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The Limits of Informal Empire:
Britain's economic war in Shanghai,

1914 -1919

Sara Shipway

A dissertation submitted to the University of Bristol in accordance with the requirements for award of
the degree of PhD History in the Faculty of Arts

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Abstract

Against a backdrop of growing political instability in China, as the nascent republic struggled to gain control of a vast and disparate country, Britain waged an aggressive economic campaign against German commercial interests during the First World War, fuelled by pre-war rivalries and bitterness at German commercial success. Chinese neutrality and problems with the drafting of economic warfare legislation restricted the actions Britain could take in the early stages of the conflict, which was resolved to some extent, when Britain tightened the legislation and China declared war against Germany in August 1917. Shanghai was the leading treaty port and although each country fiercely protected its own national identity, it was a unique city, a beacon of cosmopolitanism, a meeting ground for people from all nations, attracted by the commercial opportunities of the 'China Trade'. The International Settlement was a small foreign enclave where the foreign community lived in close proximity and whose affairs were deeply entwined but as Britain's economic war took hold, these close-knit ties were torn apart as companies had to rid their business concerns of enemy links. Examining how this situation developed in Shanghai as the war progressed reveals interesting insights into British power and self-perception at a time when its pre-eminence was being challenged on many levels, but particularly by Japan and America as they strengthened their hold over Chinese political and commercial affairs during the war.

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Author's Declaration

I declare that the work in this dissertation was carried out in accordance with the requirements of the University's Regulations and Code of Practice for Research Degree Programmes and that it has not been submitted for any other academic award. Except where indicated by specific reference in the text, the work is the candidate's own work. Work done in collaboration with, or with the assistance of, others, is indicated as such. Any views expressed in the dissertation are those of the author.

SIGNED: DATE:

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Abbreviations

ACP	Asiatic Petroleum Company
AIC	American International Corporation
BAT	British American Tobacco
BCC	British and Chinese Corporation
BCC	British Chamber of Commerce
BDC	British Dyestuffs Corporation
BEA	British Engineering Association
BT	Board of Trade
CMCS	Chinese Maritime Customs Service
CID	Committee of Imperial Defence
CTA	Central Thread Agency
DAB	Deutsche Asiatische Banque
DOT	Department of Overseas Trade
FBI	Federation of British Industries
FRUS	Foreign Relations of the United States
FTD	Foreign Trade Department
KFAG	Konsortium für Asiatische Geschäfte
GEC	General Electric Company
ICI	Imperial Chemical Industries
IG	Inspector General
SOAS	The School of Oriental and African Studies
SMC	Shanghai Municipal Council
SMP	Shanghai Municipal Police
SVC	Shanghai Volunteer Corps
Tls	Taels ¹
TNA	The National Archives
T&S	Telge and Schroeter
TWTE	Trading with the Enemy

¹ The standard currency used for trade calculations and formal transactions was the tael, which could vary in value between the different parts of China. The Shanghai Tael adopted by the foreign community in 1858, had a net weight of about 517 grains of pure silver, and it was in this form that local banks stored silver reserves.

