the patriarch of the Jurgens familiy, stepped aside in favour of Rijkens. The fact that he was not a member of any of the three margarine families plus his impartial attitude in the integration of the Margarine Unie companies, made his leadership acceptable to the families. The top executive on the Lever Brothers side was Francis D'Arcy Cooper. Formerly a partner in the accountancy firm of Cooper Brothers & Co., he was appointed advisor to the board of Lever Brothers in 1921.[935] It was his task to assist the company in overcoming its financial difficulties, which at this time were severe. He played a prominent role in the ensuing process of reorganisation, and emerged as the new president of Lever Brothers after Lever himself died in 1925. From this time on he was the British company's undisputed leader. Rijkens and Cooper replaced the founding fathers of Unilever's predecessors. Unlike the pioneering entrepreneurs who had built up a huge but not always stable business empire from scratch, they were typical managers who reorganised the company into an efficient, rationalised organisation. As leaders of the Special Committee, their interest lay in the well-being of the company as a whole—not in a particular part of it. After 1930 they and their colleagues in the Special Committee co-operated closely in creating a unified corporate culture for Unilever. To do this they had to negotiate with second tier-managers much more than with the main shareholders.

During the first half of the 1930s, Unilever was controlled jointly by salaried managers and by the main shareholders. While the managers were interested primarily in corporate growth, the shareholding families may be assumed to have been interested in maximised profits but—because a large number of family members was involved in management[936]—also in growth. After 1937 the company was firmly in the hands of its management. Consequently, Unilever's overall corporate interest during 1930-1941 was primarily growth, and to a lesser extent and only until 1937 also maximised profits. A special aspect of Unilever's case is that its managerial hierarchy consisted of two main bodies, namely a British one in London and a Dutch counterpart in Rotterdam, both equally influential. Whereas the British

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[932] Ibid. 23.
[933] Wilson, *Unilever* II, 347.
[934] Wennekes, *Aartsvaders,* 266-267.
[935] Wilson *Unilever* I, 304.
[936] In 1930 the four main families were represented on the 32-person Boards of Directors by twelve members: W. Lever Jr, Anton Jurgens, Rudolf Jurgens, Henri Jurgens, Victor Jurgens, Albert van den Bergh, Leo van den Bergh, Donald van den Bergh, Sidney van den Bergh, Georg Schicht, Heinrich Schicht, and Franz Schicht: Wilson, *Unilever* II, 474.

managers were interested primarily in the soap business and represented at the top by Cooper, their Dutch counterparts were mainly interested in margarine and represented by Rijkens. It was the task of Cooper, Rijkens, and their Special Committee to balance these interests by achieving an equal degree of growth in both sectors.

The Soap and Margarine Trade in China

Like other Western producers of consumer products, Unilever was attracted to China because of its large population and potential for rapid economic development. In 1930 Unilever's position in Europe was extremely strong, but in North America strong competitors were encountered. The most promising new markets were densely populated countries outside the Western world, especially India and China; in the 1930s China was the largest market for Unilever soap outside the Western world.[937] In 1934 Unilever sold some fifteen thousand tons of soap in China, which constituted about 2 per cent of its total turnover and about 31 per cent of its turnover in non-Western countries.[938] By the late 1930s China had also become a very fast growing market for margarine and other food products. Nor was it merely interesting as a potential offset market. In raw materials, too, China was an important country for margarine and soap manufacture. The ingredients that were most used in soap and margarine production were vegetable oils and fats. China was one of the largest producers of raw materials for vegetable oil, such as cotton seed, ground nuts (peanuts), soya beans, rape seed, and sesame seed.[939] At the latest from the beginning of the twentieth century, China was one of the largest exporting countries of vegetable oil.[940] In the years immediately before the First World War, China accounted for about 8.8 per cent of world exports of the main types of oil.[941] In the late 1920s, when silver prices were very low, China's share in world exports of vegetable oil grew even larger.[942] Unilever's Dutch margarine factories continued to import raw materials from China and Manchuria throughout the 1930s. However, by 1930 technology was advanced enough to allow margarine and soap makers to choose from a range of different sources, price and availability mainly determining which they used. Therefore, whereas China was prominent but not irreplacable as a supplier of raw materials, its size and underdeveloped state gave it a unique strategic value for the marketing of consumer products such as soap and food products. This made the Chinese market highly relevant to the future development of both Unilever NV and Unilever Limited.

In order to expand in soap and margarine sales, the company operated two subsidiaries in China: the 'China Soap Company Limited' and 'Edible Products Limited'.[943] Both were registered as British firms under the Hongkong Companies Ordinances. The China Soap Company (CSC) was established by Lever Brothers in

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[937] Ibid. 396-397.
[938] Ibid.
[939] Hunt, 'Grondstoffen', 36-39.
[940] Ibid. 66.
[941] Ibid. 38.
[942] The exchange rate of Chinese currency was expressed in silver. Report of the speeches made by the chairman at the extraordinary general meetings of Lever Brothers 13 Feb. 1930, Unilever Rotterdam, HIS 96, 1003 Lever Brothers Ltd, 1. reports of the directors and reports of the annual meetings 1919-1935.
[943] Until 5 July 1935 EP's name was 'United Margarine Company Limited'.

the 1920s, but Edible Products (EP) first saw the light of day in 1933. From then, the two had largely or fully identical boards of directors. Until 1937 both companies reported to Unilever's Overseas Committee in London, which consisted of four people. In 1931 they were H. Greenhalgh (chairman; representing Unilever Ltd), C.E. Tatlow (also Unilever Ltd), S.J. van den Bergh (representing Unilever NV), and G. Schicht (also Unilever NV).[944] Each member of the Overseas Committee was assigned a group of countries, each of which he visited at least once every two years. After each visit he submitted a detailed report to the rest of the committee. This system of supervising overseas companies was a continuation of a practice developed by Lever Brothers in the 1920s. In the early 1930s the Overseas Committee member directly responsible for China was Tatlow, who had already occupied the same position before 1930. He visited China in 1932 and 1934, and was then succeeded by J.H. Hansard, who visited China in 1935, 1936, 1937, and 1939. The last visit, up to the end of 1941, was made in 1940 by J.L. Heyworth. All three men became members of the Unilever boards of directors in the 1930s. Their visit reports were thorough analyses of economic developments in China in general and the situation of the local organisation of the company in particular.

Until 1937 the Overseas Committee supervised all Unilever and Lever Brothers companies outside Europe and reported weekly to the Special Committee. Its equivalent for the companies in continental Europe was the Continental Committee.[945] In 1938, as a result of the formal take-over of Unilever Ltd by Lever Brothers and the re-assignment of non-Empire countries to Unilever NV, the Overseas Committee was renamed to 'Empire Overseas Committee'. Its responsibility was now limited to the British Commonwealth and Empire. The Continental Committee was renamed the 'NV Continental and Overseas Committee', and was now also responsible for the companies just removed from the authority of the other committee. In spite of the changes, China Soap Company and Edible Products were still supervised by Hansard, who now attended the meetings of the 'NV committee'. The interests in China remained *de facto* under the direction of Unilever Ltd.[946] Because the 1937 re-organisation had little impact on the

[944] D.K. Fieldhouse, *Unilever Overseas: The Anatomy of a Multinational, 1895-1965* (London and Stanford 1978), 40.

[945] European soap exports to China were handled by a British subsidiary called United Exporters, which was supervised by the Overseas Committee, while European margarine exports were supervised by the Continental Committee: Fieldhouse, *Unilever Overseas*, 41. Two groups of companies remained outside supervision of either of these committees. The British companies were represented on the Special Committee by their group directors. There also was a very large conglomerate of African trading interests called the United Africa Company, in which Lever Brothers had a majority share. The board of this company also reported directly to the Overseas Committee. Its chairman in 1930 was Robert Waley Cohen, who formerly worked for Royal Dutch/Shell as managing director: D.K. Fieldhouse, *Merchant Capital and Economic Decolonization: The United Africa Company, 1929-1987* (Oxford 1994), 10.

[946] In 1940 the situation changed again, when the Netherlands was occupied by the German army. The Dutch Government, being exiled to London, took possession of all Unilever NV assets in neutral and allied countries, and entrusted Limited with their custody: Wilson, *Unilever* II, 418-419. Officially, Overseas Holdings (Proprietary) Ltd, acting as attorney for the Whitehall Trust Ltd, became owner of China Soap Company and Edible Products in 1940. Until 1946 Overseas Holdings was registered in Durban, South Africa, and owned by Unilever: G. van der Veen and E.A. Hofman (Lever Brothers & Unilever NV) to R.H. van Taalingen (De Nederlandsche Bank NV) 23 July 1946, Unilever Rotterdam, SEC 26, 566.1 China 1946. As a result, there was again only one Overseas Committee, responsible for China and all other overseas subsidiaries.

management of Unilever's Chinese operations, the sub-committee of the Special Committee to which Unilever's organisation in China reported will be referred to here as 'Overseas Committee' for the entire 1930-1941 period.

In 1930 the CSC was Unilever's first subsidiary in China, and formed the organisational basis on which the margarine business was later built. The CSC's history had already begun in the first decades of the twentieth century. At that time the market for soap in China was still limited to the major cities. The only washable fabrics in most Chinese households were clothes, which were washed either at home or by washerwomen who used cheap quality soap. In 1924, after visiting China, a Lever Brother director remarked that his impression was that most Chinese never washed their clothes at all.[947] At first industrially made, better quality soap was imported—mainly from Great Britain—but soon small Chinese soap factories emerged. By the mid-1910s, in the larger cities there was a market for industrially made soap. This market consisted of two main segments: a small foreign one for toilet soap and high quality laundry soap, and a larger Chinese one, mainly for medium quality laundry soap. The foreign segment remained the preserve of foreign brands. In the Chinese segment, however, there was heady competition between imported and locally made brands. After the First World War, Lever Brothers became the largest importer of foreign soap in China. The British firm made its first direct investments in China on 17 June 1911, when 'Lever Brothers (China)' was created. This subsidiary replaced treaty port agents as the channel through which Lever Brothers soap was distributed to wholesale dealers. By 1915 Lever Brothers China handled about 30 per cent of all British soap exports to China, in addition to which it imported soap from the Lever Brothers factory in Kobe, Japan. The company operated a head office in Shanghai and a branch office in Canton, and had agencies and sales depots in ten cities: Changchun/Harbin, Dalian, Niuzhuang, Tianjin, Weihaiwei, Qingdao, Shanghai, Hankou, Canton, and Hong Kong.[948] In 1916 Lever Brothers' selling organisation consisted of thirty-two Chinese and British representatives travelling through various parts of China.[949]

Lever Brothers even bought a plot of land in Shanghai in partnership with chemicals producer Brunner, Mond & Co., a predecessor of Imperial Chemical Industries (ICI). Their aim was establish a jointly owned soap factory. At that time Brunner Mond owned two major British soap companies, which were Lever's main competitors in China: Joseph Crosfield & Sons and William Gossage & Sons. Co-operation with Brunner Mond proved unsuccessful, and in 1919 Lever Brothers bought Brunner Mond's soap companies. In the same year Lever Brothers also acquired Price's Patent Candle Company, which, jointly with Crosfield and Gossage, owned a Chinese subsidiary called China Soap and Candle Company. The British soap trade in China was now almost completely in the hands of Lever Brothers. Through Price's they also obtained a candle factory in Shanghai, which made soap as a by-product. On 15 February 1923, a new company was incorporated to combine all Lever Brothers soap assets in China: the China Soap Company. Ownership of the

[947] Visit report China 1924, Unilever UK, Overseas Committee, OSJ 6/1-16 visit reports 1912-1937.
[948] Notes on letter from Mr Quin 26 May 1915: Accounts quarter ended 27 March 1915, visit report China 1915, Unilever UK, Overseas Committee, OSJ 6/1-16 visit reports 1912-1937.
[949] Note of decisions arrived at in conference with Mr Quin 10-13 Nov 1916, Visit report China no.3, ibid.

Chinese candle assets was transferred to Candles Limited, a company owned jointly by Royal Dutch/Shell and Lever Brothers, but controlled by the petroleum company.[950]

In 1920 Lever Brothers director C.E. Tatlow visited China and was impressed by the seemingly immense opportunities offered by the Chinese market:

> 'There are two features which are outstanding in the impressions I have gained in China. The one is that there is a vast trade to be done in soap, and the other is that, successful as our selling efforts may appear to have been, we have barely scratched the surface of the soap trade in China.'[951]

Tatlow considered cheap bulk production the only way to bring Lever Brothers soap within reach of the large majority of the Chinese population, and to meet competition from Chinese soap makers. Therefore he strongly recommended building a soap factory in Shanghai as soon as possible. Not long after his report was written, Lever Brothers bought a large plot of land on the north bank of the Huangpu River, in the Yangshupu industrial district, and built a factory on it.[952] When the soap factory went into business in 1924, it was manned by one European works manager, five European technicians and managers, and an unknown number of Chinese labourers. Chinese labour was very cheap, which enabled the factory to operate until 1941 without requiring the installation of automatic machinery. Some raw materials were supplied by other Lever Brothers organisations abroad, but most, such as cotton seed oil, coconut oil, tallow, and bean oil, were purchased directly by the CSC. In 1925 the company opened a new head office in the Chartered Bank Building on the Bund. Branch offices were opened also in other cities. In 1924 the CSC operated warehouses and offices in Shanghai, Hong Kong, Hankou, Jinan, Tianjin, Shenyang, Xiamen, Nanjing, and Fuzhou. Most were supervised by a European branch manager. The company introduced a wide range of brands and lines in order to reach the various segments of the Chinese market.[953]

To stay ahead of competitors who exported their soap from the US or Europe to the treaty ports where import tariffs were low, and to benefit from the full potential

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[950] Created 11 October 1922 by the Burmah Oil Company, Scottish Oils, the Asiatic Petroleum Company—i.e., Royal Dutch/Shell—and Lever Brothers to combine their candle interests into one organisation for manufacture and distribution. Candles could be made from both vegetable or animal fat and mineral oil. In 1934 Unilever negotiated with Royal Dutch/Shell about taking over the management of Candles Ltd for all countries except China, Burma, Ceylon, French Indo-China, and India: Minutes of the meeting of 21 Nov. 1934, Unilever UK, general matters 1931-1942. However, in December of 1936 Unilever sold its holdings in Candles Limited, minus the Australian candle business, to Royal Dutch/Shell: E.C.D. Liveing, 'The Liveing Outline: Lever Brothers Ltd' 1944, Unilever UK.

[951] Visit report China no.4, Unilever UK, Overseas Committee, OSJ 6/1-16 visit reports 1912-1937.

[952] The plot was so large that much of it was never used by Unilever. In the summer of 1931, part of it were sold to the Shanghai Gas Company, and an even larger part was put up for sale. Minutes of the meeting of 31 Aug. and 30 Sept. 1931, Unilever UK, Special Committee, minutes of the Special Committee meetings with the Overseas Executive/Overseas Committee 1931. Royal Dutch/Shell's wharfs were located on the opposite side of the river, not far from the soap factory.

[953] From 1924 the China Soap Company produced six brands of soap: Lever, Gossage, Crosfield, Price, Hodgson & Simpson, and Vinolia. Under each brand several 'lines' of soap were made. For instance, the Lever's brand range produced in Shanghai consisted of Sunlight, Lifebuoy, Lux, Swan, Velvet, Skin, and Zulu soap. With several other Lever Brother soap products which were imported, these soaps were distributed from Shanghai to the central depots, or godowns, of the branch offices.

of the Chinese market, in the early 1920s Lever Brothers decided to distribute soap not just in the main cities but also to venture into the interior. In making this move, Lever Brothers faced the same distributing problems as Royal Dutch/Shell had come across in 1908 and the years thereafter. Outside the major cities transactions were usually not carried out on a cash basis, and the CSC salesmen did not know to whom they could sell on a credit basis. To penetrate the up-country market, the company set up an agency distribution system, which functioned in a way very similar to those of the three model distributing firms, Royal Dutch/Shell, Standard Oil, and BAT. The branch offices supplied Chinese agents, usually influential general merchants, who in turn supplied sub-agents and local dealers. The agents held a stock of soap, in return for which they gave the company certain securities, such as cash deposits, title deeds, share scrip, or guarantee bonds. The company's own sales force was made up of fourteen European and thirty-six Chinese inspectors. It was their task to visit the agents, sub-agents, and local dealers. They tried to stimulate business, checked up the stock in the depots and sub-depots, and wrote reports for the head office. In 1926 there were 109 main depots and 167 sub-depots spread over China's main provinces, each depot managed by an agent or sub-agent. Above all, the inspectors' most important function was to see that the company's selling prices were maintained.[954]

In spite of the formation of a unified organisation for the production and distribution of soap, Lever Brothers did not succeed in making a profit in China until the late 1920s. Losses made between June 1912 and June 1925 amounted to £277,142. In 1926 two directors from London visited China and concluded that the CSC 'seemed to be drifting aimlessly', and that 'there has […] been gross mismanagement of the works and selling force'.[955] Distribution costs to distant areas proved to be very high, which even affected the company's position on the large Shanghai market, as selling prices were calculated on the basis of all distribution costs. Moreover, the use of European salesmen and inspectors was very costly and not effective, as they did not know the language well enough to negotiate with local dealers. Immediately after the London directors' visit, China Soap Company's general manager resigned and European staff was cut by half. Still this move did not solve everything. Possibly because in the countryside cheap locally-made soap was good enough for the washing of most clothes, the demand for industrial soap did not reach the level of that for kerosene and cigarettes. But the main difficulty was that investments in up-country distribution were high and required a long period of building-up agency relations and product familiarity before profits were to be expected. A subsidiary not being profitable for several years was not necessarily a problem—it had not been for Royal Dutch/Shell when it established its up-country organisation after 1907, but for Lever Brothers at this stage of its existence this was a problem.

