China Business History

Zhongguo Shangye Lishi

Volume 8, Number 2 Fall 1998

The Fate of Foreign Firms in China in the 1950s

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By the 1950s China, as a former part of the Powers' informal empire, by no means continued to play the role of the classical "periphery" vis-a-vis the economy of capitalism after the colonial system disappeared. Rather, she managed for a while to capture the foreign capitalist system and use it for her own purposes. Indeed, almost a reversed process of imperialism occurred, imperialism was imprisoned. Surplus, rather than being transferred unfavorably from the "periphery" to the "core", was now flowing from the "core", the metropolitan centers, to the "periphery", China. Assets, which for decades had been accumulated and possessed by foreign firms were now being transferred to Chinese hands in the newly established People's Republic of China.

By 1952 most of the foreign companies still active in China had decided to close down their operations there. Continuing depreciation of their investments caused by heavy taxation, enforced subscription to governmental loans and restrictive labor legislation were the main reason for the intended closure. Private enterprise simply became unprofitable and unattractive. However, the Chinese authorities did not allow a firm to close down without their approval. Changing management or disposing of any assets was also impossible without a formal consent. Thus, foreign firms were forced to employ redundant workers and cover month by month, year by year, various running costs regardless of their losses. Managers in charge were not allowed to exit China.

As far as the new people's government was concerned China, was at the time in its bourgeois-democratic revolutionary stage, and thus it was entirely legitimate, not to mention beneficial to its interests, to permit the bourgeoisie, Chinese and foreign alike, to carry on with its activities. Why, indeed, should commercial, economic and productive activities be allowed to stop at a time when the urban economy was dislocated and industrial production was far below prewar level, when unemployment was high, inflation rampant and food shortages widespread? Now the prime concern was increased production and full employment not good will in foreign capitals.

Between the foreign businessmen's accusation of the Chinese authorities and the latter's expression of grievances over the misbehavior of foreign capitalists, it was quite clear the rules of the business game in and with China had changed drastically.

During the early 1950s the authorities in Beijing were careful as a rule not to resort to an outright confiscation of foreign assets. They rather employed a tactics of "protracted expropriation" in relation to foreign property. This, at least as far as the foreigners saw it amounted to practically the same as direct confiscation rentals were frozen, taxes were raised, demands for considerable repairs at short notice were made and massive fines were imposed.

Gradually, it became clear that British and other foreign merchants still active in China had become hostages not only to the authorities, but also to their innumerable assets built up over decades and to the old dream of "El Dorado" they cherished. For the

Chinese the fact that yields made throughout the previous century had to be returned was a small recompense for "a hundreds years of exploitation" by the foreigner.

The formula which eventually extricated the two sides from the difficult and embarrassing situation they faced was reached only after the 1954 Geneva Conference. The formula called for the surrendering of local assets against the remission of the companies' liabilities. However, when assets exceeded liabilities, the Chinese authorities refused to consider to pay the excess. Thus, the PRC actually ensured that no claim for compensation could be made even in the distant future. By employing delaying tactics, refusing permission to close down operations for a long time, the Beijing authorities had allowed the liabilities of the foreign firms to built up and become nearly equal, or even in excess, of their assets.

The above description relates to most foreign firms and particularly to the British who possessed the lion's share of foreign interests in China. Most of the French and the American cases differed to an extent from the rule. Paris, after all, due to developments in Indochina, followed Washington's leadership in global affairs and did not recognized Mao as China's legitimate leader. Moreover, a large proportion of the French and the American companies in China were traditionally involved in public utilities sector. This, the Chinese felt, had to be put under their control immediately. Thus, while in the case of the British firms and the foreign banks, the dominant Chinese tactics were protracted or indirect expropriation, in the case of French and the American firms, the cardinal tactics were a subtle attempt to take the enterprises at an early stage come what may. Refraining from outright confiscation remained, however, the name of the game.

In the case of La companie Francaise de Tramways et d'Eclairage Electrique de Shanghai, for example, the firm ran into deficit of several hundred million francs and its European agents found it increasingly more difficult to obtain exit visas. Reserves had to be drawn from outside of China in order to cover its growing expenses in China. Eventually, in 1953 it was taken over, not confiscated or expropriated, by the local people's government so that the public operations could be safeguarded.

