BRITISH merchants went to China, in the seventeenth and eighteenth centuries, to buy. During the nineteenth century, they began increasingly to sell. And during the twentieth they came more and more to manufacture.

The first British merchants purchased at the Chinese ports silks and satins, tea, sugar, ginger, gold, copper, chinaware, spices and other goods highly prized in the West, some unobtainable elsewhere. They offered in exchange woollen cloth, firearms, lead, tin, pepper from the East Indies and raw cotton from India. But since the demand for these was weak, they had to make up the greater part of the balance by exports of silver, and later opium. The Chinese goods were mainly dispatched direct to London where they were resold all over Europe. For this reason there was intense competition to buy up as much as possible of the Chinese goods, especially tea, and to send them with all speed to Europe to secure the firmest prices there.

With the conclusion of the treaties in the nineteenth century, and the development of British manufacturing power, China began to attract the attention of British exporters. There grew up a myth, a vision of an inexhaustible market in the interior, which only needed to be opened up to yield vast fortunes to the enterprising merchant. There was an increasing export of British manufactures, especially textiles.

At the same time commercial organization began to take new forms. As a result of the treaties, more direct contact with the Chinese internal market became possible. There were increasing attempts to cut out the long series of middle men who intervened in many trades between the Chinese producers and the foreign merchants. The compradore system was established, by which foreign firms employed Chinese agents, purchasing Chinese goods from the producers in the interior on their clients' behalf, and, often, disposing of Western goods to Chinese merchants and retailers. In time, specialized import-export firms grew up to handle the trade in particular commodities. And eventually British manu-
facturers began to send their own representatives to China to study the markets.

British financial institutions too became increasingly involved in Chinese development. From about 1850 British banks began to operate in China for dealings in foreign exchange, and, increasingly, to finance trade. British money played an important part in the financing of the first railways constructed in China. From the beginning of the twentieth century mining operations began to be undertaken by British interests. And before the First World War British finance houses were playing a dominant role in international consortia, formed with the approval of the British Government, to prevent cut-throat competition between the powers for the privilege of making loans to the Chinese Government on the security of tax revenues.

The right to manufacture in China was secured for all the Treaty Powers by Japan, after her conquest of China in 1895. This activity was at first concentrated in the textile industry, especially in Shanghai. The new factories benefited from the proximity of the raw materials and from cheap Chinese labour. Their products could be exported direct to other parts of Asia as well as to the home countries. British interests played an important role in the development of shipping, including the coastal and river trade. They set up processing and packing plants. There grew up substantial communities of foreign businessmen permanently established in the ports of East China and the Yangtze.

Thus by the thirties, when the second Sino-Japanese war broke out, British business interests in China were very different from what they had been a hundred years before. The business community was by then composed of a number of quite separate strands. There were those who were in China, like their earliest predecessors before them, in order to purchase, for import to Britain or elsewhere, individual Chinese products, tobacco, tea, hides, bristles, or other specialized commodities. There were those who were there, often on behalf of individual firms, to sell Western goods, for example cotton textiles, wool, chemicals, oil, textile machinery and other engineering products. There was a much larger number of firms, ranging from huge organizations such as Jardine Matheson, and Butterfield & Swire, to tiny import-export firms, domiciled only in China or Hong Kong, which traded in both directions and in a large variety of products. There were those
who were engaged in mining, processing, or manufacture within China, for sale either there or abroad. There were the shipping firms carrying both internal and foreign trade. There were the banks and other financial organizations which financed trade and business without themselves undertaking it. Finally there were some engaged in such other activities as public utilities, the property market, insurance and other trades.

The British still played a far larger part in these affairs than any other foreign community. British investment in China before the war was well over a third of the total foreign investment in China and more than four times as large as that of any other country except Japan. In 1931 this investment was calculated at about £180 million of which about £150 million was in Shanghai. Britain owned fifty per cent of the shipping engaged on the coastal trade. The total British holdings of Chinese Government loans were over £50 million. In addition there was a fairly substantial British ownership of private property in China.

After the outbreak of the Sino-Japanese war, these activities, which were almost entirely concentrated on the east coast and in the Yangtze valley, were carried on for some years within Japanese-occupied territory. As soon as Japan entered the war against Britain the foreign settlements were seized, British businessmen were interned and their properties sequestrated by the Japanese authorities or their agents. The businesses were placed under Government supervision, but they were often kept running as going concerns and the bulk of the staff thus held together. When the war ended, most elements of the foreign business community soon returned to recover their properties and re-establish their businesses. Although there were sometimes initial difficulties in regaining possession, within a year or two most were once again carrying on their former activities so far as existing conditions permitted.

There were many handicaps to overcome. British businessmen felt perpetually frustrated by the activities of the Nationalist bureaucracy, which they regarded as inefficient, corrupt, often deliberately obstructive. Chinese imports were strictly controlled by a committee set up to establish a co-ordinated import programme. There was no stable relationship between sterling and the Chinese currency. At the same time, because of the war some of the Chinese
traditional exports had been replaced by alternative sources of supply. Because of inflation Chinese prices were often quite uncompetitive. And because of her own difficulties Britain herself was not at first able to bring about any great increase in exports.

But it was the civil war which more than anything hampered the redevelopment of commercial activity. As a result the country's economy was never fully restored to normal. Over large parts of the country, the Nationalist Government never regained control. Supplies and markets were disrupted. Corruption was rampant. In October, 1946, a British trade mission was sent to China to explore the possibilities of developing trade but was forced to conclude that so long as the civil war continued it would remain impossible to bring about any great expansion. Though in the long run there could be "incalculable development", what was needed first was the restoration of internal peace and the establishment of a sound and honest administration. As a result of these conditions trade grew only sluggishly, and by the time the Nationalists were expelled from the mainland had still not reached pre-war levels even in terms of value.