In the 1920s Lever Brothers lacked a sound financial basis. Around 1920 the concern had invested much money in the British fish industry and in African trading, neither of which was directly connected to the soap business. This diversification did not prove profitable and was followed immediately by a general economic crisis in Europe. Under these circumstances it became apparent how dangerous the

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[954] Visit reports China nos 5, 6 and 7, Unilever UK, Overseas Committee, OSJ 6/1-16 visit reports 1912-1937.

[955] Visit report China no.8, ibid.

company's capitalisation structure was: all shares held by external investors were preference shares, which meant that high dividends had to be paid at a time when Lever Brothers was short on money. The company incurred large debts, and during the following years it was forced to implement a policy of cost reduction. Towards the end of the 1920s Lever Brothers achieved a degree of stability, but the problem of high dividends was not really resolved until the merger with the Margarine Unie.[956] Under these circumstances it was not possible to invest money in the CSC unless it would produce profits in a very short term. Since the Chinese company was already making a loss, its activities were limited to those that had proved profitable. This meant abandoning the selling organisation in the interior of China. Only in the vicinity of the Shanghai factory were distribution costs low enough to be able to build up a strong position with respect to competition. In 1928 the company had only one branch office left—in Tianjin—and its salesmen operated only in the provinces of Zhejiang, Anhui, Jiangsu, Hebei, and Shanxi. Hong Kong and Guangdong were supplied by five 'associate dealers'. For the time being the trade in CSC products in Fujian, Shandong, and Manchuria was again in the hands of treaty port agents.[957] Financially, this strategy of territorial contraction proved successful: distribution costs fell low enough to keep selling prices down. In the second half of 1928, the China Soap Company began to make a profit, and the output of the factory was increased from 275 tons to 550 tons per week. Strategically, however, it was a step backwards. By the end of the decade, in spite of high investments, Tatlow's dream of bringing Lever Brothers soap within reach of the majority of the Chinese population had not come true. In the short run, cheap bulk production in Shanghai could not counterbalance high distribution costs in the interior of the country. This was the state of Lever's Chinese investments when Unilever was created in 1930.

In contrast to Lever Brothers, the Margarine Unie and its predecessors did not establish a subsidiary company in China. Before the 1930s a market for margarine was virtually non-existent, as the Chinese had no tradition of eating bread with butter. Margarine was used only to bake biscuits, for which there was a small but growing market around 1930. The Chinese did consume large quantities of cooking fats and oils—such as lard, peanut oil, rape seed oil, and bean oil—which could possibly be, but so far were not, substituted by European products.[958] Margarine was sold only in a few large treaty ports. From 1923 to 1929 the amounts exported to China by the European Margarine Unie companies were between 150 and 250 tons per year; by 1929 the Margarine Unie was by far the largest producer for the Chinese market. Although China was important as a supplier of raw materials for European margarine producers, these did not invest in a local purchasing organisation. In 1910 Anton Jurgens, president of Jurgens' margarine company, travelled to China to investigate whether it would be possible to set up such a company, but he abandoned the idea when he found out that he was unable to negotiate a favourable price with Chinese suppliers.[959] European margarine factories continued to rely on agents—trading companies—to import margarine into China and export raw materials from China.

[956] Wilson, *Unilever* I, Chapters 18-20.
[957] Visit report no. 11, Unilever UK, Overseas Committee, OSJ 6/1-16 visit reports 1912-1937.
[958] J.L. Heyworth, visit report China and Japan 1940, Unilever Rotterdam, DIR 18, 325.1.
[959] Wennekes, *Aartsvaders,* 242.

A direct result of the merger between Lever Brothers and the Margarine Unie was that the management of the CSC became responsible for sales in China of margarine and other foods in China. Even though the Chinese food division was turned into a separate company in 1933, the soap and food businesses were run by the same directors from the same head office on the Bund, their factories were on the same site, and their raw materials were purchased collectively. Although their marketing organisations were different and in the first years they did not co-operate as well as the Overseas Committee had hoped, still CCS and EP functioned as a single subsidiary within the structure of Unilever. The changes in the organisational structure of Unilever China between 1930 and 1941 reflect its strategy of wanting to narrow the distance to the consumers, both geographically and organisationally.

During the 1930s the space in which the CSC and EP could manoeuvre was limited by the world-wide economic depression, which caused a depreciation in the price of many agricultural products. In the case of Unilever this meant lower costs for raw materials, as well as a depreciation of the stock already purchased. It also meant a decrease in the price of butter, a product which competed with margarine. The depression furthermore led to a lower income for many potential customers. This favoured the position of cheap low quality soap, with which Unilever's soap competed. It also made it more difficult for the CSC to sell an important by-product, oil cake, as cattle feed. In spite of the depression, the soap company managed to retain its newly-acquired profitability after 1930, and indeed even expanded its selling organisation. The financial stability of the CSC benefited from the alliance with the Margarine Unie in 1930, and grew very strong in the years after 1933 when it became a full subsidiary of Unilever NV. Annual advertisement expenditure—an indication of the company's marketing power—rose from Y13,000 in 1929 to some Y300,000 in 1935.[960] By January 1933 the selling organisation in the company's 'home territory'—roughly Shanghai, Zhejiang and Jiangsu provinces—included fifty-five persons divided over seven sections, with branch offices in Shanghai, Suzhou, Hangzhou, Ningbo, Zhenjiang, and Nanjing.[961] The home territory produced about half of the total turnover of the China Soap Company.

At the same time the company reorganised its relationship with Chinese wholesale soap dealers in the home territory. Unilever believed that their attitude was too passive, while their financial strength was not as great as it had been during the 1920s. The company tried to decrease its dependence on them and strengthen its influence on selling prices by drastically increasing the number of direct dealer contracts. In the Shanghai area this resulted in a rise in such contracts from about seventy to one thousand. The minimum amount of cases per purchase was lowered from fifty to ten. In the other sections of the home territory, Unilever had previously dealt only with the largest wholesale dealers, who supplied smaller dealers, these last in turn supplying the shops. But now the company began supplying the smaller dealers directly, leaving the larger ones in charge only of collecting orders and payments. There was to be direct control of all Chinese dealers and retail shops selling Unilever soap by the new selling organsation. Outside its home territory,

[960] Visit reports China 1932 and 1934, Unilever UK, Overseas Committee, OSJ 6/1-16 visit reports 1912-1937.

[961] All sections were supervised by Chinese who were called 'distributors', a title copied from BAT that was thought to give more status ('face') than 'sales manager'.

Unilever sold through agents. For these, there were thirty-one agency depots spread over the northern, eastern and southern provinces.[962] The number of agencies never again approached what it had been in the 1920s, and the penetration of the countryside remained much less deep than that achieved by petroleum and tobacco firms. Still, by 1934 the CSC's agency network again covered almost all provinces of China proper.[963]

The China Soap Company factory seen from Yangshupu Road in the industrial area of the Shanghai International Settlement; the photo was taken in 1926 before the merger between Lever Brothers and Margarine Unie and the subsequent addition of a margarine factory (reproduced by kind permission of Unilever Historical Archives)

In 1936 the company estimated that of a population of 450 million, only 50 million lived in areas too distant for the company to reach. Of the remaining 400 million, about half were thought to be too poor to buy Unilever soap.[964] Consequently, the Chinese soap market was thought to consist *potentially* of about 200 million customers. *Actual* soap consumption increased by 50 per cent from 1932 to 1935, reaching some 100,000 tons in the latter year—still only half a kilo of soap per year for each of the 200 million consumers thought to be within reach of the soap industry. Nevertheless, were soap consumption to continue to grow in the same pace

[962] In the following places: Shanghai, Hangzhou, Zhenjiang, Qinjiang, Nanjing, Bengbu, Wuhu, Jiujiang, Nanchang, Hankou, Yichang, Zhengzhou, Changsha, Xiamen, Harbin, Dalian, Dandong, Shenyang, Yingkou, Tianjin, Beijing, Zhangjiakou, Shijiazhuang, Qinhuangdao, Qingdao, Yantai, Weihaiwei, Hong Kong, Canton, Shantou, Wuzhou. Visit report China 1932, Unilever UK, Overseas Committee, OSJ 6/1-16 visit reports 1912-1937.
[963] Visit report China 1934, ibid.
[964] Visit report China 1936, ibid.

this would mean great opportunities for all soap manufacturers involved. The Overseas Committee was convinced of this:

> '[…] a country of 400 million inhabitants [geographically within reach] and a soap trade of only 80,000 to 100,000 tons per annum is not one which [Unilever] can afford to be out of.'[965]

Unfortunately for Unilever, not they but Chinese producers benefited most from the growth of the soap market in the first half of the 1930s.[966] Unilever's main competitors on the soap market were Chinese and Japanese manufacturers. Since major US soap companies like Procter & Gamble and Colgate-Palmolive did not produce soap in China, these could not lower their prices enough to reach customers in the interior of the country. Competition from Western companies existed mainly in the market for toilet soap, which was limited to the major cities and dominated by Unilever's Lux line. The main toilet soap manufacturers in Shanghai were the Japanese Jui Pao Company and the International Soap Works. Neither was considered very dangerous by Unilever in 1932.[967]

In the more important market for laundry soap there was a very large number of small Chinese producers. These were very hard to compete with for a nation-wide organisation such as Unilever China. Local soap factories had little or no transport costs and could sell their products more cheaply. Despite their competition, in general Unilever welcomed the existence of these small producers, because usually their products were of low quality. The Overseas Committee believed that these firms introduced laundry soap to people who had not used it before on a larger scale and much more cheaply than Unilever itself could ever achieve. This would bring more people within reach of Unilever's soap products, which were more expensive, but supposedly also better. Only on occasions when these small producers imitated Unilever's trademarks did the company suffer some misgivings. The main competitors, then, were the larger Chinese soap producers. As a result of the Japanese advance into China, Japanese soap companies—both in Japan and in China—also became more important as competitors.

At the beginning of the 1930s the largest Chinese competitor was the International Dispensary Company (IDC), based in Shanghai. Its main soap line was called Koopun. Other competing Chinese firms were the Pacific Soap Company, the Nanyang Company and the Ting Foong Company, all active in the Yangzi valley. While the Overseas Committee was convinced that the smaller ones among these larger producers were no real threat, the IDC was seen as a serious challenge to further expansion in East and Central China.[968] In 1931 the IDC sold 300,000 cases (almost 6,000 tons) of soap.[969] At the same time Unilever China estimated that it controlled about a quarter of the market for laundry soap, which consisted of some 72,000 tons and was growing rapidly. The special position of the IDC in comparison to other Chinese soap makers induced Unilever to think about coming to an

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965 J. Hansard, visit report China, Japan and Manchukuo 1939, Unilever Rotterdam, DIR 10, 182.1.

966 Because of the war the demand for soap stayed roughly at the same level in the second half of the 1930s.

967 Visit report China 1932, Unilever UK, Overseas Committee, OSJ 6/1-16 visit reports 1912-1937.

968 Visit report China 1928, ibid.

969 Visit report China 1932, ibid.

arrangement with the IDC. In 1934 during his visit to Shanghai, Tatlow, of the Overseas Committee, met three IDC directors at the Chinese Bankers' Club. Later he reported about this meeting to the Overseas Committee:

> 'The meeting was extremely pleasant but the conversation remained general. What ever ideas they may have as to closer co-operation in soap selling or otherwise, they were not mentioned, and Robson [the managing director of the CSC and EP] and I considered that any approach in that direction must come from them. We are not in any panic. However, we now know each other and my impression was that they are anxious to work in harmony with us, as they do at the present in Glycerine to mutual advantage, though, of course, meanwhile we are each maintaining full pressure on our respective soap sales.'[970]

Unilever's main soap product in China was Sunlight soap, which was more expensive than Koopun. Sunlight was protected by one or more 'fighting lines', soap lines similar to Koopun in quality and price. Were a price war to eventuate, Tatlow argued, 'we can strike and strike hard' by lowering the price of the fighting lines enough to push Koopun out of the market, leaving Sunlight untouched.[971] In practice, however, competition from the IDC proved to be very strong and hard to resist, especially after 1934. One problem was that Sunlight was popular in the north only; in the rest of China cheaper soap lines were preferred. This situation benefited the IDC, especially since Sunlight was more expensive than Koopun, but of more or less the same quality.

By 1935 the CSC was losing ground to the IDC, its market share having already fallen below 10 per cent. Unilever responded by lowering the price of Sunlight and improving its quality in order to strengthen its position in Central, East, and South China. At the same time the expansion of Koopun was to be checked by improvement of the quality of Unilever's cheaper soap lines, and their introduction into North China.[972] Quality of soap could be improved by increasing the content of fatty acid. In the south, where competition was weak, the quality was not improved.[973] An attempt to reach an agreement with the IDC on soap prices failed. Competition proved strong not only in the laundry soap business, but also in that for toilet soap. In 1935 Unilever lost 5,500 tons of trade, while the competitors, mainly Japanese, lost nothing. In spite of having to face strong competition at a time when many consumers could not afford expensive soap, there were still some factors to Unilever's advantage: its main lines were well-known thanks to a long history and extensive advertising, their quality was good and uniform,[974] and the company had a well-functioning selling organisation. The Overseas Committee thought that the

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970 Visit report China 1934, ibid. In 1934 and 1935 the market for glycerine had been divided between Unilever and IDC by means of a quota agreement, a somewhat greater part being for Unilever. Early in 1936 IDC forced Unilever China to accept annulment of this agreement by offering to pay a penalty of Y30,000 and increasing its output at the same time. Unilever accepted the money.

971 Visit report China 1934, ibid.

972 Visit report China 1936, ibid.

973 Visit report China 1936, ibid.

974 Among other measures, stocks were kept fresh by water cooling.

company could regain its former market share if only expenses could be kept low.[975] Indeed, in 1936 and 1937 Unilever managed to recover much of its position on the soap market, equalling and then surpassing the IDC sales of about 15,000 tons per year. The CSC expanded its production facilities in Shanghai,[976] and began exporting soap to other parts of Asia.[977]

Table VIII. Trading results of the China Soap Company, 1926-1941

	Sales (tons)		*Net Profit (Yuan)*		*Net Profit (£)*
1926	n.a.	-/-	17,720	-/-	1,785
1927	10,594	-/-	436,951	-/-	39,600
1928	16,530	-/-	411,901	-/-	39,040
1929	16,690		603,473		51,070
1930	18,429		705,008		41,680
1931	15,504		1,401,007		65,670
1932	16,675		1,656,647		101,380
1933	17,134		1,210,126		73,430
1934	15,462		1,475,270		100,397
1935	9,982	-/-	606,797	-/-	45,248
1936	15,362		763,753		45,936
1937	18,605		116,333		6,969
1938	17,646		1,272,067		57,932
1939	23,220		6,707,027		147,778
1940	19,327		3,517,280		55,866
1941	23,929		16,432,190		209,852

Source: Unilever UK SCD 25, 5, 1; Unilever Rotterdam DIR 18, 325.1; Unilever UK, OSJ 6, Visit Reports China.

In 1937 the IDC's position weakened rapidly while at the same time Japanese competition was increasing significantly. Preliminary negotiations were begun by the CSC with about the possibility of amalgamation with the IDC. The Special Committee agreed to this plan, but only if it would result in the IDC being bought by and incorporated into the CSC. In that case the IDC's former owners would be given the right to be represented on the board of the China Soap Company[978] However, by this time—the summer of 1937—the Sino-Japanese War had broken out and the

[975] In 1936 it was considering closing the expensive office on the Bund, and moving it to the factory site at Yangshupu Road, far away from the city's centre: visit report China 1936, ibid. But the office was never actually moved.

[976] The CSC was negotiating with Lih Teh Oil Mill & Hardening Plant. This firm's supplies of refined oils were no longer needed since the CSC had a new refinery. The idea was to purchase the Chinese company and then remove all useful machinery from its plant to the Unilever factory. The two sons of the owner could then keep their jobs as seed buyer/oil and cake seller, and oil mill manager respectively. However, it appears that this purchase failed to go through. About the same time the Overseas Committee began planning for a second soap factory in Tianjin. This would limit distribution costs and enable the company to have better access to supplies of cotton seed. Visit report China 1937, ibid.

[977] Early in 1937 Unilever China started exporting soap to the German firm Georg Dralle in Batavia: Minutes of the meeting of 22 March 1937, Unilever UK, Special Committee, general matters 1931-1942.

[978] Minutes of the meeting of 9 Aug. 1937, Unilever UK, Special Committee, minutes of the Special Committee meetings with the Overseas Executive/Overseas Committee 1937.

Japanese occupation of Shanghai forced the IDC to cease production. Unilever lost its interest in taking over the IDC. Two Japanese soap factories were now established in Shanghai, but they did not manage to capture a large market share. In 1941 Unilever produced 23,929 tons, the IDC produced 4,422 tons, and the China Chemical Works (CCW), another Chinese firm, produced 2,762 tons.[979] The combined output of all other Shanghai soap manufacturers averaged only 3,300 tons in the last three years before 1942.[980] By 1941, the company was successfully defending its share of the soap market in the parts of China that were still accessible from Shanghai, and in the process was making good profits. Its trading result up to this year are listed in table VIII.