The Fate of American Firms

I. The Pre- Korean War

A short while after the establishment of the People's Republic, some Americans residing in China, among them officials serving in Tientsin, Nanking, Shanghai and Peiping, started leaving the country; however, many chose to stay and pursue their business as usual. About 2700 Americans were then living in China including missionaries andbusinessmen. Some key American business representatives ran into trouble while making efforts to leave China, they were unable to get their exit permits from the authorities. The embassy in Nanking and the consulate-general in Tientsin had been closed and it took sometime before those interested in leaving managed to do so.

The story of the Americans residing in China, complex as it was, has to some extent been told. The Sino-American conflict of the late 1940s and early 1950s has also been narrated. However, it seems that no comparison has yet been made between the fate of the American firms and their managers in China and that of the British and the French companies.

Following the establishment of the new regime and London's recognition of the new regime in China, in January 1950, many British and other foreign firms carried on with their business in revolutionary China. It was only in the course of 1952-53, in view of difficulties that the majority of firms contemplated a comprehensive withdrawal. This, however, did not materialize before the mid-1950s following tough and confrontational negotiations between the two sides.

The practice of confiscating property by the new revolutionary government was primarily targeted at the 'bureaucratic' elements mainly in the urban centers that belonged to, or sympathized with, the previous regime. Thus, generally speaking foreign enterprises remained on the whole intact. The authorities, however, pursued tactics of what can be termed indirect or "protracted nationalization" vis-a-vis foreign interests and managed to gain practical control over them. They were particularly hasty when foreign companies in the public utilities sector were concerned. Other companies were affected later. Generally, no formal-legal confiscation or nationalization was carried out.

What characterized American business interests in China at the time and what were the problems relating to them? American assets in China were estimated at about $250 million (20 and 40 percent respectively of Britain's and Japan's). When the extent of war damages became apparent after the victory over Japan, some American companies found their investments not worth salvaging weighing restoration costs against China's uncertain future. Others, like the Shanghai Power Company, Stanvac (Standard Vacuum Petroleum Company)

Caltex (California Texas Oil Company) and Shantelco (Shanghai Telephone and Telegraph Company, a subsidiary of IT&T), undertook an extensive rehabilitation program. By the end of 1946 the vast majority (about 110 out of 126) of prewar members of the American Chamber of Commerce in Shanghai resumed their operations. The first weeks under communist control engendered on the whole widespread, if somewhat cautious, enthusiasm for future prospects for American interests in new China.

Chinese Communist leaders on their part repeatedly promised protection of American and foreign individuals and enterprises. They even invited American entrepreneurs to assist in the modernization of China. It was against this background that some American merchants and industrialists advocated Washington's recognition of the new regime. This question became a central issue in Sino-American relation as well as in the internal American political arena. Throughout the period preceding the Korean War, public and congressional opinion opposed recognition. Polls showed clearly that opponents always outnumbered the supporters. After the war, the ratio was much higher.

American and other foreign firms encountered quite a few difficulties in revolutionary China. Their purchasing power fell in 1947 to just 20 percent of 1937 levels. Banks lost their important pre-war source of income--exchange dealing and arbitrage--and faced various prohibitions on remitting profits home. Various kinds of restrictive tax laws were imposed on them. The Chinese government denied foreign firms the right to close down their operations in China lest workers and employees should be thrown outof work.

American entrepreneurs in China did not wish to see the Chinese do business only with Russia. Nor did they want to give up their markets to their British rivals. The State Department viewed the American firms as potential instruments for promoting a Sino-Soviet rift. It likewise hoped to create a Chinese dependency on American suppliers and American expertise. Paul Hopkins, president of Shanghai Power, for example, believed that communist leaders could be convinced of the importance of cooperation with the United States. He volunteered to stay in China and see to it that his company electricity kept flowing.

II. The Outbreak of the Korean War

The outbreak of the Korean War aggravated the former reality and expectations. Now any prospects of normalization in Sino-American relations were abruptly ended. Foreign enterprises in China faced new and harsher difficulties.

In December 1950 the United States government seized control of China's property in areas under its jurisdiction and set up an embargo on all trade with China. It prohibited United States-registered ships and planes from stopping at Chinese ports and transporting goods destined for China. These American moves were part of Washington's tactics of signalling the way for its allies which, on the whole, lagged behind.

Soon Beijing retaliated against Washington's initiatives. It issued a decree taking control of American property and freezing American deposits on the mainland. The same befell American commercial assets in China. (Earlier United States consular property in China had been seized.) A variety of American firms, however, continued to trade with the People's Republic. Peter Hopkins of Shanghai Power was still advocating that commerce alone could woo the Chinese away from Moscow. On the whole, however, the war signalled the practical end of American business in China.