There were similar difficulties in the way of a revival of British manufacturing industry in China. Though most industrial properties resumed activity after the war, British companies were reluctant to commit themselves to new investment so long as the political situation remained so unstable. Investment was made hazardous not only by the general insecurity over the future but by the instability of the Chinese currency, uncertainty in the supply and cost of raw materials and by labour unrest. The Chairman of I.C.I. announced in October, 1946, that that company was unlikely to invest any further money in China until the situation there grew clearer. Many other British manufacturers followed a similar course. As the war progressed, economic activity was increasingly inhibited. In February, 1947, the British Under-Secretary of State for Foreign Affairs declared in the House of Commons that China was "on the verge of economic and financial collapse", and that trade would therefore inevitably become increasingly difficult. By January, 1949, the Secretary for Overseas Trade said that in the existing circumstances "it was not possible to make any realistic assessment of the prospects for U.K. trade with China". Certainly nothing could hinder trade more than the existing confusion. Many British
businessmen began to feel that even under a Communist régime conditions could not be worse than under the Nationalists.

At the end of 1948, when the Communist armies first occupied some of the cities of North China, European businessmen further south received favourable reports about the demeanour of the Communist troops and the effectiveness of their administration. Foreign businesses were not occupied, nor prevented from carrying on their activities. Attempts by the authorities during the truce in early 1949 to restore trading contacts between the north and Nationalist-occupied Shanghai raised further hopes. In March and April trading connexions between North China and Hong Kong were resumed. One ship left Tientsin for the United States.

After the capture of Shanghai the Communist authorities expressed their willingness to co-operate with foreign business interests. They quickly got the harbour working again. They were energetic in their attempts to tackle the urgent financial problems that faced the community. British ships were permitted, as they had not been under the Nationalists, to transport goods and passengers between Chinese ports. As a result of a telegram to Mao Tse-tung taxation imposed on a large British company was reduced by thirty per cent. The Managing Director of Jardine Matheson, the uncrowned king of the foreign business world, praised the realistic approach of the régime to the first problems they had to tackle. And the British Consul-General was outspoken in his commendation of the efficiency and integrity of the authorities in Shanghai. It began to be hoped that there might still be a few more years of activity in China for foreign business. Perhaps it might even enjoy better conditions than before.

By mid-summer of 1949, there were growing doubts. It was clear that an increasing volume of trade was to be channelled through State agencies. Banking business came to be concentrated in the Bank of China. Trade was controlled by means of export and import certificates. In some categories it was prohibited altogether. In July, 1949, all import-export firms, Chinese and foreign, were registered and only about two-thirds of them gained permission to go on trading. Maximum and minimum prices were fixed for all commodities traded.

Businessmen sometimes had difficulties in dealing with inexperienced officials reluctant to take responsibility for a wrong
decision. There were large and apparently arbitrary tax demands on many business firms. In some areas there were labour difficulties, demands for "liberation bonuses", wage increases, huge severance payments and other benefits.

Perhaps more serious than any of these troubles was the blockade of Chinese ports which the Nationalists sought to impose from June, 1949. Chinese ports were bombed, Chinese waters were mined, and foreign ships entering Chinese ports were intercepted on the high seas. The foreign business community in Shanghai joined in sending a communication to the United Nations, protesting at the loss of life and damage caused by air attacks on the city. There was a succession of incidents in which British ships were involved. Many were intercepted by Nationalist warships. Others were bombed and machine-gunned from the air. A few were taken by force to ports in Formosa and detained there for a considerable period.

The Nationalist Government, claiming to be the legitimate government of China, denied that such attempts constituted a blockade, calling them a "domestic closure order". Repeated representations by the British and United States Governments proved ineffective. From November, 1949, two Royal Navy frigates were kept off the mouth of the Yangtze to give assistance to British merchant ships. On one occasion a British destroyer succeeded in rescuing a British merchant ship captured by the Nationalists. And one of the reasons that British trading interests were so anxious for recognition of the Communist Government was that it was thought that this would enable the Royal Navy to deal more effectively with Nationalist warships.

Thus for a time the early hopes began to fade. In May, 1949, Mr. Alexander told the House of Commons that it did not appear that normal trading conditions were being resumed in the Communist-occupied areas. In July, 1949, Mr. McNeil, Minister of State, stated that the position of British businessmen was still causing considerable anxiety. And because of the lack of official contacts with the local authorities it was harder for British businessmen to remedy their position.

Even when, by the beginning of 1950, the new Government had acquired control of the whole mainland and conditions began to become more stable, there was little improvement. At this period the Government was making strenuous efforts to halt inflation and
these policies brought about something of a recession in China. There were heavy taxes, forced loans and control of the commodity markets. The change of government inevitably brought continuing dislocation. There had been a substantial flight of capital and of experienced businessmen from the mainland. And over and above all this there were serious floods and famine.

Yet British businessmen remained full of hope. A delegation of them told the British Government in December, 1949, that their representatives in China had unanimously reported that there would still be great opportunities for British commercial enterprise in the new China. Things did begin to improve. There was some development of trade between Tientsin and the South. Exports from North China were freed from export duties and a special subvention was offered for firms engaged in the export trade. The restoration of communications and security in the countryside brought some recovery to internal trade.

About half-way through 1950 there was a more dramatic change for the better. The Government's efforts to stem inflation had been largely successful. The currency had been stabilized and they were ready to allow business activity to expand. The severe tax demands previously imposed were relaxed. Labour was exhorted to cooperate with the businessmen in order to boost production. Some foreign firms reported higher productivity than ever before. The Government organized a national Importers and Exporters Conference, which was attended by some merchants from Hong Kong, to promote foreign trade. The authorities announced that while the trade in certain commodities would remain a State monopoly, the rest would be open to private and foreign merchants. Fifty per cent of foreign trade was said to be still in private hands. The leader of the British business community, after a visit to Peking in October, 1950, declared that if the world situation permitted "the Central People's Government was only too willing to trade with the British Commonwealth".