Unilever's position in the Chinese margarine market was somewhat different: this market was much smaller than the soap market. Consequently Edible Products remained much smaller than the CSC. But although butter became drastically cheaper because of the economic recession,[981] the Chinese trade in margarine grew during the 1930s. There are no exact figures of how much Unilever margarine was sold in China at the beginning of the decade: margarine made by Unilever in Europe was shipped by many different companies under many different names. Until late 1939 Hong Kong was supplied from Europe. The new factory was built in 1932 besides the soap factory, and was operated under the supervision of a Dutch engineer,[982] who was later joined by a second margarine expert from the Netherlands. The margarine division's sales director was British. At first margarine was sold in China through European agents, but when EP was incorporated on 7 February 1933 it set up a selling organisation, consisting of Chinese travelling representatives under a Chinese 'Number One Salesman'.[983] This sales force remained small, as there was not much opportunity for geographical expansion. The demand for margarine was concentrated mainly in Shanghai, Hong Kong, Qingdao, Tianjin, and Beijing; for the time being there was no food product that could be sold in the countryside. The tonnage actually sold was too low to enable the company to mount extensive advertising campaigns. In 1936 only Y10,000 was allocated to advertising.[984]

By 1935 the Chinese margarine market consisted of some 400 tons, of which 383 (circa 96 per cent) were sold by Unilever. In the same year, in addition to margarine, the company had also sold 30 tons of other edible fats and oil products. Margarine was largely consumed by Europeans, at home, or by bakers and biscuit makers.[985] Other important customers were Russian refugees and, increasingly, Chinese who developed a taste for Western products. The integration of soap and margarine interests at the local level was not an immediate success. The management of

[979] In 1939 the CCW, a maker of toilet articles, first produced laundry soap in Shanghai.

[980] Memorandum as a basis for the consideration and formation of policy and plans for the future 20 Nov. 1945, Unilever UK, SDC 25 (China Soap Company)/3/5.

[981] Fieldhouse, *Unilever Overseas*, 276.

[982] D. van Gelderen, who was sent to China in December 1932, was highly experienced in margarine production and became a member of the Board of the United Margarine Company, as was then the name of Edible Products. Visit report China 1932, Unilever UK, Overseas Committee, OSJ 6/1-16 visit reports 1912-1937. The second Dutchman was A.F.H. Blaauw, who had a chemical background.

[983] Visit report China 1932, ibid.

[984] Visit report China 1936, ibid.

[985] Visit report China 1936, ibid.

Unilever China, which was responsible for soap and margarine alike, was not very enthusiastic about Edible Products. Even in 1936 the margarine division was run as a separate company, definitely playing second fiddle to the soap division: 'Except for a very vague attention, no one in the Shanghai office has had anything to do with it.'[986] The Dutch margarine specialist sent by Unilever NV to Shanghai, and his small Chinese staff, had to work more or less independently in these early years.

From 1937, when the CSC formally had to report to Rotterdam instead of London, more attention was paid to the margarine trade. In 1937 a new refinery enabled EP to produce salad oil. Biscuits made using margarine as shortening became very popular among the wealthier Chinese. The company made a plan to make pineapple-flavoured margarine for biscuit manufacturers, and even flirted with the idea to enter the biscuit business directly. Besides the biscuit trade, the influx into Shanghai of tens of thousands of German Jews in 1939 also gave the margarine market a strong impulse. In the same year Unilever decided to buy a plant in Shanghai to produce milk and ice-cream. In 1940 and 1941 the company made plans to sell Wall's sausages in China.[987] By the latter year, EP had proved its potential for very rapid growth.

There was less competition on the margarine market than in the soap trade. As was the case with the soap trade, US-based margarine producers, such as Procter & Gamble (P&G), Kraft, Standard Brands, Jelke, and the meat industry, were not very active in China, which imposed a heavy import duty on margarine.[988] P&G's Palm brand was the strongest non-Unilever brand in Shanghai. Unlike soap, margarine was not consumed outside the major cities. Therefore there were no small-scale competitors in areas that were expensive for Unilever to reach. Unilever's competitors were mainly foreign firms in Shanghai and Hong Kong.

At the beginning of the 1930s there were two margarine producers in Shanghai: Swiss-China Trading and Manufacturing Company and Henningsens Produce Company. The former sold only its own margarine,[989] while the latter also distributed imported brands. Two firms that distributed margarine without producing it themselves were Geddes Trading & Dairy Farm Company, an important customer of Unilever, and Frost Brand Company. Henningsen (American) and Geddes (British) were the two largest margarine dealers in Shanghai. In 1931 Geddes urged Unilever to establish a margarine factory in Shanghai as soon as possible, as it could not drop its prices as low as Henningsen's. The Special Committee decided to investigate the plan for a factory, and, for the time being, to support Geddes, 'even at great sacrifice, in order to maintain trade against local manufacture'.[990] In March of the following year, Geddes and Henningsen were informed by Unilever of its intention to build a margarine factory.[991]

After Unilever began margarine production in Shanghai, its position on the local margarine market became even more dominant than it had been. By 1936 the market was divided as follows: EP 78.3 per cent, Henningsen 13.3 per cent, and Geddes 8.3

[986] J. Hansard (Shanghai) to Overseas Committee (London) 14 March 1936, ibid.
[987] J.L. Heyworth, visit report China and Japan 1940, Unilever Rotterdam, DIR 18, 325.1.
[988] P&G did establish a margarine factory in Manila in 1931: Fieldhouse, *Unilever Overseas*, 276.
[989] And possibly was a Chinese firm.
[990] Minutes of the meeting of 31 Aug. 1931, Unilever UK, Special Committee, minutes of the Special Committee meetings with the Overseas Executive/Overseas Committee 1931.
[991] Minutes of the meeting of 3 March 1932, ibid. 1932.

per cent. Unilever and Henningsen—not Geddes—made informal price agreements with each other. When Henningsen complained about its share, Hansard set up a plan to allow Henningsen temporary price reductions to increase its sales by 25 per cent. A European auditing firm should then be employed to confirm the accuracy of Henningsen's sales figures. Hansard argued that this would ensure Unilever the co-operation of Henningsen whenever competition from Geddes or another third party would become strong. The great advantage was that this plan was simpler and cheaper than a full quota system, which would require pool accountants, administrative expenses and prolonged negotiations.[992] Related factors were that Henningsen relied on Unilever as an outlet for its egg yolk, and that Unilever could not get access to the Shanghai market for ice cream as long as it was dominated by Henningsen. Geddes was still buying margarine from Unilever, but without formal agreement. Each purchase was made on an individual basis. In spite of these connections, the three firms continued to compete. A price fight in 1936 resulted in severe damage to the local butter trade, in which Chinese producers had been rising to the cost of overseas producers.[993] In 1937 Unilever tried reach a definite agreement concerning supplies to Geddes, in order to be able to pressure Henningsen into a formal price fixing agreement, and possibly striking a deal to manufacture for them.[994] However, in 1940 the situation had not yet changed,[995] except for the fact that a new competitor appeared to have entered the stage: Swan Products Company, a Chinese-Russian firm.[996] In Hong Kong, which was not supplied by EP until 1940, there was no import duty. The main competitor in Hong Kong was the Dairy Farm Ice & Cold Storage Company, the only firm with cold storage facilities. Unilever's policy was to push small producers out of the market, rather than attacking Dairy Farm.[997] As shown in table IX, given its dominant position and the increase in demand, profits rose rapidly from 1934, with a slight drop in 1938 only.

Table IX. Trading results of EP and tonnage of margarine exported to Hongkong from European Unilever factories, 1933-1941

	Tonnage Shanghai	*Tonnage from Europe*	*Total sales*	*Net Profit EP (Y)*	*Net Profit EP (£)*
1933	89	98	187	-/- 17,022	-/- 1,033
1934	175	167	342	1,027	70
1935	198	185	383	6,560	489
1936	387	185	572	32,740	1,968
1937	420	348	768	73,101	4,379
1938	486	249	735	77,636	3,536
1939	1,141	248	1,389	419,298	9,239
1940	n.a	n.a.	n.a.	1,244,856	19,772
1941	n.a.	n.a.	n.a.	1,851,903	24,102

Source: Unilever UK SDC 25/5/1; Unilever Rotterdam DIR 18, 325.1.

[992] Visit report China 1936, Unilever UK, Overseas Committee, OSJ 6/1-16 visit reports 1912-1937.
[993] Visit report China 1937, ibid.
[994] Ibid.
[995] J.L. Heyworth, visit report China and Japan 1940, Unilever Rotterdam, DIR 18, 325.1.
[996] A memorandum on the margarine and edible fats industry of Shanghai 14 Oct. 1941, Unilever UK, SDC/25/8/3.
[997] J.L. Heyworth, visit report China and Japan 1940, Unilever Rotterdam, DIR 18, 325.1.

Apart from soap and margarine, Unilever also produced glycerine in China as a by-product of soap manufacture. In the late 1920s the CSC installed a refining plant for glycerine, from which it supplied tobacco companies.[998] In 1929 640 tons of refined glycerine were sold, 118 tons of which went to BAT. However, in 1930 BAT stopped using glycerine, and subsequently supplies to the egg yolk industry and the cosmetics industries assumed greater importance.[999] Later the pharmaceutical and toothpaste industries also became large customers. After 1930 the demand for glycerine gradually increased, Unilever being the largest supplier. Throughout the 1930s this demand generally remained great; in 1940 the company sold 920 tons. Only in 1937, possibly because of the initial economic disruptions caused by the war, the demand for glycerine was so low that the soap company's profits were severely affected. The profitability of the CSC appears to have depended heavily on developments in industries that used glycerine as a raw material.[1000]

Edible Products was created as a subsidiary of Unilever NV.[1001] Therefore any profits or losses made by Edible Products directly influenced the profits of Unilever as a whole—albeit it only to a very limited extent. At the end of 1939 investments in EP totalled about £9,000,[1002] while the dividend produced by this company in the 1933-1941 period was £19,920.[1003] Ownership of China Soap Company was a more complicated matter. This company had been established in 1923 by Lever Brothers, which fully owned it until 1934.[1004] In 1934 and 1935 many or most of its shares were sold to Unilever NV,[1005] and in 1937, as part of the transfer of non-Empire assets to its Dutch parent, the CSC became the full property of Unilever NV. Therefore, from 1930 to 1933 the dividends paid by the CSC—totalling £147,960—were of little importance to the profits made by either Unilever NV or Unilever Ltd. The total dividend for 1934 to 1941, when most or all of it did end up with Unilever

[998] Visit report China 1928, Unilever UK, Overseas Committee, OSJ 6/1-16, visit reports 1912-1937.

[999] Visit report China 1932, ibid.

[1000] In 1941 the market for glycerine in China became so small that the company had 900 tons in stock, of which it wanted shipped 700 tons to South Africa: Minutes 27 Jan. 1941, Unilever UK, Special Committee, minutes of the Special Committee meetings with the Overseas Committee 1941. However, by the summer it had become very difficult to obtain permission from local authorities to export glycerine from Shanghai: Minutes of the meeting of 5 Aug. 1941, Unilever UK, Special Committee, minutes of the Special Committee meetings with the Overseas Committee 1941.

[1001] Apart from six that were owned by the new company's board of directors, all shares were held by Van den Bergh's Fabrieken, a Dutch subsidiary of Unilever NV. There were 30,000 shares of Y10 each. The new company's book value was ƒ149,571: Minutes of the extraordinary general meeting of the United Margarine Company Ltd, Unilever UK, Microfilm 18/3, (152) United Margarine Company Ltd (Shanghai) 1933-1941. In 1933 the six directors who each held one share were M.B. Brown, A.E. Seddon, C.G.W. Robson, W. Harper, P.H. Cobb, and L.D. McNicoll: Minutes of the meeting of the directors of the United Margarine Company Ltd 16 Feb. 1933, ibid.

[1002] Unilever Rotterdam, DIR 18, 325.1 J.L. Heyworth: Visit to China and Japan 1940, 11.

[1003] The dividend was paid only in the year 1941: EPL profits etc. 1933-1948, Unilever UK, SDC 25/5/1.

[1004] Via a Dutch subsidiary, NV Lever's Zeep Maatschappij.

[1005] In fact they were sold to the Overseas Committee, which was a committee of the Unilever Board. The legal status of the Overseas Committee is not clear. The total share capital of the China Soap Company consisted of 800,000 shares of Y10 each. 238,000 were sold in 1934, and possibly another 442,000 in 1935: OSC legal dept to Lever's Zeep Mij NV 26 and 27 June 1934, Unilever Rotterdam, HIS 105, 1081 NV Lever's Zeep Mij: Correspondentie etc.

rather than the shareholders of Lever Brothers, was £501,060.[1006] At the end of 1939 investments made in the CSC amounted to about £230,778.[1007] While the subsidiaries in China were registered under British law, on various occasions Unilever did not hesitate to state that they were owned by a Dutch mother company. In September 1941 when the British China Association—which represented many British China firms in London—asked for certain information about Unilever's activities in China, Unilever complied, but not without pointing out that its business in China was the property of Unilever NV, in other words, that Unilever's Chinese subsidiaries were Dutch. A few days later, when asked by the China Association to contribute to a fund for the provision of a pension for its retiring secretary, Unilever refused.[1008]

The main local interest of Unilever in China was to develop a large and stable market share in both soap and margarine sales, and expand this as the Chinese market itself expanded. Achieving this was the task of two manufacturing and sales subsidiaries, the CSC for soap and EP for margarine and other food products. The soap market was larger than the margarine market, but EP grew fast and by the end of the 1930s it was developing new activities such as the production of ice-cream and sausages. In the soap trade, the more promising part of the market lay not in the treaty ports, which could be easily supplied with imported soap, but in the interior. Therefore, the CSC became the first foreign soap company to establish an up-country distribution network. Through its soap and margarine factories in Shanghai and its up-country agency and dealer relations for soap, Unilever's involvement in the Chinese economy was great enough to make it highly sensitive to local political risks.

Political Risks and Response

1930-1937

The political risks that threatened Unilever's interests in the years 1930-1937 were popular boycott movements, the Guomindang regime's tax and trademark policies, and Japan's domination of Manchuria.

Anti-Foreign Boycotts. Early in 1932, when hostilities broke out between Chinese and Japanese armed forces around Shanghai, Unilever heard rumours that an association called the Blood and Soul Society was planning a boycott against the company. The reason was that it purchased oils from Japanese firms. The company's Shanghai management took the threat very seriously, as it saw the anti-Japanese boycott as a weapon which could easily be exploited by Chinese competitors. Consequently Unilever decided not to buy hardened fish oil from Japan or hardened fat from the Japanese Oil Company at Dalian: '[…] our Diplomatic and Consular bodies are helpless in the matter and the only means of dealing with it is as [we] are doing tactfully through influential Chinese'. Also negotiations with a Japanese cotton company about the sale of Unilever's unused land in Shanghai were deferred until

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[1006] Dividend was paid only in the years 1930, 1932, 1933, 1934, and 1941: CSC profits etc. 1925-1948, Unilever UK, SDC 25/5/1.

[1007] Unilever Rotterdam, DIR 18, 325.1 J.L. Heyworth: Visit to China and Japan 1940, 11.

[1008] Minutes of the meetings of 2 and 16 Sept. 1941, Unilever UK, Special Committee, minutes of the Special Committee meetings with the Overseas Committee 1941.

the outcome of the Sino-Japanese conflict had become clear. [1009] Meanwhile, the company benefited from the fact that the imports of Japanese toilet soap were restricted.[1010]

Unilever's management was well aware of the danger of anti-foreign feelings among the Chinese population. In 1934 Tatlow reported to the Overseas Committee:

> 'We, in the China Soap Company, have during the past four years steadily followed a policy of getting on with our job of selling soap without the publicity which has marked the activities of such large Companies as the BAT, the ICI and the APC, thereby attracting attention of those who felt themselves responsible for some action on behalf of propaganda of Anti-Foreign feeling, and so whilst in certain areas and at certain times, we have felt its influence, it is not more so now than it has been for years and can be quietly dealt with by tact and patience.'[1011]

Shortly hereafter Hansard, Tatlow's successor, began to think about ways to obtain political protection from the Chinese government against the anti-foreign aspects of nationalism. He suggested, for instance, that the donation of carbolic soap to 'cleaned-up' areas in Jiangxi—i.e., parts of the communist Jiangxi Soviet that were taken by the Guomindang army—would be an effective means of ingratiating Unilever with the Chinese government.[1012] Not only were good relations with the government a way to obtain protection from popular anti-foreign movements, but by the mid-1930s it was becoming clear that the Guomindang government was increasingly capable of exerting influence on foreign companies via tax and trademark laws.

Taxation under the Guomindang Government. One of the great challenges awaiting the Guomindang when it seized power in 1928 was to prove its ability to impose taxation on foreigners. As foreign corporations, Unilever's subsidiaries, the CSC and Edible Products, enjoyed extraterritorial status and could not be taxed directly by the Chinese government. Although direct taxation was beyond its reach, indirect taxation was possible through import and export duties on goods levied by the Chinese Maritime Customs service at the treaty ports. In 1929 the foreign powers restored China's tariff autonomy, in return for the abolition of the *lijin* and other domestic trade duties. One important exception was made for goods transported by steamship from one treaty port to another, on which an export duty was payable at the moment they left port. To some degree the central government's growing strength in fiscal matters threatened Unilever. During the 1920s the government had been too weak to protect Chinese enterprises by the imposition of tax regulations; local trade barriers were numerous and unpredicatble, but at least they applied to all traders alike. But now the economic policy of the government—one that propagated a nationalist ideology—was gaining in relevance. In 1931 Unilever tested its ability to evade China's tax policy by refusing to pay this steamship duty.

[1009] Visit report China 1932, Unilever UK, Overseas Committee, OSJ 6/1-16 visit reports 1912-1937.

[1010] Minutes of the meeting of 24 March 1932, Unilever UK, Special Committee, minutes of the Special Committee meetings with the Overseas Executive/Overseas Committee 1932.

[1011] Visit report China 1934, Unilever UK, Overseas Committee, OSJ 6/1-16 visit reports 1912-1937.

[1012] Visit report China 1936, ibid.