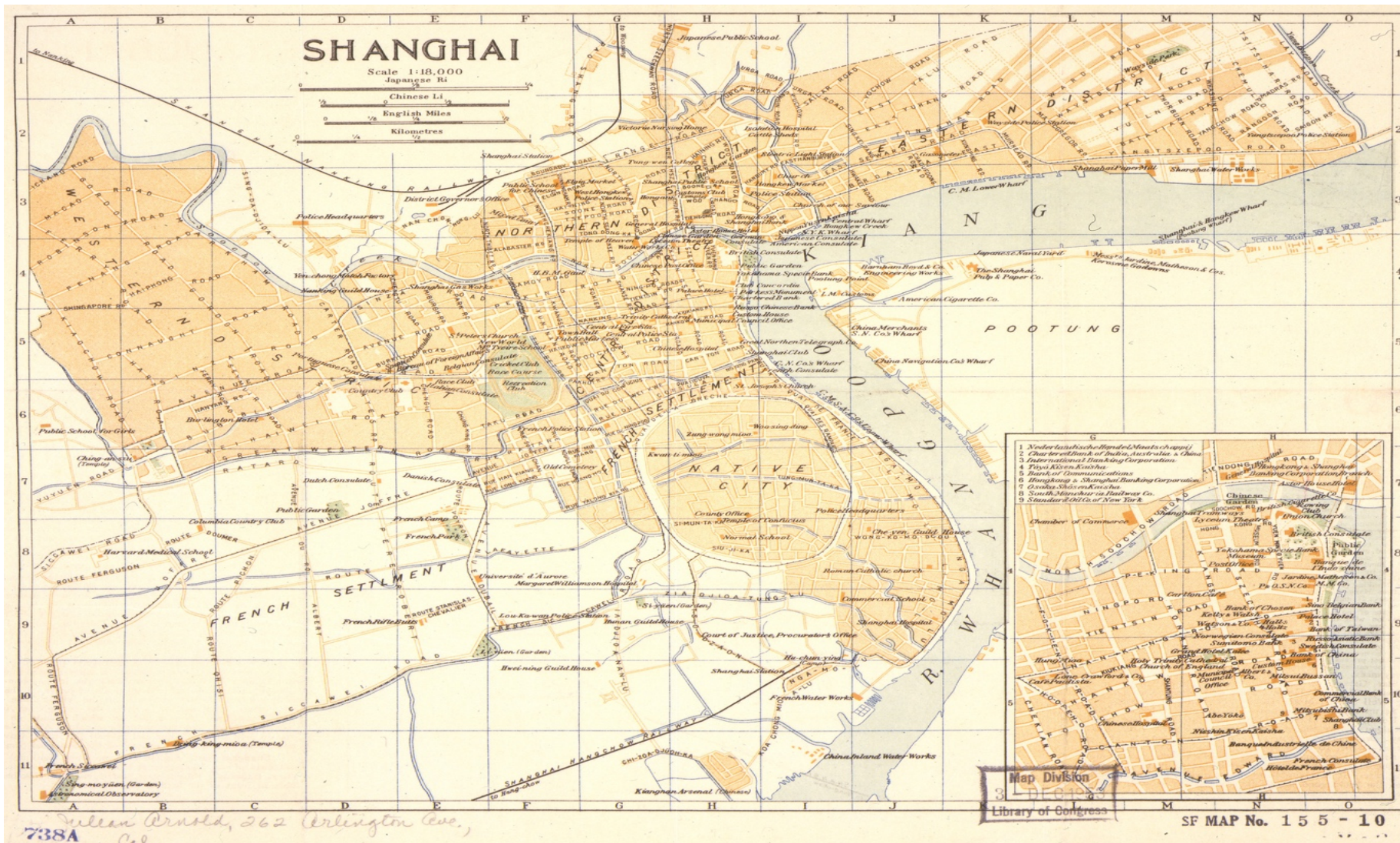


Figure 1: Map, Shanghai, 1904-1914, source Image no.124 virtualshanghai.net

Introduction

As studies of the First World War and its many aspects continue to proliferate, especially during the current period of 2014-2018, corresponding with its centenary, there is still little that has been written about the global reach of Britain's economic war with Germany. Economic warfare formed a vital part of allied strategy against Germany after war was declared on 5 August 1914. The ability to disrupt an enemy's economy and undermine its financial health became as crucial as the pursuit of success on the battlefield. Blockade was a key component of economic warfare but trading with the enemy (TWTE) legislation was also vital in restricting enemy trade globally.² Government officials in Whitehall formed the legislation and British representatives in its extensive empire, with all its variations, were expected to implement what transpired to be poorly drafted legislation to full effect, whatever the difficulties or circumstances. The unexpected length of the hostilities exposed further weaknesses in the legislation, which was constantly being redrafted to cope with the multitude of problems which came to light when trying to implement economic warfare policies designed before the war began, for a conflict whose complexities could never have been envisaged.

By exploring how this legislation was implemented in the Far Eastern reaches of Britain's empire, with a focus on the small multinational foreign trading community in Shanghai, this thesis will ask what difficulties emerged when conducting an economic war in a country where Britain had no formal control. Shanghai, a bustling city metropolis and the centre of British trading interests in China, with distinct foreign enclaves, provides a unique case study as, although Britain dominated the rhythm of the city, it was never a free agent, as life and work there was a multinational affair, where Britain shared responsibility with other powers. The war was seen as an ideal opportunity by the British authorities in London and the British commercial community in China to severely damage Germany's

² For the background to the blockade see, Marion C. Siney, *The Allied Blockade of Germany 1914-1916* (USA: Ann Arbor, The University of Michigan Press, 1957), Eric W. Osborne, *Britain's Economic Blockade of Germany 1914-1919* (London: Frank Cass 2004), H.W. Carless Davis, *History of the Blockade* (London, H.M.S.O, 1920).

trade, which had become Britain's most vexing competitor, but British and German trading interests proved to be closely entwined and Britain's informal control of Shanghai, which had to take account of China's neutrality and the needs of a multinational community, restricted the actions Britain could take against German nationals and their business affairs. This was further compounded by the reaction of other neutral powers, which saw Britain's actions as unwelcome interference in their trading interests and a way of boosting British trade at their expense.