With the opening of the Korean war there was a large demand in China, both from private and State organizations, for many materials from the West. Chinese purchasing agencies in Hong Kong were very active in buying commodities, especially rubber and oil which were not yet embargoed. Another result of the war, and of the neutralization of Formosa that went with it, was that the Nationalist blockade came to an end. As a result there was a sudden
boom in trade, especially with Hong Kong. Hong Kong exports to China leapt to nearly £100 million in 1950, three or four times the normal pre-war figure. U.K. exports rose by fifty per cent from the previous year, though at £3.6 million they were still not much more than a quarter of the 1947 figure. The boom benefited the traders rather than the manufacturers. But some foreign businessmen began to believe nonetheless that their earlier hopes were now proving themselves justified.

Such hopes were soon to be disillusioned. The sudden boom was short-lived. With the intensification of the war in Korea new restrictions in trade with China were introduced. And in May, 1951, the United Nations declared a formal embargo on the export of all strategic goods which were, of course, those that the Chinese were most interested in buying. Traders in Chinese goods found it increasingly difficult to obtain the products they wanted. The hopes of merchants in Hong Kong and Britain for a resurgence of trade with China were quickly dashed.

But the position of British business interests domiciled in China was even worse. From the end of 1950 these were subjected to increasing pressures. Indeed it became increasingly doubtful what part foreign firms was to be permitted to play in the new society that was emerging. They quickly became almost entirely dependent on Government organs, both for supplies of raw materials and for the final disposal of their products. Very often they were unable to secure the materials they required. If they did manage to produce anything they frequently had difficulty in selling it at realistic prices. Occasionally firm contracts were suddenly cancelled without warning. They were not permitted to close branches that were at a standstill; nor to sell their assets; nor, with a few exceptions, to lease them.

Even if, despite all these difficulties, they were able to make any profit at all—and there were a few who did—they were not able to remit funds out of the country. On the contrary, to conform with the Government’s regulations, the head offices were nearly all obliged to make substantial remittances of sterling in the opposite direction. For in addition to tax obligations, the firms were compelled to maintain all their employees on their pay roll, even if, as a result of the Government’s policies, there was no work for these to do. Any attempt to resist such exactions might have repercussions
on members of their staff. A manager of one firm which ceased to remit was held under detention for some days until funds were sent and the wages paid. As a result nearly all the firms in practice continued to remit. For the British head offices felt a considerable sense of responsibility towards their staffs, who were living in China in circumstances of considerable strain.

Indeed the conditions under which British businessmen, and indeed all the foreign residents, lived in China at this time began to be reminiscent of those under which their earliest predecessors had existed at Canton two hundred years earlier. Every inhabitant of a Chinese city, whether Chinese or foreign, had to be registered. He was subject to the ministration of his local street committee which, like the groups of households established by the K.M.T. and earlier régimes, had to ensure that every member conformed to Government regulations. He required official permission to travel to any other town; or to change his address; even to go and stay in a hotel.

But foreign residents required, in addition, a residence permit. To obtain this he had to answer a long questionnaire, giving details of his religious faith, political affiliations, occupation, personal income and the names of his friends and acquaintances. The permit had to be renewed at intervals. If he wished to go to stay overnight with a friend, he had to sign off at the local public security bureau in his own area, and sign on in that of the other. If he had a wireless set this must be registered. And if he sold it he had to sign a statement saying who he had sold it to and for how much. Finally, if he wished to leave the country, he needed an exit permit. To get this he was obliged to undergo a thorough-going examination of all his affairs, to ensure that he was not leaving behind him any unpaid debts or other obligations. This invariably took many months—often years.

In addition, from the entry of China into the Korean war at the end of 1950, the British resident, though normally treated with courtesy, lived in what was to all intents and purposes an enemy country. He was surrounded by an intense propaganda of hatred against the West and all imperialist aggressors. During the Five Antis Campaign launched in 1951 against the world of business, the representative of a foreign firm was sometimes subject to a spate of accusation and denunciation, often from his own staff (though it was his Chinese colleagues who bore the brunt of this attack).
And all the time his business was at a standstill. His pastimes were annihilated. The clubs, the golf courses, the racetracks, and all the other stately pleasure-domes which the foreigner in China had erected for his own diversion, were requisitioned or closed down. The British businessman sat at his desk, idle, dreaming of a golden day that could never again return.

Nor could he obtain any respite from the strange world in which he lived. For to the foreign manager, the Government would grant no exit permit. He was held in China, imprisoned, a hostage, till such time as the Government had, by their policies, succeeded in convincing his employers that there remained no future in the new China, for the foreign businessman.

As a case-history of the type of difficulty that British businesses had to contend with, the experience of the Kailan Mining Administration may be described. This was a part-British, part-Chinese organization, in practice controlled from London, which owned the largest mining undertaking in China. When the Communist armies first occupied the mine area in December, 1948, officials of the company were assured that the company’s administration would be allowed to continue and that British capital invested would be protected. For some months there was no attempt at interference. Some difficulties were smoothed out as a result of personal discussion with Government officials in Peking, a form of negotiation that virtually no other foreign business was ever able to achieve. The miners themselves, under persuasion from the authorities, undertook to bring about increased productivity and better labour discipline, in return for higher wages and better safety measures.

But as time went on the company found themselves placed under increasing pressure. They were squeezed from three directions at once: from the tax authorities, from the trading company that purchased the coal, and from the railway administration which carried it. They were obliged to hand over nearly half a million tons of coal in settlement of some alleged liabilities at a valuation that was about a quarter of the cost of production. As a result of these various exactions they fell further and further into debt. They became dependent on a government loan for the payment of wages. In June, 1949, the Communist administration appointed a military supervisor with a staff of nearly a hundred to deal with the company,
in place of the various local authorities in different areas. But it soon became clear that the real function of these officials was to prepare to take over the administration of the mines.