Unilever shipped its soap from Shanghai to Lianyungang, which was not a treaty port and therefore the company did not need to pay export duty in Shanghai. In Lianyungang the soap was immediately reshipped to Qingdao, which was a treaty port. When the Qingdao Commissioner of Customs noticed what the company was doing, he demanded payment of the Shanghai export duty. Unilever refused this, and approached the British commercial counsellor in Shanghai. The company claimed that it was being discriminated against by the Chinese authorities, and hoped that the British government would put pressure on Nanjing to let the goods pass without taxation. Unilever told the commercial counsellor that Customs was applying a certain regulation called ‘privileged factory treatment’ in the case of Unilever soap, but that the same rule was not applied to Chinese soap traders. The privileged factory treatment was not a privilege at all, because it entailed having to pay export duty regardless of in what way and for which destination goods were transported from a treaty port. It was a remnant of the period when the government had introduced this rule to exempt industrial products from lijin in return for export duty.[1013] Formally this regulation still applied but, because it was outdated, it was not enforced by Customs. Still, the British government preferred that China formally removed the privileged factory treatment law, and Unilever hoped that its steamship problem would be considered as part of the same issue by the British government.

Unfortunately for Unilever, the British commercial counsellor did not agree with the way it presented the facts. He believed that Customs had judged correctly that the company was simply trying to evade tax, which had nothing to do with the privileged factory problem.[1014] Therefore he decided that no British official protest should be made. His view was confirmed in October of 1932, when he had a meeting with representatives of the British companies affected by the privileged factory treatment. Other companies involved, besides Unilever, were Royal Dutch/Shell, Caldbeck, McGregor & Co., the China Printing & Finishing Company, Jardine-Matheson, and Mackenzie & Co. When asked by the commercial counsellor if they were interested in the matter being taken up with the Chinese government, none of those present was in favour. All, including Unilever, wanted the situation to remain as it was.[1015] Regardless of whether the British government had actually been able to help Unilever if it had wanted to, the company now learned that the Foreign Office was not willing to oppose China’s right to exercise its autonomy in the field of trade duties. Because it saw no other strategy to resist the steamship duty, Unilever gave in and reverted to junks and trains to transport soap between treaty ports.[1016]

As it turned out, the Guomindang government was not immediately interested in using fiscal measures to limit foreign influence and protect Chinese business. The

[1013] The Chinese government had hoped to stimulate factories in Shanghai switching from making indigenous products to substituting imported products for the Chinese market. It was the latter kind of ‘foreign style goods’ that were targeted by the privileged factory treatment. When local transit duties were still being imposed, it had been an advantage that goods were only taxed by a single export duty and were exempt from local duties. But from 1 January 1931 all so-called ‘native goods’ could be moved by junk, rail or—if to a non-treaty port—steamer without payment of any duty, and the law lost its original effect.

[1014] Minute by the British Commercial Secretary A.H. George (Shanghai), PRO London, FO 371, 16238, F8928.

[1015] Minutes of the meeting of representatives of British firms (British Chamber of Commerce, Shanghai) 26 Oct. 1932 , ibid.

[1016] J. Hansard, visit report China, Japan, and Manchukuo 1939, Unilever Rotterdam, DIR 10, 182.1.

Maritime Customs' trade duties remained uniform for national and foreign merchants. By 1936 the company's attitude had changed, and its management even considered the question of voluntarily paying corporate tax. This was not required legally, but in a report to the Overseas Committee Hansard noted that the matter deserved attention as eventually the Guomindang government would begin to complain about it. In other words, rather than opposing the tax policy of the Chinese government, Unilever was beginning to think about actively co-operating with it in order to ensure a good relationship with Nanjing. However, he felt that the time was not yet ripe for such a policy—not so much because there was no legal basis on which China could force Unilever to pay corporate tax, but because the government was not yet strong enough to force Chinese firms to pay:

> 'We cannot afford to be too generous and pay the 2% Capital or Turnover tax which Chinese companies are liable to pay, as it is likely that most of them do not pay it, and certainly none of them pays it in full, but when and if the Central Government establish a system of taxation which is fairly administered, they will probably press for foreign companies to pay something for the privilege of trading and enjoying the protection of such a law and order as exists. At that time we should probably gain by leading the way and paying gracefully what must in equity be paid eventually.'[1017]

His last remark indicated that Hansard believed that, one way or another, foreign investors in China would lose their freedom from direct taxation and that having a good relationship with the Guomindang government was a desirable aim. Whereas in 1931 Unilever still had to be forced to pay steamer tax, by the mid-1930s the company was willing to comply with the tax policy of the Chinese government and even contemplated paying extra tax voluntarily.

Trademark Infringements under the Guomindang Government. Besides taxation, a second important instrument available to the Chinese government to exert influence on foreign direct investors was its trademark policy. For a company like Unilever, trademark laws were extremely important. Soap was easy to make, but establishing a popular brand name involved a great deal of time and effort. In the period 1933-1935 there were several instances when Unilever discovered that Chinese soap manufacturers had imitated the appearance of well-known Unilever brands such as 'Gossage', 'Lux', 'Lever', and 'Vinolia'. Despite protests, in each case the Trademark Bureau of the Chinese government refused to prohibit these imitations. On the contrary, the Bureau was extremely slow in even responding to Unilever's complaints. When the Bureau did reply, it rejected the complaint, for instance, because the brand name copied happened to be part of the Chinese firm's own name, or because it was used on a different type of soap.[1018] Once its claim was rejected,

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[1017] Visit report China 1936, Unilever UK, Overseas Committee, OSJ 6/1-16 visit reports 1912-1937.

[1018] Several cases were reported to the British Foreign Office. The China Ziang Mow Foreign Candle and Soap Factory (Suzhou) made 'China Ziang Mow Foreign Soap' which used the same Chinese characters as were used by Unilever for 'Gossage'. The Trademark Bureau judged that there was no rule against a product bearing the name of its manufacturer: British commercial counsellor (Shanghai) to British Minister A. Cadogan (Beijing) 25 April 1935, PRO London, FO 371, 19325, F6219; Chinese Ministry of Foreign Affairs (Nanjing) to the British Minister 24 May 1934 , PRO London, FO 371, 18088, F4281. Li Sheng Factory sold 'Lux Cold Cream', a name referring to Unilever's 'Lux Toilet Soap'. In late 1933 Li Sheng the company followed the tedious procedure of requesting for a re-examination, followed by appeals to the Minister of Industries and the Administrative Yuan. These were supported by the British Embassy, which sent memoranda to the Chinese government.[1019] In spite of these efforts, Unilever never managed to obtain Chinese protection official against trademark infringements. While it is unknown to which extent the Chinese government was actually able to punish Chinese trademark infringements had it wanted to do so, Unilever's troubled relationship with the Trademark Bureau certainly showed that there was no way an unwilling Chinese government could be forced to change its trademark policy. Hansard's suggested improved relations with the government through voluntary tax payments had a potential practical value, at least in the field of trademark protection.

Taxation under the Manchukuo Government. In 1932 the foreign policy of Japan threatened Unilever's interests, when it established Manchukuo. This puppet state introduced its own customs tariffs, which drove up the transport costs of the soap which Unilever produced in Shanghai. In anticipation of this Unilever had shipped a year's supply—some 60,000 cases—of soap into the area. The company pessimistically considered the Manchurian market lost from the moment these supplies would be exhausted. Erecting a soap factory in Manchuria was an option, but the idea was discarded because the situation was judged to be too chaotic.[1020] In the following years it turned out, however, that Unilever's business was not really seriously affected by the new import tariff.[1021] The company even found new outlets in Manchuria: through wholesale dealers, Unilever sold glycerine to the Japanese military which used it for anti-freeze purposes.[1022]

Factory registered with the Trademark Bureau the trademark 'Lux', as well as a coloured carton similar to Unilever's Lux Toilet Soap wrapper, and a soap box similar to Unilever's box: British commercial counsellor (Shanghai) to Cadogan (Beijing) 19 July 1934 , ibid. 18088, F5523. The Trademark Bureau concluded after an investigation lasting more than nine months that this was not a case of consumer deception, because the Chinese Lux was not a soap but a skin cream. Meanwhile Lux Cold Cream had spread to Hebei, Shanxi, Henan, Anhui, Zhejiang, Jiangsu, Fujian, and Guangdong: Unilever Shanghai to the British commercial counsellor (Shanghai) 15 June 1934 , ibid.; ibid. 18088, F6704. In 1935 a Chinese soap factory registered under the name of Lee Hwa, written in the same characters as used in the 'Lever' brand trademarks. According to Unilever China: 'It is difficult for us to refrain from calling the present situation absurd.' Unilever Shanghai to the British commercial counsellor (Shanghai) 22 March 1935 , ibid. 19325, F6219. Some months later the Trademark Bureau refused to register Unilever's 'Vinolia boracic & cold cream soap' carton, because looked similar to a carton registered in 1931 by Chung Chong Toilet Soap & Printing Factory. The Bureau was not impressed by the fact that the Vinolia carton was already in use in China 'since 1914 or thereabouts' in a different shape, and in the same shape since 1925: Unilever Shanghai to the British commercial counsellor (Shanghai) 10 July 1935 , ibid. 19325, F6422. Finally, Li Yih Kee Soap Factory (Suzhou) was imitating Unilever's Gossage brand trademarks: Chinese Ministry of Foreign Affairs (Nanjing) to the British ambassador (Nanjing) 20 Aug. 1935 (translation), ibid. 19325, F6253.

[1019] However, the Chinese Ministry of Foreign Affairs only passed the matter on to the Ministry of Industries, which would respond by stating that the appropriate Chinese court should solve the matter. Each procedure was a lengthy and protracted affair. Unilever also tried to use its influence in the British Chamber of Commerce in Shanghai to put pressure on the Trademark Bureau to amend its regulations. The Chamber of Commerce formed a sub-committee to study the matter: C.G.W. Robson (Unilever Shanghai) to the British Chamber of Commerce (Shanghai) 16 Feb. 1935, ibid. 19325, F3144. It is unknown whether this produced any results.

[1020] Visit report China 1932, Unilever UK, Overseas Committee, OSJ 6/1-16 visit reports 1912-1937.

[1021] J. Hansard, visit report China, Japan and Manchukuo 1939, Unilever Rotterdam, DIR 10, 182.1.

[1022] Visit report China 1934, Unilever UK, Overseas Committee, OSJ 6/1-16 visit reports 1912-1937.

1937-1941

The main political risks for Unilever in the late 1930s were caused by the fighting between Japan and China, by Japan's policy in North China, and by the imminent possibility of a war between Japan and the Western Allies.

Damage from the Sino-Japanese War. The company did not foresee the outbreak of the Sino-Japanese war: in April 1937 Hansard reported that he did not expect a Japanese military advance into the northern provinces. When the war suddenly erupted three months later, its immediate consequence was that Unilever's operations were severely hampered. The first serious effect of the war was that, although located in the International Settlement, its soap and margarine factories suffered damage. The site on which they lay happened to be in that part of the Settlement which had been assigned to Japan in the city's defence scheme. The intention of the defence scheme was to keep the frequently occurring civil wars in China out of the Settlement—by keeping out the military forces of all warring parties. However, in 1937 the result was exactly the opposite of what had been intended. Since Japanese forces were occupying this sector, Chinese army commanders regarded it as enemy territory. The British authorities were aware of the dangers for British persons and possessions in the Japanese sector, but could do nothing to protect them.[1023] Unilever tried to prevent the factory from being targeted by the Chinese by displaying British flags. To the disappointment of the company, its request to illuminate these flags during the night was rejected by the Japanese military authorities. The danger was increased by the fact that Japanese warships anchored in the part of the river right in front of the factory. Close to midnight on 18 September 1937, the Chinese air force did what Unilever China had been fearing it would do: it bombed the Japanese sector and the river, and hit Unilever's factories. While the damage to buildings and stock did not seriously affect production capacity, it did amount to £15,657.[1024]

To obtain compensation from the Chinese government for the damaged factory, Unilever had to hand in detailed evidence to the British government, including photographs and damage assessments by independent sources. After collecting similar claims from other British firms, the British government addressed the its Chinese counterpart and demanded compensation. The same procedure was applied for the Japanese government with regard to damage caused by Japanese forces. It was not possible for a British company to get compensation for war damage without the intervention of the British government. This was a problem, as Unilever was not satisfied with the approach of the British government, which handled only claims for physical damage. The company demanded also compensation for the loss of income resulting from a decrease in trade.[1025] After negotiations between Unilever's London headquarters and the British Foreign Office, the company dropped this demand, albeit under protest.[1026]

[1023] PRO London, FO 371, 21006, F5563.

[1024] Braidwood (Unilever Shanghai) to the British consul-general (Shanghai) 3 Aug. 1938, ibid. 22067, F13052.

[1025] C.L. Cole (Unilever Overseas Committee) to E. Clement Davies (Unilever Ltd) 6 Sept. 1938, ibid. 22064, F9652. This was only £662, but Unilever insisted that it was a matter of principle.

[1026] Unilever (London) to British Foreign Office 10 Dec. 1938, ibid. 22067, F13052 and 22067, F13221.

Even before the bombing had begun, the Japanese military had closed the factory to its Chinese labour force. In a memorandum about this, Hansard complained that the British government was refusing to take ‘a strong line against the Japanese’. In his view much more could be done to protect British interests in China.[1027] He claimed that the Japanese were deliberately trying to harm Unilever’s business, using military considerations as a pretext. By the time his complaint reached the British Foreign Office, the Japanese authorities had already given permission for the return of the Chinese workers.[1028]

Chinese workers packing Lux soap bars at the Toilet Soap Department of the China Soap Company factory, Shanghai, circa 1938 (reproduced by kind permission of Unilever Historical Archives)

Another case of unwanted interference from the Japanese army during the fighting occurred in Xinxiang, Henan province. In February of 1938 the Japanese army entered this city and took over the godown of a Chinese transport firm and sealed up the goods stored inside. In the godown there were 3228 cases of Sunlight soap and 150 cases of other soap, all of which were the property of Unilever China. When he found out about this, P.H. Cobb, the director of Unilever’s Tianjin branch office, went to the Japanese consul in Tianjin. The consul secured help from the Japanese military authorities in Beijing, who in turn introduced Cobb to the chief of staff at Xinxiang. By the time Cobb visited Xinxiang it was November. It then transpired that some Y10,000 worth of soap was missing, but the rest was returned to him. However, after Cobb had returned to Tianjin, the Japanese military in Xinxiang

[1027] The decline caused by the decreased availability of stocks. Ibid. 21009, F8835.
[1028] Clement Davies (Unilever London) to British Foreign Office 16 Nov. 1937, ibid. 21010, F9689.

suddenly made it known that the goods could not be transported by train, nor could they be sold to the regular buyers. Instead Unilever China was asked if they wished to sell part of the stock to the Japanese army—at a discount. Now the company turned to the British representatives in China, who requested the Japanese High Military Command to return the soap.[1029] Whether this had any effect is not known.

A more serious matter was that the war made deliveries into the interior impossible. Unilever was forced to abandon 40 per cent of its trading area,[1030] and responded by concentrating its selling efforts on the northern provinces and around Shanghai, which soon fell to the control of the Japanese military. Attempts were also made to build a new distribution network in the areas in West and Southwest China controlled by the Guomindang government. This proved very difficult, as all goods had to be transported from Shanghai to Chongqing via French Indochina and the *de facto* autonomous province of Yunnan. Although Unilever did manage to get its products there and the demand for soap in Chongqing was very large, sales in West China remained relatively unimportant. The Japanese-occupied areas were more important. In spite of transport limitations on the Yangzi, the company could still reach many places. Where direct deliveries were not possible, the soap was sold to dealers who came to Shanghai, Beijing, or Tianjin from where they took it into the interior. In 1939 Unilever managed to supply depots in Suiyuan, Datong, Zhangjiakou, Beijing, Dongshan, Tianjin, Shijiazhuang, Yuci, Jinan, Yantai, Qingdao, Xinxiang, Zhengzhou, Shanghai, Ningbo, Hangzhou, Suzhou, Zhenjiang, Nanjing, Wuhu, Hankou, Fuzhou, Xiamen, Shantou, Chongqing, Kaifeng, Changde, Wuxi, and Haimen.[1031] According to the Overseas Committee: '[…] we were able to distribute our soaps in a way one would hardly think possible in a country at war. […] ways and means of distribution to the interior were many and varied.'[1032] Unilever even succeeded in shipping goods to several Yangzi cities at a time when the river was supposed to be closed to commercial traffic. In 1941 the company was still able to supply Shanghai, Ningbo, Wenzhou, Hangzhou, Gulangyu, Quanzhou, Shantou, Fuzhou, Kunming, Guiyang, Chongqing, Hong Kong, Tianjin, and Qingdao.[1033] Partnerships for distribution with Japanese firms were avoided as much as possible: Unilever preferred paying high fees to Japanese shipping lines rather than losing control over its up-country depots. Only in the case of Hankou was the company forced to let Mitsui take care of distribution to local dealers. In Shanghai the soap division was in direct contact with over 5,000 shops and dealers.[1034] Although distribution costs were much higher than before 1937, soap sales rose, especially in North China. After Japan took control of the Chinese Maritime Customs, many import duties were lowered. This enabled Unilever China to use more imported palm oil from the Netherlands Indies instead of Chinese oils, which were more difficult to obtain.[1035]

[1029] British aide memoire for the Japanese Embassy (Beijing), ibid. 23480, F2505.
[1030] Memorandum NV (Continental and Overseas) Committee to Special Committee 13 Oct. 1938, Unilever UK, Special Committee, supporting documents to the Special Committee minutes 1931-1941, No. 3271.
[1031] J. Hansard, visit report China, Japan, and Manchukuo 1939, Unilever Rotterdam, DIR 10, 182.1.
[1032] Ibid.
[1033] Distribution of sales in 1941, Unilever UK, SDC 25/5/2.
[1034] A Memorandum on the Shanghai Soap Industry, Unilever UK, SDC 25/8/2.
[1035] J. Hansard, visit report China, Japan, and Manchukuo 1939, Unilever Rotterdam, DIR 10, 182.1.