Paradoxically, American firms and businessmen fared relatively better than their international colleagues who remained in China. They simply were absent from China when new and even harsher measures were introduced. Indeed, during the Korean War new measures were introduced aimed at pressuring foreign firms and forcing them tohand over their property 'voluntarily' to the government.

Thus, Washington's freezing of Chinese financial assets in the United States, and Beijing's reciprocal measures' had simplified the dilemmas for the Americans. A number of companies simply wrote off their investments in China carrying them on the books at $1. Some missions deeded their propertyto Chinese churches. Under the new regulations American subsidized cultural, educational and medical organizations had to be either taken over by the government, transformed into state-owned enterprises, or operated as private bodies as before but transformed into enterprises completely operating by the Chinese people. The State Department was perhaps the only institution not to have relinquished its claim to United States government-owned property in China. This was estimated at $20 million. The value to the government of this property was, however, nil after the departure of American official personnel from China.

As already indicated, American interests, investments and holdings in China were smaller in scale than those of the British. They were also different in nature as they specialized, as did some French companies, less in manufacturing and far more in utilities. This was the case of the Shanghai Power Company which represented the largest single American investment, (estimated at $60 million) in China and the Shanghai Telephone Company ($17 million). Both these firms were placed under military control on December 30, 1950. All in all, the Americans left behind them eighty companies seized bythe emerging regime.

Between 1966 and 1972 the United States Foreign Claims Settlement Act Commission determined the amount and validity of claims by American nationals against the Chinese. All claims accepted for this program were based on the period following October 1, 1949. The sum of over $196 million was rendered by the Commission. Shanghai Power Company, for example, was certified more than $53 million .

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Asian Business Networks

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The Department of Sociology, National University of Singapore (NUS), and the Institute of Oriental Culture, University of Tokyo, recently co-organised an International Workshop on Asian Business Networks. The Workshop, funded by the Japan Foundation and the Centre for Advanced Studies, NUS, was held from March 31 to April 2, 1998 at the NUS campus. It brought together a group of distinguished scholars from USA, Japan, China, Taiwan, Hongkong, Australia and Singapore to discuss current research on Asian business networks.

The opening-cum-plenary session of the Workshop was graced by Deputy Vice Chancellor Professor Shih Chon Long of the National University of Singapore. The first plenary speaker, Gary Hamilton (University of Washington), spoke on a topic close to the heart of many in this region 'Asian Business Networks in Transition: What Alan Greenspan does not know about the Asian Business Crisis'. He offered his interpretation of the Asian business crisis, specifically suggesting that the crisis was the result of shifts in the patterns of global production away from vertically integrated economic organizations towards demand responsive, reflexive manufacturing systems. The second plenary speaker, Takeshi Hamashita (University of Tokyo) gave an in-depth analysis of the historical importance of network identity in understanding Asian economies in his paper entitled 'Rethinking Business Network Identity: Network in between Market and Institution'.

Following the plenary session were four workshop panels. The first panel discussion focused on the theories and forms of Asian Business Networks. Dr Ichiro Namesake (Taccaceae University, Japan) made an attempt to move beyond vaguely metaphorical and orientalist representation of business networks in Asia by conceptualizing in graph theoretic terms the structural differences in the patterns of business relationships in Japanese and Chinese economies. K. Olds and H. Yuen (both of NUS) examined the increasing linkages and interconnections which underlie the dynamics of Chinese business and discussed how 'Chinese' business networks are partially constituted and reshaped by an array of actors who operate on a global scale. Dai I-feng (Xiamen University) made a systematic exposition of the structural change of East and Southeast Asian business networks within the theoretical framework of time, space and culture. During the panel discussion, the issue of methodological development lagging behind theoretical ideas was raised and the participants felt that there was a need for the former to be examined in greater detail.

The second panel discussion stressed capital and labor management. Chi-Kong Lai (University of Queensland) focused on the economic activities of the Chung Shan County merchant groups to illustrate the transformation of economic activities from regional division of labor to global networks. Choi Chi-Cheung (Hongkong University of Science and Technology) dealt with the hometown connection of the Cash business networks by describing his case study of the Chefs of Kin Tye Lung, 1850-1950.