Soon after this the British parent company decided to remit no more funds from London and to withdraw their European staff as soon as possible. In January, 1950, the company's manager in China informed the Chinese Government that they intended to withdraw their interest in the K.M.A. In April they received from the Chinese Government a telegraphed request for the remittance to China of £500,000 either as fresh capital or as a loan to the K.M.A. This, understandably, they declined to do. They offered instead to hand over all their interests immediately if the Chinese Government would in return take over any liabilities of the Administration that were not covered by its funds. They would later negotiate for compensation for the British company's share of the assets of the Administration.

In fact no further negotiations took place. But the British staff were soon afterwards permitted to leave. It is perhaps unlikely that the British company ever entertained any serious hopes of obtaining compensation for the Administration's assets. They were content to cut their losses by undertaking an exchange of all their property in China against the cancellation of any liabilities for which they were held responsible by the Government.

The position of the K.M.A. was not altogether typical since their concession in China would in any case soon have come to an end. Nor did the Chinese Government normally attempt any direct control of the running of the foreign businesses they sought to take over. But otherwise the methods used to make business impossible for the company, and so to persuade them to undertake a voluntary withdrawal, were characteristic of the Government's policy in dealing with nearly all the foreign firms. And the terms on which the final withdrawal was made were those that were later followed by almost all the other British businesses, when they too found themselves obliged to leave.

Conditions for British businesses got steadily worse throughout 1951. In March, 1952, the Hong Kong and Shanghai Bank announced that they had decided to close their offices in Peking, Tientsin, Tsingtao and Swatow. In April, 1952, the British-American Tobacco Company reached an agreement with the Chinese authorities under which they were allowed to close down
all their activities in China, and handed over assets worth £10 million, in return for an undertaking by the Chinese Government to make themselves responsible for all further liabilities. Finally on May 19 of that year, the British chargé d'affaires delivered a Note to the Chinese Government informing them that the major British companies operating in China had decided, because of the difficulties they were faced with, to cease operations in China and to apply for the closure, custody, transfer or lease of their businesses. The Chinese Government were asked to co-operate in bringing this about as quickly as possible.

The reply of the Chinese Government in July promised due protection to all British firms dealing in China, and said that questions concerning closure should be directed to the local authorities who would deal with each case "quickly and reasonably", on its own merits. There ensued a period of protracted bargaining in which individual firms negotiated with local officials on the conditions for their withdrawal from China. Both sides were probably aware that in practice nearly all the firms were likely eventually to follow the example of the British-American Tobacco Company, sign away all claims to their physical assets against the grant of permission to close, the consequent release from further tax and wage payments, the acceptance by the Chinese Government, or the purchasing agency concerned, of an agreed list of outstanding liabilities, and the issue of exit permits to foreign staff. But before an agreement of this sort could be reached, officials had to make a thoroughgoing examination of the companies' assets to make sure that they were in good order and that there were no undiscovered liabilities. The managers in China were held personally responsible for any discrepancies. They were not allowed to leave until all such questions had been cleared up. And besides their difficulties with the purchasing agencies, the companies were often faced with huge claims, usually supported by the authorities, for "severance pay" for all former employees (including sometimes some who had not worked since before the war), even if these were to be kept in employment after the change-over. Until all such questions had been settled, firms were obliged to continue to remit large sums in sterling to ensure wage payments.

A particular difficulty faced the three large banks, the Hong Kong and Shanghai Bank, the Chartered Bank of India, Australia and China, and the Mercantile Bank of India. They all held Chinese
official funds, banked by the Nationalist Government, and now blocked in the United States as a result of the United States Government's action in freezing all Chinese assets in that country. The Chinese Government demanded that means should be found to bring about the return of these funds; while the United States Government refused to agree to any procedure that would have the effect of evading their freezing order. The banks were allowed to dispose of most of their buildings. But they continued to negotiate, operating from small back rooms, long after all the other firms had finally achieved their withdrawal.

Some of the smaller firms were given permission to close. A few firms were allowed to let certain properties. But in most cases the negotiations proved long and difficult. In January, 1953, the British Government sent a further Note, asking for the co-operation of the Chinese authorities in allowing the firms to wind up their businesses. But in February, 1954, more than a year later, Mr. Eden announced in the House of Commons that the position of British businesses in China was still "in every way unjust and unsatisfactory": if the Chinese Government wished to improve relations with Britain the best thing they could do was to treat British interests in China with ordinary courtesy and justice.

It was only in the summer of 1954 that things began to move more quickly. At the Geneva Conference, during the brief relaxation in relations between Britain and China that occurred then, the difficulties of British businessmen were discussed in private talks between Chou En-lai and the British Foreign Secretary. A representative of the F.B.I. went to Geneva to explain some of the special preoccupations of the foreign firms. The Chinese Foreign Minister undertook to see that the authorities did what they could to speed matters up.

As a result there was a considerable improvement. Replacement visas were granted more easily. Firms were allowed to cut down staffs. And the discussions on closure proceeded more smoothly. By half-way through 1955 most British firms that wished to do so had received permission to close. They had withdrawn all their foreign staff and had effectively abandoned all their assets. The Chinese Government had successfully secured some of the most modern and prosperous business undertakings in China, without incurring either the odium or the financial liability of outright confiscation.
These assets were valued by the Foreign Secretary, in announcing the original decision to withdraw, at between £200 and £250 million. Jardine Matheson's alone left property that was estimated to be worth £30 million. To many large firms the assets left behind represented only a part of interests that were world-wide. But some small businesses lost almost everything they had. All equally were compelled to abandon, at the stroke of a pen, assets that had been built up over many years of commercial activity, rather than go on sinking more and more money, without return, as ransom for staffs held, prisoners, in China.