Japanese Economic Policy in Occupied China. In many cases trade restrictions were overcome by Unilever. Still, as a result of the war, the demand for soap dropped in Central China but rose in North China where Japanese control seemed firmly entrenched. The Overseas Committee felt that the company should adapt to these changes: 'Since the commencement of the present hostilities in July 1937, our policy in China vis-à-vis both the Chinese and Japanese, politically, has been that of a neutral manufacturer carrying on legitimate business in China under extra-territorial rights'.[1036] But by now the Japanese position in China was so strong that it became necessary to establish closer relations with them. Hansard was sent to Asia; his main mission was to investigate the possibilities for establishing new soap factory in Tianjin. He had to obtain a guarantee that in North China the company would be not be subject to political discrimination, and that it would be possible to remit profits freely. Two smaller matters to be addressed related to renewed problems with Manchukuo's import tariff, and competition with other soap makers in Shanghai. During several months during late 1938 and early 1939, Hansard visited Japan, Manchuria, Tianjin, Shanghai, Hong Kong, and Chongqing.[1037] Roger Heyworth, the general manager of the CSC and EP, accompanied Hansard on his tour.

Establishing direct contacts with the Japanese authorities was a new challenge for Unilever. At first it was thought that a profit-sharing arrangement with Nissan, which was active in soap manufacture in Shanghai, would help Unilever to gain access to political and military influence. But during his stay in the Far East, Hansard came to the conclusion that Unilever was strong enough to deal with the Japanese authorities by itself. He talked to ministerial officials in Japan, and Japanese military and consular officials in Tianjin and Shanghai about the Tianjin factory.[1038] In his report to the Overseas Committee he showed to be very pleased about the Japanese reaction to his visits.

> 'The phrase I used in one of my letters to the Japanese Government, that 'it is our intention to develop our business in North China on lines which may be described as parallel to Japanese industry' struck a chord and [produced a] hiss of appreciation from every Japanese official who saw it. At the same time it commits us to nothing more than a statement that we are not following a deliberately anti-Japanese policy.'[1039]

Unilever proposed to invest some £150,000 in the new Tianjin plant. In a letter to the Japanese vice-minister of finance, Hansard stressed the fact that Unilever would buy as much Japanese fish oil and soya bean oil 'as is practicable', and that the projected

[1036] Memorandum NV (Continental and Overseas) Committee to Special Committee 13 Oct. 1938, Unilever UK, Special Committee, supporting documents to the Special Committee minutes 1931-1942, No. 3271.

[1037] Minutes of the meeting of 14 Oct. 1938, Unilever UK, Special Committee, minutes of the Special Committee meetings with the NV (Continental & Overseas) Committee 1938.

[1038] He instructed the management of the CSC and EP to use these contacts only in matters of major importance. For minor matters it would suffice to have a Japanese staff member. Since 'it would be foolish to antagonise the Japanese Government or competitors unduly', he proposed to buy raw materials from Manchukuo and Japan whenever 'reasonable possible': J. Hansard, visit report China, Japan, and Manchukuo 1939, Unilever Rotterdam, DIR 10, 182.1.

[1039] Ibid.

oil mill would produce exportable articles 'which are all capable of being sold in Europe and the USA and thus providing foreign currency'. He also asked for an arrangement to provide Unilever with enough foreign exchange as would be needed to operate the new factory: 'I believe that such assurances could be given to a company such as ours, and that such assurances would materially help in promoting the expansion of Industry in China in the best interests of the Economic Development of East Asia'.[1040] The Japanese government guaranteed that Unilever could continue and expand its business in Japanese-occupied China, while being allowed equal access to raw materials with any Japanese competitor. A definite guarantee from the Japanese authorities in North China on the amount of foreign exchange obtainable by the new factory was not included. Still, the assurances given went further than those given to any other foreign firm. While Hansard realised that Japan's policy remained an uncertain factor, he believed that Unilever was in a strong bargaining position.

There was a special reason why he believed this, and why he had been able to meet and impress so many Japanese officials:

> '[…] so long as we continue to buy the goods from Japan which we have bought for years there are three million sterling reasons why they should not hamper us in a business which can do nothing but good to the country in which it operates. With the careful avoidance of threats to boycott Japanese goods, and yet by bringing the amount of our purchases to the notice of Government officials and leading business and banking interests, we have secured the goodwill of the Japanese Government.'

Unilever was the largest single buyer of Japanese goods outside the Yen-block. The company had been spending between £3.4 and £3.5 million annually on Japanese goods over the past three years. In 1938 the company bought large quantities worth of soya beans and soya bean oil from Manchuria (£1 million), canned fish (£1 million), whale oil (£760,000), sundry merchandise for West Africa (£450,000) plus another £160,000 worth of other goods. These figures do not even include purchases by the German fat control—Unilever had important companies in Germany, which used oil from Japan or Manchuria. In all, Unilever's purchases amounted to three per cent of all Japanese exports to non-Yen countries.[1041] This was important at a time when Japan had a serious shortage of foreign currency.

The fact that Unilever provided Japan with much-needed foreign exchange did not fail to attract the attention of the British government. In January 1939, when Hansard was in Tokyo, he was asked by the British ambassador to reduce Unilever's purchases of Japanese goods.[1042] The British government hoped that putting extra pressure on Japan's foreign exchange shortage would help make diplomatic exertions concerning Japan's foreign policy more effective. In response to this request two members of the board of Unilever visited the Foreign Office in London. They explained that Unilever bought mainly whale oil and canned salmon from Japan, and that Japan would have no problem at all in finding new buyers for its whale oil. At

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[1040] Hansard (Tokyo) to Ryuta Ohno (Vice-Minister of Finance, Tokyo) 11 Feb. 1939, Unilever Rotterdam, DIR 10, 182.1 J. Hansard, visit report China, Japan, and Manchukuo 1939.
[1041] Hansard (Tokyo) to D'Arcy Cooper (London) 19 Jan. 1939, PRO London, FO 371, 23436.
[1042] Ibid.

the same time a refusal to buy Japanese goods would hurt Unilever's canned salmon business, which was important not only to the company but also to the British government: Unilever had 'certain commitments […] in respect to the storage of food'.[1043] The picture painted by the Unilever men about their relationship with Japan did not at all match their real views, which were far more optimistic. It is not clear to which extent the Foreign Office actually believed them. Even so, the remark about Unilever's role in Great Britain as a major food supplier may have hit a sensitive spot: in the case of a European war, Unilever's food supplies would be of strategic importance. The final result was that the two directors managed to convince the Foreign Office that Unilever was not in a position to put pressure on the Japanese government.

This did not satisfy the British ambassador in Tokyo, who had serious complaints. In February 1939 he wrote a letter to the Foreign Office in which he stressed the uniqueness of Unilever's trade relations with Japan. He said that the total amount of British imports from Japan and Manchukuo was only £10 million, while Unilever alone spent £3.5 million. 'In other words', he wrote, Unilever's subsidiaries 'are by far the largest single buyers of Japanese goods, and in one year furnish the yen block with sterling equal to about 12 per cent of Japan's present gold reserve. […] The fact that [Hansard] was so well received [by government and military officials in Tokyo] and the promptitude with which the undertakings were given are an index of the importance attached by the Japanese authorities to [Unilever's] purchases.'[1044] In spite his protestations, the company was not put under further pressure by the Foreign Office. Moreover, Unilever felt little inclination to follow closely the guidelines of the British government. In his report to the Overseas Committee, Hansard wrote:

> 'Our experience has shown that we can carry on business while the war goes on. We should remain 'neutral' and independent, with more emphasis on our International character than our British. In my opinion British policy will fall between two stools in China. We talk a lot in favour of China and give Chiang [Kai-shek] small credits. We help bolster up the exchange, which will benefit British, Japanese and Chinese business. But we do not, and cannot do, enough to make the Chinese win the war. Yet we do quite enough to infuriate the Japanese and ensure increasingly unfavourable treatment of British interests by the Japanese in their occupied territories. […]
>
> When, and if we decide to go ahead with the Tientsin [Tianjin] factory and go along (metaphorically) with a cheque for £150,000 in our pocket, we shall get the permits and assurances we need. We are in an exceptionally favourable position to adopt a forward policy in China. A large potential market, as good relations as it is possible to obtain with both Chinese and Japanese Governments, and a hold over the latter with our purchases which we never had before because the facts had not been presented to them in a concise form.'[1045]

[1043] Record of an interview between Mr Howe, and Mr Greenhalgh and Mr Heyworth, ibid. 23436, F634.
[1044] British Ambassador Craigie (Tokyo) to British Foreign Office 15 Feb. 1939, ibid. 23437, F2524.
[1045] J. Hansard, visit report China, Japan, and Manchukuo 1939, Unilever Rotterdam, DIR 10, 182.1.

Unilever had a strong bargaining position, and the company was not letting itself be used by the British government as a political tool. Despite all this, the political obstacles to doing business in occupied China proved very high, even for Unilever. The Special Committee did not consider the assurances obtained by Hansard sufficient, especially as it was aware that Japanese military authorities in North China did not always follow the policy defined in Tokyo. Before the Tianjin project could start a firmer guarantee concerning the remittance of profits made in North China was needed. Furthermore, the agreement reached with the Manchukuo government was based on the assumption that Unilever would spend £1 million annually on Manchukuo goods. Now it turned out that its purchases in Manchukuo were decreasing considerably, and that they would certainly not reach £1 million in 1939.[1046]

Although matters surrounding the Tianjin factory were not yet resolved, Hansard travelled to Manchuria to address some problems which had recently cropped up in this market. The Manchukuo government had imposed an import and export control. Certain products, such as soap, were not allowed to be imported, unless they were Japanese. The Manchurian soap market consisted of 12,000-15,000 tons per year, most of which was imported. As early as the summer of 1938 Unilever had taken the initiative for the formation of a committee comprised of the main British firms trading with Manchuria. Unilever hoped that this committee could put pressure on the Manchukuo government. As Heyworth pointed out to the British commercial counsellor: 'if it is found that the decline in trade is due to political causes, we submit that the possible application of retaliatory measures should not be left out of consideration.'[1047] Unilever was worried about a Japanese company's plan to build a soap factory in Manchukuo. Hansard held talks with Manchukuo government officials, with whom he reached an unbinding agreement. The authorities would give Unilever import and exchange permits for a certain percentage of the amount to which Unilever bought Manchurian goods. For its import and export activities, the company would be able largely to use its own channels.[1048] Again the fact that Unilever was an important supplier of foreign exchange enabled Hansard to bargain with the government.

When he arrived in Shanghai, yet another problem demanded Hansard's attention. He had to find a solution to difficulties with Nissan and the IDC on the local soap market. Before the war, Unilever had been considering taking over its main Shanghai rival the IDC. When the war broke out, the IDC had to stop its operations and approached Unilever with more favourable terms if the latter could take over its property immediately, 'but [Unilever's management] decided that an agreement made under such circumstances might be misconstrued by the Japanese authorities, and therefore postponed further negotiations'.[1049] The IDC's factory, which lay outside the International Settlement, was consequently captured by he

[1046] Minutes of the meeting of 15 March 1939, Unilever UK, Special Committee, minutes of the Special Committee meetings with the NV (Continental & Overseas) Committee 1939.

[1047] Memorandum R.H. Heyworth (Unilever Shanghai) to the British commercial counsellor (Shanghai) 15 Aug. 1938 , PRO London, FO 371, 22143 .

[1048] Hansard (Shanghai) to Greenhalgh (Unilever London) 23 Feb. 1939, Unilever UK, Special Committee, supporting documents to the Special Committee minutes 1931-1942, No. 3489.

[1049] Hansard (Tokyo) to S. Matsushima (Ministry of Foreign Affairs, Tokyo) 1 Feb. 1939, Unilever Rotterdam, DIR 10, 182.1 J. Hansard, visit report China, Japan, and Manchukuo 1939.

Japanese military, after which Nissan was permitted to use it for its own soap production.[1050] However, in contrast to many smaller Chinese soap producers, the IDC was not put out of business by the war. In early 1938 it recommenced production in a new factory inside the International Settlement, where it was safe from the Japanese military. Unilever feared that its own soap would no longer sell in the International Settlement and the French Concession. Another worry which plagued the company was that Nissan's plans to use the IDC's old factory jeopardised its future position in the lower Yangzi provinces, especially if Nissan were backed up by the Japanese military. The Overseas Committee's plan was to try and have the Japanese return the factory to the IDC. In return, Unilever would acquire control of the IDC's trademarks and assets through a manufacturing and royalty agreement. The Japanese should give a promise to stay out of soap manufacture in China, for which they would obtain a percentage of profits.[1051] In October 1938 Nissan was informed about this, and also about Unilever's plans to build a new factory in Tianjin. If Nissan co-operated it would also be given a share in the profits of the new factory.[1052]

The worries about Nissan were somewhat assuaged because when Hansard was in Shanghai he noticed that relations between Japanese businessmen and the Japanese authorities were not very close knit. He also thought that Nissan's demands for co-operation were unreasonable. In Hansard's view the CSC and EP could stay fully independent and avoid Japanese shareholders, directors, or profit-sharing partners. When Nissan proposed co-operation in January of 1939, Hansard answered that this was impossible, as the Nissan factory was not its property. Besides, he added, the Japanese government had not given any assurances about fair treatment to Unilever, and the population in the interior of China would boycott Unilever's business as soon as the public became aware of its alliance with Nissan.[1053] Hansard was optimistic about continuing in China without Japanese involvement in the company: 'In my opinion we are in a stronger position to develop today, and more justified in risking further capital expenditure in China [than in the previous years].'

The IDC could sell its Koopun soap only in the International Settlement (and the French Concession), while Nissan made use of the Koopun trademark to sell its soap in occupied China. Chinese Koopun soap was the best selling line in the International Settlement, some 150,000 cases being sold in 1939.[1054] Unilever used the same strategy to counter the IDC as it had used in 1936 and 1937: it depended on a good quality and low price fighting line. As before, this strategy protected Unilever from being pushed out of the market. Outside the Settlement, in October 1938 Nissan had begun making the Japanese version of Koopun, but it turned out to be unpopular with the Chinese population. Unilever continued to negotiate with both parties. When he

[1050] When the war broke out IDC had leased its factory to a US firm to make sure the retreating Chinese army would not destroy it. The Japanese army refused to recognise the lease. Mitsubishi, too, was given the right to make use of the factory: ibid.

[1051] Memorandum NV (Continental and Overseas) Committee to Special Committee 13 Oct. 1938, Unilever UK, Special Committee, supporting documents to the Special Committee minutes 1931-1941, No. 3271.

[1052] Minutes of the meeting of 14 Oct. 1938, Unilever UK, Special Committee, minutes of the Special Committee meetings with the NV (Continental and Overseas) Committee 1938.

[1053] Hansard (Tokyo) to D'Arcy Cooper (London) 19 Jan. 1939, PRO London, FO 371, 23436, F634.

[1054] J.L. Heyworth, visit report China and Japan 1940, Unilever Rotterdam, DIR 18, 325.1, 26-38.

was in Japan, Hansard had discussed the situation in Shanghai with the Ministry of Foreign Affairs. In a letter to the director of the commercial affairs bureau of this ministry, Hansard complained about the Japanese seizure of the factory of the International Dispensary Company. He asked for the return of the factory to the IDC, which would 'pave the way for an understanding between ourselves and leading Japanese interests for the co-ordination of the Soap and Vegetable oil industry of East Asia'.[1055]

When Hansard was informed that the factory would not be returned by Nissan, he addressed the Japanese Consul General in Shanghai. His aim was to get Nissan to stop using the Koopun trademark. This would enable Unilever to acquire control over the IDC's manufacture and sales of Koopun soap. To compensate Nissan, Unilever would make sure that the IDC Koopun would not be sold at a price undercutting that of Nissan soap. To increase the pressure on Nissan, Hansard visited the Japanese military officer in charge of economic matters in Shanghai. There he showed a letter by Nissan to all soap dealers outside the International Settlement. The letter stated that the Japanese military department prohibited the sale or transport of any soap other than Nissan Koopun soap. This, he hoped, would cast Nissan in an unfavourable light, since the statement concerning the Japanese military was not true. At the same time, Hansard wanted to talk the IDC into letting Unilever produce Koopun for a five year period. He made his proposal very attractive to the IDC financially, expecting that it would be very difficult and expensive for the IDC to start manufacturing again after having stopped for five years. Hansard was not pleased when he found out that the IDC had sent a letter to Nissan which declared that in principle it was willing to co-operate with the Japanese. He failed to reach an agreement with Nissan and the IDC during his stay in Shanghai, but after he left Heyworth continued the negotiations.

To complete his tour of the Far East, Hansard also went to Chongqing, the war capital of the Chinese government. There he met Finance Minister Kong Xiangxi (H.H. Kong) and Minister of Economic Affairs C.Y. Wang. He told Kong that although Nissan had approached Unilever for co-operation, 'their proposals were so unreasonable that we were happy to remain as in the past, completely independent. I also told him of my efforts to help International [Dispensary Company] in the matter of their trademark.' Hansard believed that there would not be much fighting in the future, and that the Chinese government would stay in Chongqing and develop the Western and Southwestern provinces–Yunnan, Sichuan, Guizhou, Guangxi, and part of Guangdong–it still controlled. He figured that these provinces would constitute a fast-growing market for soap, and proposed to invest £5,000 or £10,000 in building a small factory in Sichuan. The Chinese government was now prepared to welcome such an enterprise.[1056]

Later, back in Britain, Hansard wrote a memorandum entitled 'Some Notes on the Present "Hostilities" in the Far East'. A copy of this memorandum was presented to the British Foreign Office. In it Hansard accused the British people and government of lacking a realistic view of the Far East. He stated that all large foreign companies in China had done well in 1938, and that Japan interfered only in one aspect of

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[1055] Hansard (Unilever, Tokyo) to S. Matsushima (ministry of foreign affairs, Tokyo) 1 Feb. 1939, Unilever Rotterdam, DIR 10, 182.1 J. Hansard, visit report China, Japan, and Manchukuo 1939.