Britain's economic war in 1914-1918 was conducted with the long-held perception of it still being the dominant power globally and with a belief that, with its naval strength and control of the global trading system, a successful outcome would be assured. However, it should be noted that despite this perception of dominance, all the indications that Britain's global trading position was declining were in evidence from the end of the nineteenth century as, Britain's share of global trade had reduced from eighteen per cent in 1890, to fourteen per cent in 1914. The disparity between perception and reality, as this thesis will show, pervaded the high-level discussions taking place during this period.

Economic warfare was used as a means to win the war and to reduce Britain's relative decline by targeting the global trade of an important commercial rival. The reality of the wartime situation, however, exposed severe weaknesses in Britain's global network. By asking what the consequences of Britain's economic wartime policies in Shanghai and China more broadly were, this thesis aims to contribute to the existing literature on economic warfare and more specifically to widen an understanding of the complications of implementing it effectively throughout the wide assortment of power structures which made up Britain's empire. My analysis will show how Britain's economic warfare policies unfolded in China, with Shanghai being the main focus of my research, because it was the leading treaty port for trade, from which other treaty ports took their lead. Shanghai, with its unique structure, where British interests dominated although it was essentially a cosmopolitan city, threw up great challenges for British officials when they tried to implement the TWTE legislation because of China's neutral status, the close-knit affairs of the foreign trading community and the trading interests

of other neutral powers in China. I aim to use Shanghai as an example to show how economic warfare was played out on the ground, revealing how actions in this remote outpost of Britain's empire had a lasting impact on the foreign and local business affairs of the community and how Britain's actions had longer-term political consequences which altered Britain's position in China irrevocably and exposed the limits of Britain's imperial control in this area of its informal empire. To broaden the context, I will make some reference to South America, where Britain's informal presence had similarities to China and commercial rivalry with Germany was equally pervasive.

In this introduction I aim to set the scene for what follows by discussing: the broad themes around the British approach to economic warfare; the concept of informal empire and an outline of the particular aspects of Shanghai which caused political, business and recreational difficulties for the British authorities when implementing their economic warfare policies.

Economic Warfare

The aim of economic warfare was: to bring about a rapid collapse of an enemy's financial systems; to blockade its ports so as to prevent the free flow of seaborne trade; to block trade with enemy firms, and to disorganize its economy so as to produce military paralysis and disrupt its economic life. The restriction of supplies to military forces would, it was thought, hasten military defeat and blockading an enemy's ports would prevent vital commodities from reaching their domestic market. The intention was that these actions would create such hardship and chaos on the domestic front that internal cohesion would be weakened, and enemy governments would become so distracted that they would no longer be able to focus on their military operations.³

³ B.J.C. Mckercher, 'Economic Warfare' in Huw Strachan, eds., *The Oxford Illustrated History of the First World War* (Oxford: Oxford University, 1998), p.119; for further reading about 'total war' see Roger Chickering and Stig Förster ed., *Great War, Total War, Combat and Mobilisation on the Western Front 1914-1918* (Cambridge: New York: Cambridge University Press, 2005); also Marc Ferro, *The Great War* (First published by Editions Gallimard, Paris, first English edition, London: Routledge and Paul Kegan, 1973).

This formed the basis of Britain's economic warfare strategy leading up to the war, as can be illustrated by high-level policy discussions at the time. For example, Britain's security issues became the focus of the discussions of the Committee of Imperial Defence (CID), formed in 1902, mainly to address the considerable military problems which came to light during the Boer War (1899-1902). This Committee brought together senior politicians, Foreign Office officials, admirals and generals to discuss policies and strategy for the defence of Britain in the event of war. Great faith was put in Britain's leading global position, which was just about being maintained before 1914. The efficient functioning of worldwide trade was seen to be critical to the strength and prosperity of Britain and its overseas empire. British shipping companies controlled well over fifty per cent of global oceanic tonnage. Lloyds of London dominated the maritime insurance industry as sterling was the preferred currency of international exchange and more than half of global seaborne trade was administered through financial institutions in London and financed by British banks.⁴