Thus British commercial and manufacturing interests in China came to an end. If there could no longer be trade within China, however, British merchants continued to have hopes for the future of trade with China. But here there were other difficulties.

The first of these was the restrictions imposed on the export of strategic goods to China. This started long before the Korean war. Already in September, 1949, before the formal establishment of the Chinese People's Republic, the British and United States Governments had banned the export to China of machine tools, heavy lorries, aircraft parts, telephone and signal equipment and other items. During the next year a number of further controls were imposed, both in the U.K. and in Hong Kong. In May, 1951, the United Nations passed their embargo resolution. As a result a uniform system of control was established for all those countries taking part in the Korean war, later administered by the Coordinating Committee (COCOM) in Paris.

The restrictions were bitterly attacked by the Chinese Government, who for many years maintained a strong barrage of propaganda designed to secure their abolition. As time went on, and especially after the end of the Korean war, the controls also came in for increasing criticism from British businessmen interested in trade with China. They were also greatly disliked in Hong Kong. In November, 1954, the Governor of Hong Kong made an outspoken attack on them, saying that it was of vital importance to the island that the embargo should be lifted or at least eased. One of the chief difficulties was the uncertainty that surrounded it. Orders were sometimes accepted in good faith in Hong Kong; but the goods simply did not arrive, so that penalties for non-delivery became payable to the Chinese. Critics complained that the British
Government were more strict in their application of the embargo than some other governments. And they felt that the restrictions were being maintained long after they had ceased to be necessary.

As a result of these pressures, during 1955, and again in 1956, the British Government raised the matter in talks with the United States Government. Although the United States Government would not then agree to any revision of the lists, the British authorities began to make some slight relaxations in their administration of the ban through a device known as the "exceptions procedure". In June, 1956, it was decided to permit the export of "reasonable quantities" of rubber to China from Malaya and Singapore. But there was still an urgent demand for a revision of the lists. There was especial criticism of the fact that the China controls were considerably more stringent than those applied to the Soviet Union. The exceptions procedure was slow and cumbersome. And it remained impossible for merchants to be sure whether any contract which they wished to conclude would be permitted to go through.

In early 1957 the pressure for revision grew more intense. The Labour opposition were becoming sharply critical of the continuance of the embargo. The Sino-British Trade Committee addressed a letter to the President of the Board of Trade in strong terms. The matter was discussed by Mr. Macmillan and Mr. Selwyn Lloyd with the United States President and Secretary of State during the post-Suez discussions at Bermuda in March, 1957. In May, 1957, there were protracted discussions on the subject in COCOM. At these it proved impossible to reach agreement. Eventually the British Government announced that, though they regretted the failure to arrive at an agreed policy, they intended themselves to abandon henceforth the differential between the Soviet and the China lists. This example was later followed by most other members of COCOM.

Within the next year there was renewed pressure for a further relaxation of the new joint list. And in July, 1958, that, too, was considerably eased. As a result of these successive moves, civil aircraft and engines, most types of shipping, petrol, electrical equipment, iron and steel, most motor vehicles and tractors, chemicals and machine tools were freed. As a result British exporters were able to sell to China almost any items that were not of direct military value.

The relaxations of the list that were introduced were resisted by
the United States Government, which continued to prevent any trade of whatever sort with China by United States nationals, or in U.S. goods. Some of Britain's Commonwealth and N.A.T.O. partners were also doubtful about the relaxations. The British Government, however, were probably never happy, on general grounds, to see commercial contacts entirely subordinated to political considerations. Perhaps even more important in influencing their action was the very intense pressure to which they were subjected by British commercial interests. British companies engaged in the China trade represent in fact an extremely powerful and effective pressure group, as influential perhaps though in a rather different direction, as the China lobby in the United States. An interesting comparison might indeed be drawn between the actions of the British Government in seeking to rebuild trade relations with China after the Korean war, and corresponding action in relation to Egypt after the Suez intervention. For the China trade, despite the relatively small volume involved and the fact that no political dividends were to be expected, the British Government were ready, fairly soon after the Korean war was finished, to bring strong pressure to bear for a revision of the strategic lists. And eventually they were prepared to take unilateral action in order to force the issue. With Egypt, although the volume of trade involved was very much larger and though Britain had a powerful political interest in seeking to restore her contacts with the Middle East, no official efforts were directed to reopening the trade until the end of 1959; and until that time the trade was running at only a fraction of its pre-Suez level. This difference is probably to be related more to the relative effectiveness with which British commercial interests in the two areas are mobilized (together with greater Chinese than Egyptian enthusiasm) than to any clearly conceived political decisions by the British Government in the two cases. But it effectively demonstrates how far, as a result, the policies of the British Government towards China remain in practice, as from the earliest times, dominated by commercial considerations.

The second issue affecting the trade which arose between the two countries concerned the channels through which commerce was to be conducted under the new conditions in China. During the Moscow Economic Conference, organized by the Soviet Union in April, 1952, to publicise the benefits to be derived from increased East-West trade, Chinese officials expressed their belief that in the
future some new system of organization would be necessary for the conduct of European trade with China. British businessmen themselves began to think that they might be in a better position to deal with the Chinese state trading machinery if they were organized in some form of association which could represent their joint interests, a new East India Company to set up against the Communist Cohong. Thus the British Note of May, 1952, announcing the decision of British businesses to withdraw from China, told the Chinese Government that, to meet the new circumstances, the British Government were ready to form an association representing manufacturers and overseas buyers which could “maintain direct contact with the appropriate Chinese authorities”, and act as a permanent trading organization. And the Chinese reply in July said that there was nothing to prevent any such organization entering into negotiations with any of the Chinese trading agencies, “provided that it did not harbour monopoly designs”—a somewhat ironic stipulation in the circumstances.