[1056] Ibid.

foreign trade, namely shipping on the Yangzi. Referring to the attitude of the British government he concluded: 'It seems to me a pity that [British] policy in China has not been that of neutrality between China and Japan, and with greater emphasis on the real British interests of invested capital in China.' His idea was that Britain's real interests in China were the interests of British businesses in China, and that an anti-Japanese policy was useless and harmful to British interests. The Foreign Office did not quite share his point of view: 'Mr Hansard evidently belongs to the school of thought that favours wholehearted co-operation with the Japanese in their exploitation of China'. Furthermore, Unilever 'affords more positive support to the finances of Japan that any other private firm in this country, perhaps in the world […] The firm therefore have every interest in seeing that the Japanese propaganda predictions of what Japan will achieve in China come true.' Not only did the Foreign Office dislike the idea of letting Japan pursue its foreign policy unopposed, but it was convinced that Japan would not spare the interests of the smaller British firms in China.[1057]

After Hansard's return, the company continued its efforts to acquire sufficient guarantees for the safety of its proposed factory in Tianjin. On the evening of 31 May 1939, officials from the Foreign Office and the Board Of Trade dined with Hansard and Clement Davies, who was a member of the Unilever boards of directors. At this dinner Hansard requested an official letter from the Foreign Office which stated that the British government did not object the building a new soap factory in Tianjin. He said that he wanted to show such letter to the Japanese as proof 'that British policy was not blindly anti-Japanese'. One of the government officials then asked whether the new factory would not benefit Japan by generating much needed foreign exchange. Hansard denied this. Still, the Foreign Office felt very uncomfortable about the idea. Later one official commented: 'Profoundly suspicious of this letter. It would be great for the Japanese. Why would Unilever need such a letter to make a decision about the factory? […] I deduce that Unilever want to do something which they know to the contrary of our policy and they want to cover themselves in case of publicity (cf. sale of ships to Germany)'.[1058] The Japanese, on the other hand, would be delighted to be able to publish the fact that we had set the seal of approval on a scheme of the sort contemplated by Unilever'. Yet it was also thought to be impossible to discourage Unilever from carrying out its business. The Foreign Office postponed the matter until Unilever no longer required the letter.[1059]

The day after the dinner, Clement Davies sent a letter to the British Permanent Undersecretary of State, A. Cadogan. The letter explained the company's problem regarding foreign currency in North China, and pointed out that Unilever's business in China was beneficial to Britain: it supplied the British economy with orders for machinery and miscellaneous other goods, Unilever's Chinese profits would be brought to Britain, and the purchases of soya beans, whale oil, and canned salmon provided food for he British people.[1060] Again, Unilever did not specify what it

[1057] Memorandum by J. Hansard, PRO London, FO 371, 23441, F4407.
[1058] In Germany Unilever had invested its non-remittable profits in ships. Apparently these ships were then sold to the German government.
[1059] Minute by Mr Howe, ibid. 23408, F5287.
[1060] E. Clement Davies (Unilever London) to Under Secretary of State A. Cadogan (London) 1 June 1939, ibid.

wanted from the British government. Possibly the company was thinking about a way to distance itself from British official policy, but without creating a conflict with the Foreign Office.

In June 1939 the situation in North China deteriorated, as the Japan-controlled Beijing Provisional Government imposed new export control rules in North China. This meant that all foreign exchange earned with exports by Unilever from North China were to handed over to the Federal Reserve Bank (FRB) in Beijing. The FRB permitted the use of this foreign exchange only for the import of certain commodities, which did not include Unilever products. The company turned to the free exchange market in Tianjin to change the profits of sales in North China into pounds. This resulted in an increase in costs for Unilever, as the foreign exchange obtained in Tianjin was relatively expensive, but it kept the company in business. Heyworth wanted a return to the old situation, in which Unilever China used a large portion of proceeds in North China to buy raw materials for the factory in Shanghai. In July he began negotiations with the FRB. In a letter he stressed how useful his company had been to Japan by exporting raw materials from North China and by purchasing Japanese goods.[1061] In October Cobb, from the Tianjin branch office, went to Beijing to visit the FRB. When he was informed that there was no foreign exchange available for Unilever, Cobb launched a strong objection. He said that the Japanese authorities were making Unilever's trade in North China impossible, whereas ' [Unilever] always had been perfectly willing to co-operate with the Government in control'.[1062] Some weeks later Heyworth sent another letter to the FRB, which stated even more explicitly than the previous one how beneficial Unilever's activities were to the Japanese Empire and for the population of North China.[1063] His aim was to convince the North China government to put soap on the list of preferred commodities. When the FRB refused to give Unilever more favourable treatment, Heyworth approached the British Embassy to complain.[1064]

By this time the war in Europe had begun. The Special Committee believed that further negotiations between the CSC and the North China government were pointless. Instead, James Lawrence Heyworth, member of the boards of Unilever, was sent to Tokyo. Accompanied by his brother Roger Heyworth of the CSC and EP, he visited Japan in January 1940. J.L. Heyworth was convinced that the FRB could not give Unilever sufficient foreign exchange since it did not have any. His plan was to make an arrangement with the Japanese Finance Ministry on the foreign exchange supplied by Unilever through its purchases in Japan.[1065] The two brothers went to the British Embassy before seeing any Japanese officials. There they were told that the British government could act only in case of specific cases of discrimination, but that there would be no problem if Unilever were to try to exploit its special bargaining position to the full. According to J.L. Heyworth, Sir Robert Craigie, the British ambassador to Japan, was very much 'in sympathy with [Unilever's] schemes'. He believed this to be important: '[…] I would be much averse, in present world

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[1061] R. Heyworth (Unilever Shanghai) to Kiitsi Sakatami (Federal Reserve Bank, Beijing) 24 July 1939, ibid. 23491, F13060 .

[1062] Memorandum P.H. Cobb (Unilever Tianjin) to R. Heyworth (Unilever Shanghai) 11 Oct. 1939, ibid.

[1063] R. Heyworth (Unilever Shanghai) to Kiitsi Sakatani (FRB, Beijing) 25 Oct. 1939 , ibid.

[1064] R. Heyworth (Unilever Shanghai) to the British Embassy (Chongqing), 2 Nov. 1939, ibid.

[1065] J.L. Heyworth, visit report China and Japan 1940, Unilever Rotterdam, DIR 18, 325.1.

conditions, to taking up an independent line and going on with any scheme which did not have the full support of our Government'.[1066] He was unaware that Ambassador Craigie had complained bitterly to the Foreign Office about Unilever's refusal to boycott Japan in 1939.

Next the delegation contacted the secretary of the Japan-British Trade Council, Mr Toda. He was also an official of the Japanese Economic Federation, which in turn was associated with the Japanese section of the International Chamber of Commerce. Mr Toda was an influential person who had no difficulty in establishing the contact between Unilever and the Japanese Ministries of Foreign Affairs and Finance, and the China Affairs Board. In his efforts to get in touch with Japanese officials, J.L. Heyworth also made use of a letter of introduction given him by the Japanese Embassy in London. During the negotiations he proposed that the money earned by Unilever in North China be transferred to Japan as payment for canned fish and whale oil. Although no agreement was reached during the Heyworth brothers' visit to Japan, they picked up signals that the Japanese government was willing to reach a settlement. Were Japan to allow Unilever to use 50 per cent of the North China proceeds for purchases in Japan, and it seemed likely to do so, this would give the company the opportunity to earn enough money to be able to write off the cost of the new factory within two years and three months after its completion. By this time the costs for the factory with a capacity of 8,000 tons, plus an oil mill and a hydrogenation plant, were estimated to be £202,000. In addition £25,000 would be required to buy the necessary plot of land in Tianjin from the current owner, the Peking Syndicate.

From his visit report, it is clear that J.L. Heyworth was fully aware what Unilever could do to help Japan. He wrote that the ability of Japan to export had suffered a severe blow. As a result, the country had a serious shortage of foreign exchange, which it needed to import steel and machinery. Heyworth thought that Japan's economic problems were so great that eventually the government would have to accept Unilever's proposals. While the company's sterling payments for Japanese goods were badly needed by Japan, a new factory in Tianjin which would produce exportable vegetable oil would also be an important means to obtain foreign currency. Although the British government did nothing to oppose Unilever's plans, these certainly did not fit in the official British policy of increasing pressure on Japan.[1067] When he left China in February 1940, J.L. Heyworth expected the politically unsettled conditions in China to continue for two or more years. He recommended accepting lower sterling or guilder profits if the exchange were to remain heavily depreciated, for the sake of the company's goodwill. But Unilever was also well-prepared to take full advantage of the difficulties of the small Chinese producers and importers, as well as the Japanese need for foreign currency:

[1066] Ibid.

[1067] Apart from the political risks of the late 1930s, the company also had to worry about labour troubles. After the Heyworths left Japan they had to deal with this problem in Shanghai. In December 1939 there had already been disturbances in Unilever's factory. To counter them it had been decided to increase the rice allowance of the workers. Since the price of rice was rising rapidly, J.L. Heyworth decided to adopt a new rice allowance scale for the workers and office staff which was more acceptable to them. He considered this change to be enough for the time being to defuse labour agitation. He thought that Unilever's wage system was better than those of most employers, but he also admitted that wages were very low: 'This, though perhaps good for Shanghai, is still not much to be proud of.' Ibid.

> 'The great thing is to keep in the game. The China market is potentially one of the world's largest and when peaceful conditions are restored we should be well rewarded for patience and enterprise.'[1068]

Roger Heyworth continued the negotiations from Shanghai. Anxious to strengthen its position even further, the Special Committee instructed Unilever's largest subsidiary, the United Africa Company, to study the possibility of buying more canned fruit from Japan.[1069] But in 1940 management in Shanghai informed the Overseas Committee that the condition was serious: not only had the foreign exchange guarantee needed for the Tianjin factory still not been obtained, now the danger that Unilever would disappear from the North China market had become acute. Roger Heyworth believed that under such circumstances, assistance from the British government was the only hope of saving the trade in North China. He approached Sir George Sansom, who had been sent to Japan on a mission by the Foreign Office. Heyworth told him that the products of Unilever China should be regarded as British goods, hoping that Sansom would be able to put pressure on the Japanese government to use the balance of trade surplus of sterling to buy more British goods.[1070]

War with Japan. The situation deteriorated further and in the summer of 1940 the main political risk was no longer that the North Chinese market would disappear, but the Japanese-Western war would break out. By now Unilever was no longer able to sell soap in North China or anywhere else in the interior. The land in Tianjin which Unilever had been wanting to buy for £25,000 was purchased by a Japanese firm for £37,000.[1071] To prepare for a conflict between Japan and Great Britain, the Special Committee decided to hypothecate shares in EP and the CSC to the Chase National Bank, based in the US, in order to be able to borrow money, even though the loan would have to be repaid in New York.[1072] Any two members of the board in Shanghai were authorised to borrow as much money from the Chase National Bank as might be required for Unilever China.[1073]

On 16 October 1940 the Foreign Office asked the ten largest British firms that operated in China, including Unilever and Royal Dutch/Shell, whether they wanted to evacuate their staff from the Far East.[1074] The companies replied that they intended to wait until their British employees themselves asked to be evacuated. Unilever continued to do as much business as was still possible in China but, by late 1940, the company's political environment, as far as Japan was concerned, could no longer be

[1068] Ibid.
[1069] Minutes of the meeting of 8 May 1940, Unilever UK, Special Committee, minutes of the Special Committee meetings with the Overseas Committee 1940.
[1070] R. Heyworth (Unilever Shanghai) to Overseas Committee 31 Aug. 1940, Unilever UK, Special Committee, supporting documents to the Special Committee minutes 1931-1942, No. 4234.
[1071] Minutes of the meeting of 18 Nov. 1940, Unilever UK, Special Committee, minutes of the Special Committee meetings with the Overseas Committee 1940.
[1072] Minutes of the meeting of 29 July 1940, ibid.
[1073] Minutes of the extraordinary meeting of the China Soap Company 2 Aug. 1940, Unilever UK, Microfilm 18/3, (146) the China Soap Company Ltd 1923-1937.
[1074] The others were ICI, BAT, the HSBC, the Chartered Bank, the Peking Syndicate, Jardine, Swire, and Dunlop: PRO London, FO 369, 2554, K10577.

influenced. In 1941 there were no more high-level negotiations with the Japanese authorities. In August the Special Committee decided to prepare for war with Japan. W.G. Braidwood, the new general manager of the CSC and EP, was permitted 'to deal with the question of withdrawal of Europeans and any subjects not involving ownership of either company'. At the same time in case of an emergency he was given instructions to appoint, some Chinese administrators as attorneys of China Soap Company and Edible Products. Their function would be to carry on the businesses 'as going commercial concerns'. To enable them to do so, they would be granted powers to deal with the good will or undertakings of the respective companies of their fixed assets.[1075] In September the families of the European staff in China were evacuated.[1076]

In 1940 it became very difficult for Unilever to obtain enough raw materials into Shanghai to continue production. In July the Overseas Committee decided to close the factory for several months, beginning in September.[1077] Meanwhile the soap division managed to achieve record profits in 1939 and 1941. By this time the soap division of Unilever China was also selling imported toilet preparations and was considering undertaking their manufacture. In 1940 preparations were made for a silicate of glass plant, which was to cost Y762,000.[1078] In the autumn of 1941, Unilever—still in business in the Shanghai area and along the coast—was threatened by a shortage of raw materials for its factories. When the Netherlands Indies government prohibited all exports to Shanghai, Unilever approached the British and Dutch consular officials in Shanghai. These arranged for palm oil and copra to be permitted to be shipped to Unilever China. But there was yet another problem, caused by the Chinese government.

The Stabilisation Board of the Guomindang government, operating from Hong Kong, had limited the use of foreign currency for imports into the Shanghai International Settlement. Foreign exchange was available to certain goods only, not including the raw materials Unilever needed for soap and margarine manufacture. On 14 October 1941, Braidwood sent two memoranda to the Stabilisation Board. The first was on behalf of the CSC, the IDC, and the China Chemical Works. Braidwood claimed they represented 90 per cent of the Shanghai soap industry, and, while calling the manufacture of soap a health service, he mentioned that much soap went from Shanghai to 'Free China'. The second memorandum was on behalf of EP, Henningsen, Geddes, and Swan Products Company. In it Braidwood stated that they represented 90 per cent of the margarine trade and almost 100 per cent of the edible fat trade in Shanghai. He argued that their exports to Hong Kong and Indo-China produced foreign exchange for China.[1079] On 11 November the Chinese Stabilisation Board informed Braidwood that enough exchange would be granted to the soap and margarine companies in Shanghai to produce the average of their sales in 1939-

[1075] Minutes of the meeting of 14 Aug. 1941, Unilever UK, Special Committee, minutes of the Special Committee meetings with the Overseas Committee 1941.
[1076] Minutes of the meeting of 23 Sept. 1941, ibid.
[1077] Minutes of the meeting of 29 July 1940, ibid. 1940.
[1078] J.L. Heyworth, visit report China and Japan 1940, Unilever Rotterdam, DIR 18, 325.1.
[1079] A memorandum on the Shanghai soap industry, and a memorandum on the margarine and edible fats industry of Shanghai, Unilever UK, SDC 25/8/3.

1941.[1080] Unilever was still in business and was still capable of overcoming such minor obstacles, but tensions between Japan and the West were mounting. On 17 November the board of China Soap Company appointed a management advisory committee, consisting of five Chinese, to prepare for a Japanese take-over of Shanghai.[1081] Eight days later they were also appointed attorneys of the company. These emergency measures turned out to be in vain. On 8 December Japanese forces occupied the Shanghai International Settlement. The European staff of Unilever were interned and the Japanese took control of the company's factories.[1082]

Conclusion

Unilever's main local interest in China was to occupy as large as possible a share of the markets for soap and for margarine, and to hold on to both these positions while the Chinese economy developed during the coming decades. While the company made good progress in the foods business and managed to create a basis for itself in the Chinese food industry, during the 1930s Unilever's main area was in the soap sector. Both margarine and soap were produced and sold in the treaty ports, but only soap was marketed by Unilever in the interior of China. The company developed an up-country distribution network based on an agency system along the lines developed by pioneering companies like Royal Dutch/Shell. Consequently it was mainly the soap business that was responsible for Unilever's involvement in the Chinese economy and that was threatened by political risks.

Unilever was created in 1930; its Dutch predecessors had not engaged in direct investment in China. During 1930-1937, the main political risks related to Chinese nationalism: anti-foreign boycotts and the tax and trademark policy of the Guomindang government. However, because of Japan's invasion in Manchuria, Japanese imperialism also presented a threat in this period. During 1937-1941, it was only Japanese imperialism which caused major political risks. These were mainly the obstruction of commercial activities because of the fighting between Japanese and Chinese forces, the imposition of trade restrictions in occupied North China, and the deteriorating relationship of Great Britain and the Netherlands with Japan.

Initially the Anglo-Dutch company addressed risks caused by the rise of nationalism in China by relying on its own strength and the help of the British government. Moreover, its management believed that China Soap Company's profile was inconspicuous enough not to draw attention from anti-foreign activists. During Chinese-Japanese fighting in 1932, Unilever refrained from buying Japanese raw

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[1080] In the case of the margarine firms, the Board mentioned only that Edible Products and Henningsen were granted exchange to import raw materials. General Secretary of the Chinese Stabilisation Board Chao-ting Chi (Hong Kong) to W.G. Braidwood (Unilever Shanghai) 11 Nov. 1941 (two letters), Unilever UK, SDC 25/8/2.

[1081] According to Unilever's archives their names were: 'W.C. Tsih (chairman), S.Y. Doe, T.W. Koo. M.Y. Wong, and Z.L. Li'. Minutes of the meeting of China Soap Company directors of 17 Nov. 1941, Unilever UK, Microfilm 18/3, (146) China Soap Company Ltd. 1923-1937. A similar construction was probably used for Edible Products.