Sea power was a vital component of economic warfare and the Royal Navy was expected to insulate the economy from the worst effects of war. Lord Admiral Sir John Fisher, the First Sea Lord between 1904 and 1910, with an understanding of world economics, particularly about the relationship between sea power and its importance to Britain's global trading interests, believed that the Navy had a crucial role to play, in not only protecting Britain from enemy attack, but also in using its strength to operate a stranglehold over the ocean trade routes. Germany was thought to be particularly vulnerable to attack through commercial pressure due to the majority of its imports and exports being transported by sea. It was felt that Britain had considerable geographical advantages, acting as a breakwater to restrict German trade which would choke Germany's economy to such an extent that it would be quickly forced to sue for peace on British terms.⁵ This view relied on the Royal Navy possessing the

⁴ Nicholas Lambert, *Planning Armageddon, British Economic Warfare and the First World War* (Cambridge: Massachusetts, London: Harvard University Press 2012), pp.22-23, see also John P. MacKintosh, 'The Role of the Committee of Imperial Defence before 1914', *The English Historical Review*, 77:304 (1962), pp.490-503.

⁵ Lambert, *Planning Armageddon* p.32-40, see also Avner Offer, 'Morality and Admiralty: 'Jacky' Fisher, Economic Warfare and the Laws of War', *Journal of Contemporary History*, 23:1 (1988), pp.99 -118.

capability to isolate Germany in order to achieve strategically decisive results but this proved not to be the case once war broke out. Similarly, perception and reality affected the outcome of other aspects of Britain's economic campaign, as will be shown in this thesis.

There were, however, differing views about the benefits and costs of economic warfare. For example as the possibility of armed conflict with Germany became more likely and concerns arose that the economic consequences of such a war would precipitate a significant financial crisis due to the massive disruption to trade, a CID subcommittee called the Desart Committee was set up in 1911 to explore every aspect of trading with the enemy, which was chaired by Lord Desart, a retired government lawyer.⁶ Although the committee restated the importance of the blockade in British economic strategy, it also admitted that such a strategy could hurt Britain almost as much as Germany. Desart tried to reconcile two irreconcilable positions: on the one hand to give all possible assistance to the Royal Navy with the blockade, and on the other to recognize that Britain and Germany were active trading partners and that the harmful effects of restricting trade needed to be kept to the minimum. A more flexible policy was recommended which would permit a certain amount of trade with the enemy if found to be in Britain's political and economic interests.⁷ Anglo-German links were close as a significant proportion of German overseas trade was financed in London, with British acceptance houses funding the majority of trade between Germany and Britain's overseas concerns, and approximately £1 million a day being loaned to German firms. It was felt that the collapse of acceptance houses if Germany were to stop all remittances would result in a full-scale banking crisis. Owing to the scale of the potential economic cost, Desart and the Committee became interested in devising defensive measures which would insulate the British financial system from the consequences of an inevitable collapse in the credit markets and global trade. He received very little support for devising a plan to shield the banking system from this potential financial collapse as bankers preferred to be unfettered by government restrictions and were confident in their own abilities to cope with any

⁶ Lambert, *Planning Armageddon*, p.174.

⁷ David French, *British Economic and Strategic Planning 1905-1915* (London: George Allen & Unwin, 1982), p.61.

potential crisis.⁸ As is shown here, the difficulties of devising effective economic measures for an unforeseen global conflict which would both target enemy commercial interests and at the same time prevent a total collapse of global trade were immense. This was due not only to the complexities of the financial world, but also due to the many diverse opinions and vested interests which were present in the City of London and government circles.

Working in parallel with the Desart Committee were a number of technical subcommittees such as Sir Matthew Nathan's Submarine Cable Communication Committee in Time of War, which was charged with exploring how Britain might capitalize on its position at the centre of the world's communications network. The state's ability to control the flow of information was an important part of economic warfare, not only in terms of propaganda, but because banks and trading firms communicated with each other and conducted transactions through telegrams. It became an important part of Britain's economic offensive against Germany as British firms controlled roughly 70 per cent of the world's communication network linking customers throughout the world.⁹

As the broadening of war planning beyond the strictly military arguably threatened to re-define the relationship between state and society, the level of state interference was hotly contested amongst the various departments involved in the discussions. In particular, the Board of Trade was an avid protector of the interests of British businessmen and opposed state interference into their business affairs, even to the extent of putting private business interests ahead of national strategic concerns. The prospect of state censorship and control over all cable communication networks as well as the right of supervision over the financial services industry in the City of London would have significant political implications and was a huge shift away from the 'laissez-faire' commercial policies which had dominated before the war.¹⁰

⁸ Lambert, *Planning Armageddon*, p.173.