The third panel discussion was on society, religion and networking. Liu Hong (NUS) illustrated the importance and inner workings of formal institutionalization through re-establishing the missing links between voluntary associations and Chinese business networks. He based his analysis on the Singapore Chinese Chamber of Commerce and Industries and its activities during the first 60 years (1906-1966) of the organization's existence. Tan Ern Ser and Kevin Tan (both of NUS) examined the local church as a business organization oriented towards survival and growth and showed how *guanxi*-like relationships had provided a means for churches to set up pioneering and partnering churches in the region. Mr. Hiroyuki Hokari (Yokushima University) explored the significance of cultural resources over material resources in doing business.

Specific case studies were raised during the fourth panel discussion. Akira Suehiro (University of Tokyo) examined the development of 'modern' family business in Thailand with special reference to the reforms in their management strategies and structures. Hsu Tzu Fen (International University of Jinan, Taiwan) focused on the various ways in which networking were used in organizing Chinese business enterprises and activities in her analysis of three Chinese business enterprises in Nagasaki (Tai-Chang, Tai-Yi and Sheng-Tai). Yuri Sato (Institute of Developing Economies, Tokyo) explored the component procurement networks which have been developing in the Indonesian machinery industry and made a comparison of the network feature of Indonesia with Japan.

The closing session was chaired by Tong Chee Kiong the Dean of Faculty of Arts and Social Sciences, NUS, and Chair of the Organizing Committee. He observed that just as Asia is evolving, the concept of Asian business networks will accordingly be an evolving one. This then necessitates the development of an adequate theoretical framework and multi-disciplinary approach for capturing the evolving phenomenon.

All in all, the 3-day Workshop provided a fruitful forum for the participants to present their findings and exchange views on the still relevant theme of Asian business networks. More importantly, the organizers hope that the Workshop has served as a launching pad for an enduring and growing network of scholars which will continue to meet, debate and publish new findings and perspectives on Asian business networks in the next millennium.

AAS 1998 Meeting Member Organized Panels

The Return of Contract Labor: Economic, Social and Historical Perspectives of China's Labor Markets in the 1990s

Organizer: Elisabeth Koll
Friday, March 12, 10:45 am

Games of Chance: Business and Finance in Modern China, 1870-1990

Organizer: Chi-kong Lai
Sunday, March 14, 8:30 am

Boston Marriott
Copley Place
Boston, Massachusetts

Chinese Business Networks

Denise Austin, University of Queensland

On March 15, 1998, Chi-Kong Lai, Director of the Asian Business History Centre, at the University of Queensland, organized a workshop on Chinese business networks. Several important characteristics of networks were discussed and are summarized in the following report. These include: their complexity; their international nature; their relationship with the State; their policy of cooperation; their relationship with indigenous groups; their native place ties; their different categories; and their flexibility and fluidity. Although the role of networks in the current Asian economic crisis was not discussed, it can be argued that considering these strong characteristics, those involved in these networks have a better chance of survival.

Kam Louie, the Head of Asian Languages Department and Director of Asian Studies, University of Queensland, opened the workshop with a brief description of his experience as an overseas Chinese in Australia. He indicated that in the past, there were a limited number of successful Chinese businessmen in Australia and so business networks were few. However, the recent wave of business migrants meant networking was becoming an important mechanism among these people. Professor Louie also expressed the hope that workshops such as this would help build up support groups among the underprivileged in the Chinese community as well as help our understanding of the network systems among the wealthy.

The first speaker, Carl Trocki (Queensland University of Technology) discussed the history of Chinese opium networks in Singapore. Throughout Asia, from the late nineteenth century to the early twentieth century, opium farming was the largest source of colonial government revenue and opium farmers were key figures in every society. He illustrated the complex system of networks used by opium farmers involving: the *kongsi* companies made up of a large number of investors; secret societies - the enforcers who policed *kongsi* security; and the elite non-Chinese colonial officials and native leaders. Networks were established for the rich and powerful to exploit the labour of the poor who were paid in opium, to fuel their addiction.

Paul Ivory (Sunshine Coast University) then discussed how Chinese organized crime also involved three, complex, inter-relational networks: the Han core of mainland China, Taiwan and Hong Kong; the inner diaspora of neighboring Asian nations; and the outer diaspora of overseas Chinese in Western countries. He commented on the huge upheaval to organized crime in the 1980s and 1990s, due to the great influx of refugees and migrants to the outer diaspora. He described the organized crime networks as "business like if not businesslike". John Butcher (Griffith University) pointed out that both opium farming and organized crime networks involved at least some collaboration with the State. This is a valuable key in understanding how Chinese business networks can use the law for financial gain. Also regarding the role of the State, Sue Jackson (University of Queensland) gave a good example of the State's attempt to restrict network activity. The Malaysian government imposed a New Economic Policy in 1971, to undermine Chinese economic power. The result was a massive increase in state-owned, indigenously operated enterprises. However, the ploy ultimately failed because Chinese business networks simply joined forces and invested in a wider field of other industries. She called this strategy "cooperation before competition" and it seems to be an important factor in the successful survival of networks.