[1082] For the next three years, Unilever was not active in East Asia. After Japan was defeated the company returned to Shanghai. For a brief period, between 1946 and 1949 Unilever again produced and sold its products in China. But before the company was able to reorganise and resume attempts to expand its business in China, political and economic instability again interfered. Shanghai was hit by serious inflation, a Communist occupation, and a Nationalist blockade. During the Korean War Unilever was forced to end all activities in the new Peoples' Republic of China.

materials in order not to risk being boycotted by its Chinese customers. That the Guomindang government was stronger and the British Foreign Office less helpful than the company had thought was clearly underlined when it attempted to resist paying steamship duty in 1931. Consequently, the company changed its attitude: it began to favour an active approach in its efforts to obtain the co-operation of the Chinese government by donating soap and even by considering voluntary payment of corporate tax. This meant that the company eventually was prepared to give up its extra-territorial rights, the defence of which was the last major aspect of British foreign policy that still had a direct impact on the economy of China. Unilever's problems concerning trademark infringements by local soap manufacturers underscored that only good relations with the Chinese authorities, not British official interventions or legal procedures, could ensure the company of official protection. The company may have had a low political profile, but to do business in China some degree of government protection was required, at least to safeguard valuable brands. Because Unilever was in China not for a quick profit, but to continue selling soap and margarine far into the future, it needed official support from the Guomindang government.

The risks to Unilever's activities in China caused by Japanese imperialism were also addressed through accommodation. At first, when Japan created the puppet state of Manchukuo, the company responded by keeping up sales as long as possible, while accepting that the Manchurian market would eventually be lost. However, it turned out that the trade policy of the Manchukuo regime did not pose a fundamental problem to Unilever's sales. Nor indeed did the Japanese invasion into China proper immediately threaten Unilever's future. Although the war did make very it difficult to sell soap in Central China, the soap market in North China now developed very quickly. But when Unilever decided to build a soap factory in Tianjin, a major problem emerged: the company needed permission from Japan to remit profits from the North China market before it could build the factory. Therefore Unilever approached the Japanese government and stressed how beneficial its investments in Tianjin would be to the Japanese position in China. Unilever was in the position to negotiate for special privileges not only because the factory would support the North China regime economically, but also because the company was a major consumer of Japanese export products. Unilever was the largest supplier of pounds sterling to Japan: the foreign exchange which the country needed in order to import strategic goods such as fuel for its war effort in China.

The company hoped to be allowed to use its profits from North China to pay for its purchases in Japan. The plan fell to pieces because the shortage of foreign exchange in Japan was so great that the Japanese government could not approve Unilever's plan. Moreover, by the late 1930s the amount of Japanese export goods bought by the company quickly decreased. By 1940 the factory plan had to be postponed indefinitely, and Unilever had to face the possibility of a war between Japan and the Western allies. Because the company was in China to stay, it did not consider withdrawing from Shanghai. By 1941 its production and storage assets were concentrated in this city, and to a lesser extent in other large treaty ports. The up-country network was abandoned, and the company had reverted to its basic form. Apart from appointing Chinese nationals to take over management of the CSC and EP should such a war erupt, Unilever could do nothing more to address this risk.

CHAPTER 9

THE RESPONSE OF DUTCH COMPANIES TO POLITICAL RISK IN CHINA

How did political instability affect the behaviour of Dutch firms in early twentieth-century China? The two concepts at the core of this question are *interests* and *risks*. Every foreign company in China had certain local interests, which it tried to protect from the risks of political instability. Therefore Dutch corporate behaviour with respect to the political condition of China was determined by the relationship between its interests and the political risks it perceived. At the outset of this study, a hypothesis was formulated—based on relevant publications—of Dutch corporate behaviour from the entrance onto the Chinese market of the first large firms in 1903 until their expulsion by Japan in 1941.

Table X. Hypothesis of behaviour of Dutch companies towards political risk in China from 1903 until 1941

period	*main political risk*	*corporate response*
1903-1916	none	none
1916-1928	civil warfare	unknown
1928-1937	anti-foreign nationalism	accommodation to Chinese interests
1937-1941	Japanese imperialist influence	accommodation to Japanese interests

Civil warfare refers to the violence that resulted from the fragmentised condition of the Chinese state between the death of President Yuan Shikai in 1916 and the establishment of the Guomindang government in 1928. The core phenomenon of this period was the armed conflict between warlords (regional strongmen) that erupted endemically throughout the whole country. *Chinese Nationalism,* in the present context, refers to the emergence of mass-movements led by intellectual and political elites that aimed at strengthening the country internationally, primarily by limiting foreign influence. The Guomindang (Nationalist Party) and the Chinese Communist Party were the main political embodyments of China's rising nationalism. During the so-called Nanjing Decade between 1928 and 1937 the Guomindang was the main political force in the country. *Japanese imperialism* refers to Japanese foreign policy towards China insofar as it aimed at imposing exclusive political control. During the Sino-Japanese War that began in 1937, Japan replaced the Guomindang as the dominant political power in China. This hypothesis has been tested by individual analyses of each company's main local interest in China, the political risks it perceived, and how it responded to these risks.

Table XI. Large Dutch companies with foreign direct investments (FDI) in China prior to 1941 and their main overall activities (not specifically in China)

company	*FDI in China*	*main overall activity*
Nederlandsche Handel-Maatschappij	1903-1941	banking
Java-China-Japan Lijn	1903-1941	shipping
Royal Dutch/Shell	1906-1941	petroleum production/sales
Nederlandsch-Indische Handelsbank	1906-1941	banking
Ned. Maatschappij voor Havenwerken	1912-1941	harbour works
Nederlandsch Syndicaat voor China	1920-1937	railway construction
Philips	1923-1937	electronics production/sales
Unilever	1930-1941	soap/foods production/sales

Not all eight large Dutch companies were active in China during all of the four periods of the hypothesis. The NSC, Philips, and Unilever came only after the end of the Yuan Shikai reign in 1916, while the NSC and Philips no longer had any significant activities after the beginning of the Sino-Japanese war in 1937. Consequently, not all types of risks included in the hypothesis were relevant to each company.

Table XII. Main local interest and degree of local involvement in China per company

company	*main local interest*	*degree of local involvement*
NHM	growth in banking	low
JCJL	growth in shipping	low
Royal/Dutch Shell	growth in petroleum sales	high
NIHB	growth in banking	low
Havenwerken	profits from harbour works	high
NSC	profits from railway construction	high
Philips	profits from electronics sales	low
Unilever	growth in soap/foods sales	high

The main local interests of companies in China reveal two relevant characteristics: the economic sector in which it was active, and what it tried to achieve in China. There were two main aims: either growth or profits. The NHM, the NIHB, the JCJL, Royal Dutch/Shell, and Unilever entered China seeking an expansion of their activities. This was a long-term interest: they came to stay permanently because they expected that the Chinese market would continue to grow for at least several decades and eventually would be the world's third major market alongside the US and Europe. The remaining three firms were interested mainly in producing profits in China, which was a short-term aim because they intended to stay in China only as long as it was profitable. In this second group, the NSC was the least interested in growth, while for Philips growth was a relevant as a secondary aim.

As a result of each firm's main local interest, its involvement in the Chinese economy was either high or low. Because the NHM, the NIHB, the JCJL, and Philips were interested in aims that could only be achieved in the foreign-controlled enclaves of the treaty ports (mainly Shanghai and Hong Kong), and that did not require investing in expensive immovable assets, their local involvement remained low. They could withdraw relatively easily should political risks become too great. In contrast to them, Royal Dutch/Shell, Unilever, Havenwerken, and the NSC were much more involved. Royal Dutch/Shell and Unilever could achieve their aims only by establishing an up-country distribution organisation. The NSC, as a railway construction firm, was also forced to work in the interior. And although Havenwerken was mostly active in the treaty ports, it did engage in major construction works in non-treaty ports such as Huludao and Lianyungang. Moreover, the four firms that worked outside the treaty ports also had expensive material assets in China. The NSC and Havenwerken operated construction equipment, while Unilever and Royal Dutch/Shell had factories in Shanghai. The latter two companies also had depots throughout the country, which in the case of Royal Dutch/Shell included numerous expensive tank installations. The companies with a high degree of local involvement could not withdraw easily.

Table XIII. Periodisation of categories of perceived political risks per company

company	*civil war*	*Chinese nationalism*	*Japanese imperialism*	*war with Japan*
NHM	no risk	no risk	no risk	1940-1941
JCJL	no risk	1903-1931	no risk	1940-1941
Royal Dutch/Shell	1916-1928	1914-1937	1919-1941	1940-1941
NIHB	no risk	no risk	no risk	1940-1941
Havenwerken	1920-1928	no risk	1931-1938	not relevant
NSC	1920-1928	1925-1928	1931-1937	not relevant
Philips	no risk	1932-1937	1931-1937	not relevant
Unilever	not relevant	1930-1937	1931-1941	1940-1941

This table shows that the hypothesis was largely correct with respect to the main categories of political risks, but should be adapted in a few respects. In the first place, civil war was succeeded by Chinese nationalism as the main political risks not in 1928 but as early as 1925. In the second place, in 1931-1937 not only Chinese nationalism but also Japanese imperialism caused major political risks to Dutch firms. In the third place, by 1940 not Japanese imperialism in China, but the possibility of a war between Japan and the Netherlands was the main cause for concern in most Dutch companies. The possibility of war breaking out between the company's own government and the government that controlled the parts of China in which most of their interests were concentrated should be seen as the fourth major political risk category of the 1903-1941 period. Finally, in the fourth place, for each category of political risks—except the risk of war with Japan—there were several firms which did not perceive them as directly relevant.

Table XIV. Risks caused by civil war and ultimate response per company, 1916-1928

company	*risk*	*response*
NHM	(none)	(none)
JCJL	(none)	(none)
RD/Shell	looting of agency stock irregular taxation	appeal to home government accommodation
NIHB	(none)	(none)
Havenwerken	contract cancelled	withdraw
NSC	railway disfunctionate	withdraw
Philips	(none)	(none)
Unilever	(not relevant)	(none)

The response of Dutch firms to the state of civil war that China was in during the 1920s, was diverse. The NHM, the JCJL, the NIHB, and Philips were not even directly threatened by the effects of the civil wars. Their assets and activities were located mainly in Shanghai and Hong Kong, which were well-protected by international military forces. The JCJL ships remained in coastal waters and did not sail up any Chinese rivers. Unilever did not have a relevant experience, because it was not yet active in China in the 1916-1928 period when the civil wars were a major phenomenon.

Of the remaining three companies, Royal Dutch/Shell tried to address these risks by accommodating to the interests of local governments (in the case of irregular taxation), and by relying on support from the home government (in the case of damage from looting). The reason the oil company accepted the need to make tax agreements with local governments was that its aim was to see growth in petroleum sales and its high degree of local involvement made it impossible to withdraw. Until effective central government was restored, there was no-one except local governments to protect the company from excessive trade taxation. In the case of agency claims for damage to company property, Royal Dutch/Shell relied on the British government, because the only channel to obtain indemnities from the Chinese authorities was through the legations in Beijing. Great Britain, being politically more influential in the Far East, was favoured over the Netherlands for this task. Its unique ownership structure and British appearance, made it possible for Royal Dutch/Shell to become regarded by the British Foreign Office as a British interest. When the British government decided to scale down its handling of agency claims for British firms, the oil company energetically tried to prevent the implimentaiton of this new policy. The reason was that damage to its agency depots involved high costs, but that in order to expand in sales and because of its high degree of local involvemment, the company could not abandon its up-country agents.

Havenwerken and the NSC withdrew from up-country activities after the Longhai project. Havenwerken concentrated on contracts for the treaty ports, until 1930 when it commenced work on the Huludao harbour. As long as there was sufficient work for Havenwerken in the safer treaty ports, it was not necessary to expose itself to risks related to the civil wars. The NSC, which was interested in making Longhai profitable for the Dutch banks, ended its high-risk involvement in railways and limited its activities to representative work for Havenwerken and Dutch electro-mechanical firms. It could not realise the most important of its main local interests, and therefore it withdrew to the treaty ports.

Table XV. Main risks caused by the rise of Chinese nationalism and ultimate response per company, 1925-1937

company	*risk*	*response*
NHM	(none)	(none)
JCJL	anti-foreign boycott etc	accommodation
RD/Shell	anti-foreign boycott etc	sit tight and continue
	new taxes	accommodation
	land use restrictions	accommodation
	sales restrictions	withdraw
	initiation local oil industry	accommodation
NIHB	(none)	(none)
Havenwerken	(none)	(none)
NSC	railway disfunctionate	withdraw
Philips	emergence local radio industry	accommodation
Unilever	new taxes	accommodation
	trademark infringements	appeal to home government

The rise of nationalism as a political force in China was perceived by Dutch firms to pose a considerably greater number of political risks than was the case with the civil wars. Even so, three out of eight firms still were not directly affected and continued to operate relatively unscathed. The banks, the NIHB and the NHM, were active mainly in Hong Kong and Shanghai, in a sector of banking that was largely involved in international trading. No boycotts threatened the banks, and they remained beyond the reach of the Guomindang government. For Havenwerken, Chinese nationalism was not a risk. The re-establishment of a strong central government that was interested in strengthening the country offered the company new opportunities rather than threatened its activities.

The most constantly occurring type of response offered by those companies that did face political risks was accommodation to the interests of Chinese political leaders, usually of the Guomindang government. Ultimately the JCJL, Royal Dutch/Shell, Philips, and Unilever were prepared to meet Chinese demands for a reduction of treaty privileges in return for improved relations with the political and business leaders of China. In the case of the JCJL this process of accommodation did not necessitate major concessions on the part of the company. In the Tjibadak case, the company dismissed a Dutch employee when Chinese public opinion demanded this, but otherwise continued its business. Philips hesitated about investing in a Chinese-controlled radio valve factory and offering training programmes to Chinese engineers, but for the time being chose not to follow a strategy that would increase its local involvement. In order to maintain a presence on the Chinese radio market, it was prepared to sell only technology and equipment in return for direct payment. The fact that these two firms were active in the treaty ports meant that there were few direct relations between them and the Chinese government, and that they could withdraw if boycotts or protective state policies threatened their operations.

In the case of Royal Dutch/Shell and Unilever, their co-operative attitude was preceded by resistance on their own account or by relying on their home governments for protection—which also amounted to resistance. Only after they had discovered that they were unable to neutralise political risks on their own or via the British and Dutch governments did they begin to look actively for ways to obtain political support from the Guomindang government. For Royal Dutch/Shell the imposition of a government sales monopoly in Jiangxi province was non-negotiable, and in this case the company withdrew rather than giving in. The reason was that its main local interest was not just to expand sales in China but also to impose a large degree of control on the market: to survive in the kerosene trade it was imperative to be able to adjust local prices and quantities in line with the company's global strategy. In other matters it was willing to make concessions, because these did not directly threaten its main local interest. Only in the wave of anti-British boycotts and violence during 1925-1928, Royal Dutch/Shell had no option but to rely on its agency and competitor relations and sit the storm out. It did not want to withdraw, but the British government could not offer full protection, and there was not yet a central government to turn to. By the mid-1930s Unilever was looking for a better relationship with the Guomindang government for the same reasons as Royal Dutch/Shell: it did not want to withdraw as long as there were prospects for growth, its local involvement was high, and there was no home government that could offer protection from political risks such as the imposition of anti-foreign tax and trademark policies. After 1928 the Guomindang became acceptable as a partner with which to co-operate because it proved willing to make compromises if it could benefit from foreign investments, and because there was no alternative.

Table XVI. Main risks caused by Japanese imperialist influence in China and ultimate response per company, 1931-1939

company	*risk*	*response*
NHM	(none)	(none)
JCJL	(none)	(none)
RD/Shell	land use restrictions	resistance
	transport restrictions	sit tight and continue
	sales restrictions	withdraw
NIHB	(none)	(none)
Havenwerken	sales restrictions	withdraw
	materials confiscated	withdraw
NSC	sales restrictions	withdraw
Philips	sales restrictions	withdraw
Unilever	foreign exchange restrictions	accommodation
	transport restrictions	sit tight and continue

Risks related to the building up of Japanese political influence in China affected Dutch business activities in many ways, but here again there were three companies that did not perceive such perils as directly relevant to their main local interest. As before, the two banks continued their operations in the treaty ports without major problems when Japan occupied East and South China. International trade continued, and Japan did not control the International Settlement of Shanghai or the British colony Hong Kong. The JCJL, operating in coastal waters only, also experienced no direct political risks.

The NSC, Havenwerken, and Philips withdrew from China. They were unable to defend their main local interests: the Japanese advance ended the demand for Dutch electro-mechanical equiment, harbour works, and radios. The Japanese military authorities now were the main customers, but for strategic reasons these preferred to be supplied by Japanese companies. Consequently these firms could no longer operate profitably and virtually ended their activities. To keep a foot in the door, Havenwerken and Philips still maintained small representative offices in China. In the process of trying to deal with the rise of Japanese influence, the bulk of Havenwerken's equipment and materials was either confiscated or destroyed.

Royal Dutch/Shell was willing to accommodate itself to Japanese interests on the same basis as that on which it co-operated with the Guomindang government before 1937. However, this strategy turned out to be impossible to sustain. In 1919-1920, when Japan tried to impose land use restrictions in Qingdao, the company opted for resistance because at this time Japan was still sensitive to the type of pressure excerted by the major oil companies. But in 1937-1938, when the Japanese imposed restrictions on Yangzi shipping, there was little else to do but try to adjust as well as possible and wait for the fighting in the Yangzi provinces to end. And when Japan wanted to impose a state monopoly on oil sales in Manchuria, Royal Dutch/Shell failed to reach a compromise with the Japanese government. Because it could no longer achieve its aims in Manchuria and to defend its position in Japan, the oil company pulled out of the Manchurian market. In spite of this, the company continued to expect that its accommodation policy—based on the knowledge that Japan badly needed large quantities of petroleum—was the key to surviving in Japanese-occupied China.