For some time, however, this idea was not taken up by either side. Despite the offer they had made, the British traders and manufacturers were anxious to ensure that, whatever joint body might be formed, the trade should in practice remain in the hands of the individual firms having a traditional interest in the China trade. The Chinese, on the contrary, appeared anxious to redirect the trade into entirely new channels. On the one hand, they sought to deal direct with manufacturing interests, so bypassing the old-established merchants both in Hong Kong and in Britain. On the other, they tried for a considerable time to conduct negotiations in trade matters through the exclusive agency of various fellow-travelling or politically sympathetic organizations. These, besides being favourably viewed for political reasons, served as useful propaganda agencies for various Chinese themes, especially for the campaign for the removal of the strategic embargo.

During the Moscow Economic Conference, the Chinese Government reached several agreements with groups of variously assorted businessmen and left-wing politicians. Most of these were for goods that were embargoed. And it later transpired that they did not in any case represent firm contracts. They were the pious hopes of politicians rather than the hard-headed commitments of traders. The Chinese Government established a trading agency in East Berlin which became responsible for nearly all Chinese trade with
East Europe. In the autumn of 1952, an organization called the British Council for the Promotion of International Trade, designed to encourage British trade with China, came into being. Inquiries by British businessmen were forwarded by Chinese agencies to the Council. In the summer of 1953 this body sponsored a visit by a group of British businessmen, including representatives of large and well-known British firms, to China. The mission entered into an "agreement" for an exchange of goods worth £15 million each way. But once again few of the deals represented firm contracts. And the bulk of them concerned items on the strategic list.

Neither the British Government nor many British firms were happy about the situation in which almost all British trade with China was conducted under the auspices of this organization. In November, 1953, Mr. Eden described the B.C.P.I.T. in the House of Commons as a Communist front organization, whose object was to promote Communist international economic policy; and by implication warned British businessmen against taking part in its activities. As a result most of the British firms that had previously participated in it withdrew.

In March, 1954, the China Association, the old-established organization of British firms interested in the China trade, in conjunction with the Federation of British Industries and the London Chamber of Commerce, wrote to the Chinese Minister of Foreign Trade in China, saying that the two organizations were not satisfied with the existing trading arrangements, under which all commercial business was channelled through a small and unrepresentative organization in London. They told him that it was proposed to establish a new and more representative body. And they asked that discussions might take place in order to find ways of increasing trade between the two countries. No immediate reply was received. But during the Geneva Conference discussions took place on various commercial matters in which a representative of the F.B.I. took part. Strenuous efforts were made to persuade the Chinese Government to redirect trade between China and Britain into the traditional channels, or, if they insisted on dealing with a single association, with the new body that it was intended to set up.

In the amiable mood then prevailing in Sino-British relations, the Chinese eventually agreed to accept this. In June the new organization, entitled the Sino-British Trade Committee (later
Council) was established. In it were represented the China Association, the F.B.I., the Association of British Chambers of Commerce, the London Chamber of Commerce and the National Union of Manufacturers. It immediately sent an invitation to the Chinese Government to send a mission to the U.K. to visit the British firms it represented and to study the possibilities for extending trade between the two countries.

This invitation was accepted and the mission arrived in Britain at the end of June. Though they clearly showed that they were more interested in acquiring knowhow than in the discussion of specific contracts, the mission was regarded by British trading interests as a success. In November, 1954, and March–April, 1955, return visits were made, under the auspices of the Council, by large and representative groups of British businessmen to China. Although again the total value of trade transacted was not great, the missions had the opportunity to discuss in detail the type of goods both countries might be in a position to exchange and other technical problems concerning the trade. Later various specialist Chinese missions, concerned for example with textile machinery, plastics, metals, railway equipment, electrical engineering, cables, chemicals and many other specialized products came to Britain. British businessmen began to make trips to Peking in an individual capacity. By 1958 it was normally fairly easy for British businessmen to get visas to China. Some began to go regularly to visit the biennial trade fair at Canton.

In general, therefore, the British merchants were successful in asserting their desire that trade should be channelled through an organization that was acceptable to themselves. The status of the Sino-British Trade Council was recognized both by the British Government and by the Chinese authorities. For a time it became the normal body for dealing with the British Board of Trade on behalf of the China merchants. And in September, 1958, the Chinese Minister of Foreign Trade, visiting London, had discussions with the President of the Council on matters affecting trade between the two countries.

In practice, however, the role of the S.B.T.C. soon began to decline. Negotiations on trade were increasingly conducted by individual firms with the Chinese trading authorities concerned.
Businessmen no longer relied on being members of an official mission in order to make business trips to China. And the China Association remained the organization mainly responsible for promoting the interests of British traders dealing with China, making representations on their behalf to British Government departments, conducting discussions with the commercial section of the Chinese Embassy in London, and providing information and services for British firms. British commercial circles were by no means sorry to see the decline of the body they had founded, for its demise marked the return to the traditional methods of trading by which they maintained their existence.

The third main issue that arose between the Chinese authorities and the British merchants concerned the terms under which individual transactions were to be conducted. During the first year or two of the régime, Chinese organizations adopted normal commercial practice, paying for their purchases by letter of credit on receipt of the shipping documents, but before receipt of the goods themselves. But as a result of the Nationalist blockade, of seizures by the U.S. authorities at the time when exports from that country to China were prohibited, and of the United Nations embargo, some goods for which the Chinese had already paid never reached their destination. The Chinese, therefore, took to demanding payment by letters of guarantee, that is, promises to pay by a Chinese bank, generally the Bank of China, after the goods had been unloaded and inspected in China. For their own exports on the other hand they continued to demand an immediate payment on the presentation of the appropriate documents.