⁹ Lambert, *Planning Armageddon*, p.157.

¹⁰ Lambert, *Planning Armageddon*, p.4.

In spite of these competing views and concerns, on the eve of the First World War economic warfare had become recognized as the cornerstone of British strategy, but the precise means about how to execute it had not been settled as a number of awkward questions had been sidestepped and little had been done to harmonise the opposing government departments or, more importantly, to compel their cooperation. The administrative structures required to implement pre-war plans were slow to materialize, and quick actions in the early stages of the war which might have led to the success of the blockade were not taken, due to concern about neutral rights. These had been protected through the Declaration of London in 1909, which had internationalized the rules of warfare and prevented trading restrictions being imposed against neutral powers in wartime.¹¹ The Declaration was never ratified but it was still a significant factor in influencing the steps to be taken to protect neutral rights in wartime. With no detailed, workable implementation plan in place or without any concept of how long hostilities would last, Britain's economic warfare plans had to be continually reassessed and improvised to respond to the rapidly changing circumstances and to ensure some success with their aims and objectives.¹²

Whilst the blockade formed a vital part of Britain's economic warfare policies in the First World War and is the subject most studied by historians, this thesis will mainly focus on Britain's TWTE legislation. Nicholas Lambert's *Planning Armageddon, British Economic Warfare and the First World War* (2012) provides the most comprehensive account that I have read of Britain's economic warfare discussions before the war and how they unfolded once war began. Lambert explores the European aspects of Britain's economic warfare policies, concentrating on his three objectives: establishing British strategic intent; explanation of why pre-war plans were not followed; and showing how British strategy was improvised as the war progressed. His analysis ends in 1916, and whilst it covers Britain's relationship with America, it does not cover areas outside Europe, leaving scope for further research into the wider impact of economic warfare.

¹¹ D.T. Jack, *Studies in Economic Warfare* (London: P.S. King & Son, Ltd, 1940), pp.88-83.

¹² Lambert, *Planning Armageddon*, pp.170-181.

An account showing the global reach of the conflict is portrayed in Philip Dehne's, *On the Far Western Front, Britain's First World War in South America* (2009) which is a study of Britain's commercial war against Germany on the continent where British influence dominated and economic rivalry with Germany was prevalent.¹³ Dehne examines British efforts to use the war to destroy German economic interests and highlights similar difficulties to those encountered in China when implementing economic measures as business affairs were closely linked and interference by the Allies was fiercely resented by South American Republics. America was equally eager to expand its interests at the expense of Britain and the Allies. Once war was declared American government officials were reluctant to implement economic measures against German businesses, owing to concerns about severing important business links and damaging American trade with South America. This allowed a considerable amount of German business to continue until pressure was exerted by the Allies on America to impose stricter economic measures. Allied dependence on America financially and the need for cooperation in Europe at such a critical time limited the actions the Allies could take to prevent America from strengthening its commercial interests and its grip over South American affairs. Many of Britain's difficulties hinged on the lack of formal control it exercised in South America, which prevented successful measures being imposed against German nationals. It is clear then that the nature of British power overseas was an important factor as it fought a global war. As will be shown in this thesis, a number of similar themes are explored in the context of Shanghai, although it provides a very different example to South America, owing to the variety of different power structures which had evolved over the years to protect and regulate the foreign communities living in China.

¹³ Philip Dehne, *On the Far Western Front, Britain's First World War in South America* (Manchester: Manchester University Press 2009); see also Bill Albert, *South America and the First World War: the impact of the war on Brazil, Argentina, Peru and Chile* (Cambridge: Cambridge University Press, 1988).

Informal Empire

The range of different power structures which Britain used to exercise control over its empire has generated considerable debate amongst historians, even dating as far back as 1934 when the subject of 'informal empire' was first broached by C.R. Fay.¹⁴ This debate has mainly hinged on what constitutes 'informal empire', how it differs from formal empire and the various ways British influence was exerted over British territories which fell into this category. The territories normally associated with the term 'informal empire' are parts of South America, the Middle East and East Asia. Although grouped together, Britain's informal presence did not follow one uniform pattern due to the diverse cultures and variable forms of enterprise in these areas. There is still no scholarly consensus on the precise meaning of the term 'informal empire' but in the next section I am going to summarise the development of the concept as it is a debate which lies at the heart of this thesis, as Britain's economic war put great pressure on the delicate power structures which underpinned Britain's presence in these areas of its empire.