Unilever, too, counted on its ability to offer Japan what it needed—foreign exchange to import strategic goods—in order to obtain political protection. Like Royal Dutch/Shell it had no option but to sit out the phase of transport restrictions that accompanied the fighting in East and Central China. And like Royal Dutch/Shell, the fact that negotiations with the Japanese government did not produce clear results did not prevent the company management from believing that accommodation to Japanese interests was the best way to proceed. As long as the aim of growth on the Chinese market remained feasible in the long run, Unilever and Royal Dutch/Shell did not withdraw from China.

Table XVII. Main risks caused by the possibility of war between Japan and the companies' home government and ultimate response per company, 1940-1941

company	*risk*	*response*
NHM	assets in enemy territory	sit tight and continue
JCJL	assets in enemy territory	sit tight and continue
Royal Dutch/Shell	assets in enemy territory	sit tight and continue
NIHB	assets in enemy territory	sit tight and continue
Havenwerken	(not relevant)	(none)
NSC	(not relevant)	(none)
Philips	(not relevant)	(none)
Unilever	assets in enemy territory	sit tight and continue

By 1940 only one important political risk loomed over Dutch firms in China: the possibility of war between Japan and the Netherlands. This risk was not relevant to the NSC, Philips, and Havenwerken because by this time they had withdrawn virtually all their assets from China. In the case of the NHM and the NIHB, this risk posed a serious threat, but they did not withdraw because they had few material assets in China, and because as long as war did not actually break out, their main local interest of growth could still be defended. The JCJL's position was different: its main possessions which might very well fall in Japanese hands in eventuality of war, were its ships. These were very valuable, but also very mobile. Consequently the company continued to work for its main interest of growth as long as possible. But when the outbreak of war seemed imminent, the JCJL withdrew its ships from Chinese waters. Even so, this was only a temporary withdrawal: the company intended to remain entirely focused on shipping between China and Java.

The remaining two companies chose to wait and see, like the banks. However, the difference was that the material possessions of Royal Dutch/Shell and Unilever in China were far greater—the tank installations of the oil company were especially very valuable. Moreover, as long as there was no war, these companies continued their attempts to retain their local market positions. Because they did not want to leave China, there was nothing else for them to do but stay put and hope there would be no war.

The number of large Dutch companies in China was small: there were only eight. Although relationships of ownership and control between the NHM, the NIHB, the JCJL, Havenwerken, and the NSC were tight, they never acted as a group. The remaining firms Unilever, Philips, and Royal Dutch/Shell were much more independent; insofar as they had close ties with other companies, these were competitors adopted by other nationalities. There was no common element in the strategy of Dutch companies towards political risks in China, other than the fact that they did not rely on Dutch government protection. Consequently, there was no Dutch business system, and there was no typically Dutch business strategy in China. The only possible explanation for common elements in the behaviour of Dutch firms was that they had no strong home government on which they could rely to fight for them on the diplomatic front.

Table XVIII. Main types of strategy related to interest profiles

	company	*ultimate response to political risks*	*reliance on Dutch government protection*	*accommodation to interests China or Japan*
short term/low involvement	Philips	withdraw	no	yes (China)
short term/high involvement	Havenwerken	withdraw	no	no
	NSC	withdraw	no	no
long term/low involvement	JCJL	stay	no	yes (China)
	NHM	stay	no	no
	NIHB	stay	no	no
long term/high involvement	RD/Shell	stay	no	yes (both)
	Unilever	stay	no	yes (both)

Concerning the actual behaviour of Dutch companies, a distinction can be made between companies that in the face of mounting political danger withdrew from China, and those that stayed on. The companies that persisted all had in common that that they had long-term interests in the Chinese market, while the firms that pulled out all had short-term interests. Thus, even before the Pacific War broke out, Philips, Havenwerken, and the NSC had already left China.

Among the firms that stayed on, the tendency to accommodate to local political interests was stronger if the company's involvement in the Chinese economy was greater. The NHM and the NIHB were active only in the treaty ports, where they did business mainly with trading companies. These two banks showed no sign of any tendency to accommodate to local politics. The JCJL's activities were also limited to the treaty ports, but through its contacts with traders, suppliers, passengers, and crews, its exposure to Chinese factors was greater than in the case of the banks. Consequently, the JCJL did show a certain preparedness to adapt to the local political situation. Finally, Unilever and Royal Dutch/Shell–in particular the last mentioned–had extensive operations in the interior of China, and were among the foreign companies with the greatest extent of local involvement. These two companies–again especially Royal Dutch/Shell–were willing to accommodate to local political interests in more instances than the other Dutch firms in China.

CONCLUSION

In the introduction three sub-questions about Dutch corporate behaviour were posed. With slight alterations to the periods to which they apply, they have proved valid and can now be answered. In the first place: How did Dutch companies deal with the civil war period between 1916 and 1928? As it turned out, most were either already in the treaty ports or withdrew to them, and there they continued their business under foreign military protection. Only one company, Royal Dutch/Shell, went ahead with its up-country operations throughout the 1920s. At first sight it may have seemed that, while the purely Dutch companies were unable to operate in the interior of China, this ristriction did not apply to Royal Dutch/Shell because it was partly British and as such benefited from the support of the British government. However, this study has shown that protection by the British government was not the cause for Royal Dutch/Shell's persistence in staying up-country. The company did appeal for government support, especially in the case of compensation for the looting of its depots, but this support was not very effective. Only part of the damage was eventually paid for by the Chinese government, and the cause of the damage could not be removed. When it came to payment of the irregular trade duties exacted by local warlord regimes, the British government was unable to offer any help whatsoever. The company relied on its own financial resources to negotiate with these regimes; this had no relation to its nationality. The main difference between Royal Dutch/Shell and the other Dutch firms was not nationality but the fact that at this time the oil company was the only Dutch enterprise that had both long-term aims in China and was deeply involved in the up-country economy. The other firms had either short-term aims or were not deeply involved in the Chinese economy. In other words: no foreign government was powerful enough to protect its up-country business interests effectively, and therefore the fact that the Dutch government was militarily and diplomatically weaker than the great powers was irrelevant.

In the second place, did Dutch companies accommodate themselves to the interests of the Guomindang between 1925 and 1937? The NHM, the NIHB, the NSC, and Havenwerken showed no sign of trying to improve relations with the government of China. The JCJL and Philips indicated they were willing to take Chinese sensitiveness about foreign influence into account. However, their relationship with with the local environment was not very close, and both were willing to adapt to political factors only in one instance. Only Unilever and Royal Dutch/Shell were clear cases of Dutch companies that saw accommodation to the interests of the Guomindang government as desirable in order to obtain protection against political risks such as detrimental tax, land, and trademark policies or anti-foreign boycott movements. These two companies were not willing to co-operate with the Guomindang immediately: initially both tried to resist Chinese government influence by relying on their own strength and on official British support. Only when it was plain that there was no alternative did these companies begin to consider a strategy of accommodation. This change of behaviour can be explained by the fact that these two companies were too deeply involved in China to consider withdrawing, and because their long-term approach made it worthwhile for them to invest in developing good relations with the local government. The fact that the other large Dutch businesses in China were showed little interest in or were uninterested in doing the same can also be explained by the nature of their interests and involvement. Their activities were not affected by risks against which the Chinese government could possibly offer protection, or they were interested only in immediate solutions.

Finally, in the third place, did Dutch firms accommodate to the interests of the Japanese authorities in occupied China during 1931-1941? Most did not, but again Royal Dutch/Shell and Unilever were the exceptions. The explanation is the same as that given for the previous question: these two companies needed protection and could obtain this only from the Japanese government. Their deep local involvement and long-term outlook set them apart from the other Dutch companies. NHM, NIHB, and JCJL could continue their activities from Shanghai and Hong Kong after 1937 with very little disruption. The remaining companies did not see any possibility to continue after Japan had imposed its control on Manchuria and most parts of China, not only because the sectors in which they operated were hit by the Sino-Japanese war, but also because they were not interested in making further investments in order to overcome new challenges.

There is no common element to be detected in the attitude of Dutch firms towards political insecurity in China. The fact that the behaviour of Royal Dutch/Shell and Unilever was often different to that of other large Dutch companies can be explained only to a very limited extent by their partly British identity. The main explanation for the behaviour of all Dutch companies in China is constituted by their main local interests, not their nationality. These local interests were unique to each firm and combined the organisational characteristics of ownership and control with the features of the Chinese market.

The results of this study confirm Osterhammel's conclusions and are in line with the other literature mentioned in the introduction, about British companies as well as Western companies in general. This suggests that regardless of their nationality, support from the home government proved mostly irrelevant to Western companies in China during the 1920s and 1930s. Either they were too little involved in the local economy and faced so few political risks that they needed no protection, or they were deeply involved and their activities lay beyond the potential reach of even the most powerful Western governments. In the two decades preceding World War II, the relationship between Western investors and China should not be seen as a part of Sino-Western political relations: when businessmen discovered that they could not rely on their governments to solve their problems in China, they perceived their interests to be divergent from those of their home governments. By the late 1920s it was clear to Western firms that they would be unable to resist the political changes that were then affecting East Asia. While the attitude of many companies remained passive, those with a high degree of local integration and a long-term interest in the Chinese market were ultimately prepared to accommodate to the interests of the host government.

CHINESE PLACE NAMES

In the first half of the twentieth century various styles of romanisation were used for Chinese words, and in some cases foreigners used other names than those in use today. For instance, Xiamen used to be known as Amoy, Shenyang as Mukden, et cetera. Moreover, some cities have been renamed. Between 1928 and 1949 Beijing was called Beiping (spelled by foreigners as Peking and Peiping respectively), and in 1926 the city of Hankou was incorporated into Wuhan. The romanised names of the main cities and provinces are listed below, both the version that was the most common before 1941, and in pinyin. Names that have remained the same, such as Shanghai, are not included. In this book the pinyin version of the current name, such as common in today's China, has been used. The exceptions are Chang Jiang River and the northeastern provinces, which are internationally commonly known as Yangzi River and Manchuria respectively. Also for names of persons, the pinyin spelling has been used, except for Chiang Kai-shek (in pinyin: Jiang Jieshi).

Early twentieth-century	*Pinyin*
Amoy	Xiamen
Anhwei	Anhui
Canton (city)	Guangzhou
Canton (province)	Guangdong
Chengchow	Zhengzhou
Chekiang	Zhejiang
Chihli	Zhili
Chungking	Chongqing
Dairen	Dalian
Foochow	Fuzhou
Fukien	Fujian
Haichow	Haizhou
Hangchow	Hangzhou
Hankow	Wuhan
Honan	Henan
Hopeh	Hebei
Hsian	Xi'an
Hsuchow	Xuzhou
Hunan	Hunan
Hupeh	Hubei
Ichang	Yichang
Kansu	Gansu
Kiangsi	Jiangxi
Kiangsu	Jiangsu
Kiukiang	Jiujiang
Kwangsi	Guangxi
Kwangtung	Guangdong

Laoyao	Lianyungang
Lanchow	Lanzhou
Lienyunkang	Lianyungang
Mukden	Shenyang
Nanking	Nanjing
Newchwang	Niuzhuang
Ningpo	Ningbo
Peiping	Beijing
Peking	Beijing
Port Arthur	Lüshun
Shansi	Shanxi
Shantung	Shandong
Shensi	Shaanxi
Sinkiang	Xinjiang
Soochow	Suzhou
Swatow	Shantou
Tientsin	Tianjin
Tsinanfu	Jinan
Tsingtao	Qingdao
Szechuen	Sichuan
Wenchou	Wenzhou
Yingkow	Yingkou
Yunnanfu	Kunming

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SUMMARY IN DUTCH

Bedrijfsgedrag en Politieke Risico's:
Nederlandse Ondernemingen in China, 1903-1941

Rond het jaar 1900 deden Nederlandse bedrijven voor het eerst directe investeringen in China. De pioniers van het Nederlandse bedrijfsleven die in de decennia voor de Tweede Wereldoorlog en de Koude Oorlog ervaring opdeden met directe investeringen in China, waren de Nederlandsche Handel-Maatschappij en de Nederlandsch-Indische Handelsbank (beiden zijn later opgegaan in ABN Amro), de Java-China-Japan Lijn (nu P&O Nedlloyd), Koninklijke/Shell, de Nederlandsche Maatschappij voor Havenwerken (nu HBG), het Nederlandsch Syndicaat voor China, Philips, en Unilever. Deze studie volgt de ervaringen van deze acht bedrijven in China tot aan 7 december 1941, het begin van de Tweede Wereldoorlog in Azië. De nadruk ligt op de perceptie van politieke risico's en de gevolgen ervan op het ondernemingsgedrag.

Zoals andere buitenlandse investeerders voelden Nederlandse bedrijven zich tot China aangetrokken vanwege het enorme marktpotentieel. De commerciële mogelijkheden in China waren groot, maar daar stond tegenover dat de instabiele politieke situatie ernstige risico's met zich meebracht. Met name in de periode 1916-1941 was de politieke onrust in China zeer hevig. Het jaar 1916 bracht burgeroorlog en het uiteenvallen van de staat, en gedurende de volgende vijfentwintig jaar streden *warlords*, nationalisten, communisten, en Japan om de hegemonie in China. Ondanks deze politieke chaos bleven de meeste buitenlandse investeerders actief. Pas in 1941 kwam er een einde aan de grootschalige aanwezigheid van buitenlandse investeringen, doordat het Japanse leger de meeste Westerse bezittingen in China in beslag nam.

De volgende hypothesen over de perceptie van politieke risico's en de invloed ervan op het gedrag van Nederlandse bedrijven in China zijn bij aanvang van de studie geformuleerd:

1. Voor 1916 had de perceptie van politieke risico's geen grote invloed op het bedrijfsgedrag.

2. Tussen 1916 en 1928 werden de disintegratie van de Chinese staat en de daarmee samenhangende burgeroorlogen als de belangrijkste oorzaak van politieke risico's ervaren. Er was geen voor de hand liggende reactie typerend voor Nederlandse bedrijven als groep.

3. Tussen 1928 en 1937 was het Chinese nationalisme de belangrijste bron voor politieke risico's. Minstens enkele van de Nederlandse bedrijven reageerden door tegemoet te komen aan de belangen van de Chinese politieke elite.

4. Tussen 1937 en 1941 was vooral de Japanese verovering van de commercieel belangrijkste delen van China de oorzaak van de politieke risico's die door Nederlandse bedrijven werden ervaren. Enkele of alle van hen reageerden door accommodatie aan de belangen van het Japanese leger.

Deze hypothesen zijn getoetst aan de hand van de ervaringen van de genoemde acht Nederlandse bedrijven. Het resultaat zijn acht *case studies*, elk bestaande uit een analyse van de lokale bedrijfsbelangen (*main local interest*), de ervaren politieke risico's, en de reactie op deze politieke risico's. Deze studies tonen aan dat de ervaringen van de verschillende bedrijven zeer uiteenliepen. De Nederlandsche Handel-Maatschappij, de Nederlandsch-Indische Handelsbank, de Java-China-Japan Lijn en Philips blijken slechts in beperkte mate te zijn geconfronteerd met politieke risico's. Voor de overige vier ondernemingen–de Nederlandsche Maatschappij voor Havenwerken, het Nederlandsch Syndicaat voor China, Koninklijke/Shell, en Unilever–waren de politieke risico's juist aanzienlijk. Voor deze tweede groep geldt dat het gedrag van Unilever en Koninklijke/Shell veel nauwkeuriger was afgestemd op de aanwezige politieke risico's dan dat van de overige twee bedrijven.

Uit de case studies is verder gebleken dat de hypothesen grotendeels correct zijn, maar dat enkele aanvullingen noodzakelijk zijn. Ten eerste werd Chinees nationalisme al vanaf 1925 als de voornaamste bron van politieke risico's beschouwd. Ten tweede was gedurende 1931-1937 Japans imperialisme in China in de perceptie van Nederlandse bedrijven even belangrijk als Chinees nationalisme voor het ontstaan van politieke risico's. Ten derde was er in 1940-1941 een nieuwe primaire bron van politieke risico's voor Nederlandse investeerders in China, namelijk de dreigende oorlog tussen Nederland en Japan. Ten vierde waren er verschillende bedrijven die zich in China niet alleen tot 1916, maar helemaal tot tot aan 1940 niet direct lieten beïnvloeden door politieke risico's.

Doordat het gedrag van iedere onderneming vanuit haar lokale belangen is verklaard, kan tot slot van de studie een vergelijking worden gemaakt tussen de verschillende percepties en reacties. De meest fundamentele elementen in het lokale belang waren de mate van lokale betrokkenheid, en de bereidheid lange-termijn investeringen te doen. De bedrijven die slechts korte-termijn investeringen deden, trokken zich terug uit China als de politieke risico's te groot werden, terwijl de bedrijven met lange-termijn investeringen bleven. Bij de bedrijven die ondanks toenemende politieke risico's in China bleven, was de bereidheid zich aan te passen aan de belangen van de heersende politieke elite groter naar mate de integratie in de lokale economie verder ging. Daarom waren het uiteindelijk juist de twee giganten Koninklijke/Shell en Unilever die zich–ondanks hun grote commerciële invloed–het meest gevoelig toonden voor de wensen van de gastregering, terwijl kleinere ondernemingen buiten het bereik van China's machthebbers bleven doordat ze zich terugtrokken binnen buitenlandse enclaves zoals Shanghai en Hong Kong, of doordat ze de Chinese markt helemaal verlieten.

CURRICULUM VITAE

Frans-Paul van der Putten, born 10 August 1970 in Helmond, attended St Willibrord Gymnasium in Deurne and Leiden University, where he studied history and wrote a *doctoraalscriptie* on the Chinese 'Boxer Indemnity'. Before commencing his PhD research at the Research School CNWS in 1996, he worked as editorial assistant for *Itinerario: Journal of Overseas History*.