This discriminatory procedure was obviously unsatisfactory to British merchants. In 1954–55 when diplomatic and commercial relations between the two countries began to be more cordial, the matter was taken up with the Chinese trading authorities. As a result of these discussions the Chinese agreed to pay by an irrevocable letter of credit instead of by letter of guarantee, and to adopt various other adjustments to their earlier requirements. Although the terms of individual contracts were not always identical, their methods were then as a rule roughly in line with normal commercial practice elsewhere, and British merchants were on the whole satisfied with the position. In 1958, however, the Chinese once again altered their methods of payment, perhaps as a
result of uncertainties arising from the off-shore islands dispute, which was then flaring up once more. They began to ask for documentary credits of 30, 60 and 90 days for each transaction, and to settle mainly by unconfirmed letter of credit payable only at the place of issue in China. Neither of these were uncommon trading requirements, but they were strongly resisted by most British merchants, since these had little confidence in being able to secure redress in case of any dispute over payment.

Many of the contracts provided for heavy penalties in case of any breach. And the British merchants were probably also, like the Chinese, concerned about what would happen if cargoes were lost as a result of hostilities in the Formosa Straits, or action by the Nationalist navy. In 1956 the Chinese Government set up a Foreign Trading Arbitration Commission in Peking to judge commercial disputes. Most Chinese contracts now provide for arbitration by this body. British traders have sought to persuade the Chinese to accept arbitration in a neutral country. But so far the Chinese have agreed to accept this only in exceptional cases.

These issues have still not been settled. But in fact no trading dispute has yet been sent to arbitration, whether in China or elsewhere. Until 1959, in fact, British merchants were agreed that the record of the Chinese inspection stations examining their cargoes were beyond reproach; and that, with one or two exceptions, the commercial record of the Chinese trading agencies themselves less excellent. Within the last year or two there have been some important lapses which have increased the foreign businessmen's apprehension. These troubles derive partly from current Chinese difficulties. But the difficulties over terms of payment stem basically from the unhappy fact that no solution has yet been reached in the Chinese Civil War.

Despite these various difficulties trade between the two countries steadily increased. Even while the embargo was in force there was a gradual improvement. British exports to China in 1951, the first year it was in force, were about three-quarters as high as the year before. But the next year they doubled again. And they continued to rise steadily until by 1957 they had reached about £12 million, roughly the same as in the late forties and considerably more in value than before the war. The initial sluggishness was partly due to the reorientation of Chinese trade to East Europe, to the need for
China to devote her agricultural exports to repayments for Soviet economic aid and to the disruption of the previous trading channels as a result of the Communist accession to power. But it remains true that the embargo did effectively prevent China from buying in the West those goods in which she was most interested.

After the removal of the embargo an intensive trade drive was conducted by British exporters. There were huge estimates of potential Chinese demand for tractors, motor-cars, machinery and other goods. A large British motor manufacturer placed a quarter-page advertisement in the People's Daily, six times the size of any normal advertisement in that paper, and probably the first by any British manufacturer in a Chinese national newspaper. Another large Chinese mission was received in Britain and received assiduous attention from official, financial and business circles. In September, 1957, Mr. Errol, the Parliamentary Secretary at the Board of Trade, paid a three-week visit to China—the first visit by any British Minister of the Crown to that country—toured industrial establishments all over the country and had talks with Chinese ministers and officials including the Prime Minister, on the best ways of increasing trade. Talks were held with the Chinese authorities about holding a British Trade Fair in Peking, though the project never materialized as a result of Chinese prevarications.

A considerable growth in the volume of trade did in fact take place. In 1958 the first full year after the embargo was relaxed, British exports were doubled, while Chinese exports rose by a third. A more gradual increase has continued since. In terms of value British trade with China is now about three times what it was before the war. Yet for all the fuss that has been made about its potentialities it is still quite insignificant in its proportions. Britain does more trade with Singapore alone than with China; twice as much with Venezuela; and about five times as much with Sweden.

As a result of the events of the last few years, the organization of British trade with China has undergone a complete transformation. Most of the small import-export firms, often domiciled in China or Hong Kong, that formerly played a large part in the trade have now gone out of business. The Chinese authorities normally prefer to deal direct with manufacturers, so cutting out the profits of the middleman. And many of the largest British manufacturers are
themselves happy to deal direct with the appropriate Chinese agencies. Nevertheless the greater part of the trade between the two countries is still probably handled by merchant firms. Some of these are quite new organizations, formed only within the last few years, dealing with a wide variety of goods and handling a very large volume of business on a commission basis. They are able, through their established contacts with the appropriate Chinese organizations, and by their knowledge of Chinese needs and prices, to provide services that it would be expensive for individual manufacturers to have to supply for themselves. The Chinese Government seem to have no hesitation about dealing with such firms. Indeed they appear to have established stable, and sometimes exclusive, connections with some of them. One or two British firms have been granted a virtual monopoly in some valuable lines of Chinese exports.

Conversely, there has also been some modification of the Chinese trading mechanism. In the early years virtually all foreign trade was conducted by a single organization, the China National Import and Export Co-operation. Later this was divided up into a number of separate trading agencies, dealing with individual lines of goods, and often making use of the expertise of former private Chinese merchants dealing in such products. These organizations are responsible for carrying out the programmes of foreign trade laid down in the annual and five-year plans. Since they acquire substantial supplies of foreign exchange by their own dealings, they are normally willing to make independent transactions with exporters or importers without requiring a barter deal in each case. Since 1958, however, a proportion of foreign trade is carried out by provincial and other local authorities, dealing in locally produced goods, at the Canton fair or in Hong Kong. They receive special encouragement from the Government to engage in foreign trade. But since they receive no allocation of foreign exchange, they must usually demand direct barter or back-to-back deals when making purchases. Sometimes foreign exporters are obliged to purchase, or to find a purchaser for, Chinese produce that is unattractive, expensive or difficult to sell. Nevertheless, in general the Chinese authorities have in recent years reverted to very much more flexible methods in conducting their foreign trade.