Liew Leong (Griffith University) raised the issue of the tentative relationship between the Chinese community and the indigenous elite. Chinese networks tend to be exclusive which may be seen as a positive or negative characteristic. Consequently, there seems to be an unwritten code of intra-group cooperation and inter-group competition, as exists between the Hakka and Hokien communities.

In the next session, David Ip (University of Queensland) discussed how Chinese migrants used their family and social networks to emigrate. Migrants from the People's Republic of China were mostly young, highly-educated students who decided to stay in Australia, after 1989, foregoing professional careers in China. They came to Australia with little money, few contacts and no knowledge of the Brisbane area and could often find employment only as cleaners or factory workers. In contrast, the Taiwanese and Hong Kong Chinese were mostly business migrants with established native place ties and were soon able to build up their businesses. Due to these native place ties, those from Hong Kong and Taiwan mainly concentrated on ethnic markets, whereas the PRC migrants tended to join the mainstream Australian market. Older, mainland Chinese migrants, who shared a similar background of traumatic experiences became known as determined entrepreneurs, willing to try anything, to succeed in their second chance for happiness.

David Schak (Griffith University) gave a critique of Gary Hamilton's work on networks in Chinese society. He argued that networks have been used by Western scholars to explain Asian economic success. This would be satisfactory if the term were used loosely, to encompass all relationships involving transactions. However, in his study he found three different categories of networks. The first included the family enterprises which were moral, kinship ties. The second encompassed friendship networks which had no hierarchy and were based mainly on trust. The third referred to enterprise group networks which were based on status and were exclusive and restricted. He believed that networks were transient, unpatterned and fluid in nature. If this is so, the current crisis will not negate their effectiveness.

Sherman Cochran (Cornell University) questioned Schak's sharp distinction between hierarchical and egalitarian networks, believing that networks are too difficult to categorize. He highlighted the issue of 'native place' as culture capital, using as an example, the success of Hong Kong entrepreneurs who used"restaurant ties" to establish Chinese restaurants in London during the 1960s and 1970s. He pointed out that native place ties appear to grow stronger outside of China which is another reason for their success.

Finally, Chi-Kong Lai in his concluding remarks summed up the themes of the workshop and sent his thanks to the participants. This workshop was highly successful, in terms of both intellectual input and comparative analysis. The speakers showed how networks are complex and cooperative, national and international, exclusive and flexible. The Malaysian incident of 1971 serves as a reminder that although economic setbacks occur, those involved in such networks are capable of survival. Thus, in the current Asian economic crisis, the positive characteristics of the Chinese business networks mentioned appear to suggest that the network system will continue to remain a competitive advantage. In summary, many thanks may be extended to each of the contributors to this worthwhile forum.

Contributors

Denise Austin is currently a third year history student, at the University of Queensland. She has a Bachelor of missionary studies and has spent two years as a missionary in Hong Kong, with her husbard and three children. Her research interests center on modern or contemporary Chinese history.

Aron Shai is professor in the Departments of History and East Asian Studies at Tel Aviv University and was a visiting scholar at Columbia University earlier this fall. This essay is from research for his book *The Fate of British and French Firms in China 1949-1954: Imperialism Imprisoned* (London, 1996).

Tan Ern-Ser is senior lecturer and Assistant Head, Sociology Department, National University of Singapore. He was Secretary of the Organizing Committee for the Asian Business Networks Workshop. He is co-editor of *Understanding Singapore Society* (Times Academic Press, 1997). Current research includes a study of local church organization from a global and netwok perspective and in terms of the class and ethnic dimension.

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Chinese Business History

is bulletin of the
Chinese Business History Research Group
Coordinators: Wellington Chan, Robert Gardella, Andrea McElderry

Subscriptions:

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$9.00, overseas airmail

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As a result of a meeting of the Chinese Business History Research Group at lastyear's AAS, we are re-structuring and up-sizing. Three associate editors will be responsible for identifying and reviewing material in specific world regions. They are

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