Some British businesses for long maintained a foothold on Chinese soil. A number of British firms elected to stay on in China,
even after the majority withdrew in 1952–4. One or two manufacturing and other firms managed to hang on for a while, undertaking processing work for the Government, sometimes under the management of émigré Russians or Chinese staff. For the most part they made little, if any, profit. Most eventually decided to withdraw on terms similar to those obtained by other firms. One large British textile firm continued to run their own knitting factory in Shanghai, under British managers, until late in 1959, long after all Chinese businesses had been effectively nationalized. During this time the factory was able to continue working at full capacity with the cooperation of the authorities. The management maintained cordial relations with local officials. And when the final decision to close was made, they were granted relatively favourable financial terms for the final hand-over of assets.

One or two shipping firms continue to maintain offices in China. One of the major British oil companies still has an office functioning in Shanghai. This company, with one or two others, is in a slightly different category from the other British firms. Most of their property (though not the Shanghai office) was requisitioned by the Chinese Government in retaliation for the confiscation by the Hong Kong Government of Chinese oil tankers of disputed ownership. As a result, their assets, though at present in the hands of the Chinese authorities, represent almost the only British commercial property in China that has not been formally relinquished by its owners.

The principal British organizations still functioning in China are the Far Eastern Banks. Early in 1955, at a time when their negotiations over the blocked Chinese official funds in the United States were still deadlocked, the Chinese authorities hinted that they would welcome some form of representation by the banks in China. The Shanghai branches of the banks were allowed to resume banking business. This is of a limited nature, mainly remittances for Embassies and other foreign organizations. They have no Chinese depositors. Meanwhile, however, though the Mercantile Bank was permitted to close and withdraw (it has since been absorbed by the Chartered), the other two British banks have never reached a final settlement in their dispute over Chinese official holdings in the United States. Although the Chinese Government have expressed themselves ready to accept payment in sterling, the U.S. Government are still unwilling to release the frozen dollars to the banks.
Until a settlement about this has been reached, the banks are unwilling to discuss with the Chinese authorities any extension of their activities in China.

The rights of British private property-owners in China were never formally abrogated. They have, however, now become extremely problematic. In 1951 the Chinese Government published regulations providing for the registration of all foreign-owned property, surface rights and mortgages in China, announcing that all property not registered would be treated as ownerless and placed under the control of the Government. Many British owners did ask the British consular authorities to register their property for them and continued to receive rent payments in Chinese currency. Under later regulations they were obliged to appoint agents who would be responsible for dealing with the Government authorities. Since no rents could be remitted abroad this was not a very profitable undertaking for the foreign owner. And from 1958 the Government provided that the actual collection of rents could be carried out only by State or municipal management agencies, who would deduct a fixed proportion of the rent for dilapidations and collection expenses. British property owners received notice from their own agents or attorneys in China saying that they no longer wished to represent the owners, and suggesting that a new power of attorney should be made out in favour of the appropriate State agency.

Some British owners did this and still theoretically receive rent for their property to their accounts in China. But the principal foreign owners who had thought it worthwhile to retain their legal rights to property in China were one or two large estate companies owning considerable assets mostly in Shanghai. In November, 1958, however, the Shanghai manager of the largest of these, Sassoons, who still owned about 60 large properties in China, handed over the company’s assets to a State organization. The Hong Kong office of the firm declared that this action was unauthorized and invalid. But it seems likely that in any case, under the control of the State agencies and subject to heavy demands for taxation and repairs, property in China will become so unprofitable to foreign owners, even in terms of Chinese currency, that few will think it worthwhile to cling to their titles.

Similarly, in some cases, British shareholders in Chinese companies that have, like all private companies in China today, been taken into “joint state-private operation”, have continued to receive
the statutory five per cent in Chinese currency to accounts in China. But such payments are in any case to cease by 1963 (when the "socialist transformation" of such enterprises will have been completed). And once again the proceeds cannot, of course, be remitted out of China.

Thus British financial and business interests on Chinese territory, if not yet utterly extinct are at least now only vestigial. During his century of activity on Chinese soil, the British businessman had built up thriving commercial centres in many of the East coast and Yangtze ports of China. He had played a large part in the establishment of a modern manufacturing industry in China. In Shanghai he had helped to raise out of the mud the largest city in China and the third seaport of the world. He had provided, here and in other cities, modern municipal services and a pattern of Western administrative methods which were certainly not without their value for those who finally took them over. All the assets that he had built up in this process, worth hundreds of millions of pounds he was eventually obliged to bequeath, without recompense to the new rulers of China.

His activities had not been conducted out of benevolence. During his stay in China the foreign businessman received as a rule a handsome return for his investment. He lived a privileged and in some ways luxurious existence within the heart of Chinese cities, forming there wholly foreign colonies, insulated from the great tide of Chinese life that seethed about him, factory areas such as both he and his hosts had favoured from the start. Though he frequently became a genuine admirer, even lover, of China and her way of life, in many cases preferring to settle permanently in the East rather than return to his homeland on retirement, his contacts with her people were minimal, and his knowledge of their language, life and culture, rudimentary. The hostility that his activities evoked among many Chinese dated from long before the coming of the Communists. And it is probable that even without their advent, the role of the foreign businessman in China must inevitably soon have taken some different form.

During the century that it had lasted, the foreigner's business activity in China had brought much that was of benefit to both countries. A part, at least, of his profits was reinvested in the country. His influence was killed in part by ideology, perhaps more
by national pride. British merchant and Chinese official alike continued to hope that, in the field of commerce at least, contacts between the two countries might continue to bring mutual benefit. But in future the trade was to be conducted only at a distance, each transaction negotiated across twelve thousand miles of ocean.