After C.S. Fay, the idea was developed further in 1953 by John Gallagher and Ronald Robinson in their ground-breaking article 'The Imperialism of Free Trade' which revised the assumption that formal empire could be studied in isolation. They stated that 'informal empire' described areas on the fringes of Britain's empire, which did not fit comfortably into the notion of empire but displayed some, if not all of the characteristics, which were associated with an imperial relationship.¹⁵ British industrialization caused an ever extending and intensifying development of regions overseas, which combined commercial penetration and political influence by using a variety of techniques, depending on the local conditions, to ensure British paramountcy and to secure maximum advantage for its economic interests. Gallagher and Robinson claimed that 'informal empire' was the preferred choice

¹⁴ C.R. Fay, *Imperial Economy and its Place in the Formation of Economic Doctrine, 1600-1932* (Oxford: Clarendon Press, 1934).

¹⁵ John Gallagher and Ronald Robinson, 'The Imperialism of Free Trade', *The Economic History Review*, 6:1 (1953), pp.1-15.

of expansion by British government officials and formal annexation only took place if it was necessary to safeguard Britain's trading interests.

Dean Britten suggested in 1976 that successful 'informal empire' arose primarily from economic considerations where British merchants and investors developed interests in an independent country overseas. When these interests became so important to the home economy or to merchants or investors, the British government intervened to protect and expand those interests short of creating a formal colony. The home government then avoided the burdens of formal colonial government such as administrative costs, military presence, public works etc. It effectively relied on degrading another country's sovereignty without taking over proper control but intervening by force when necessary to secure additional trading advantages.¹⁶

In 1986 Jürgen Osterhammel identified the categories of 'penetration', 'intervention' and 'resistance' as key processes which occurred when establishing 'informal rule', with differing emphasis depending on circumstance. He described 'informal empire' essentially as "where a metropolitan country exerts power and influence with an asymmetrical relationship, but does not assume outright domination and formal sovereignty over the peripheral country".¹⁷ Matthew Brown argued in 2008 that if 'informal empire' was to function as a working concept that it should be widened to include culture, along with commerce and capital, as three independent and mutually reinforcing influences that limited local sovereignty.¹⁸ In 1997 John Darwin asserted that 'informal empire' merely represented a pragmatic acceptance of limited power which was often "a tense and unstable relationship, whose purpose was often a painful and sometimes violent transformation of an undeveloped economy and its socio-political institutions". Darwin identified two types of 'informal imperialism': the private

¹⁶ Dean Britten, 'British Informal Empire: The Case of China', *The Commonwealth and Comparative Politics*, 14:1 (1976), pp.65.

¹⁷ Jürgen Osterhammel, 'Semi-Colonialism and Informal Empire in Twentieth-Century China: Towards a Framework of Analysis', in Wolfgang J. Mommsen, ed., *Imperialism and After: continuities and discontinuities* (London: Allen & Unwin, 1986), p.308.

¹⁸ Matthew Brown, ed., *Informal Empire in South America, Culture, Commerce and Capital* (Oxford: Blackwell Publishing, 2008), p.21.

enterprise model in Latin America and the more elaborate structures which resulted from treaty negotiation in China. He stated that 'informal empire' was a commercial/ diplomatic regime which had no uniform policy and was adapted over time to the circumstances of a particular region. He continued that there were good grounds for arguing that 'it represented the maximum influence Victorian government could exert in the classic arenas of informality rather than the most they wanted to'.¹⁹ Isabella Jackson avoided the term 'semi-colonialism' in 2017 in her study of the Shanghai Municipal Council and stated that the level of colonialism in Shanghai was more far-reaching than the term 'semi' implies. She argued that 'colonialism was locally directed autonomous governance by foreigners which led to a polity more akin to an independent city-state under foreign colonial control'.²⁰ Ann Stoler dismissed 'informal empire' and 'indirect rule' in 2006 as unhelpful euphemisms, not working concepts, and defined 'informal empire' as no different to imperialism.²¹

For the purposes of this thesis and bearing these points in mind, I work with the following working definitions: formal empire is taken to be territories such as colonies and dominions which were brought under constitutional subordination by an imperial power with ultimate direct rule from the metropolis and where a number of people from the dominant nation settled. 'Informal empire' describes areas where control was exercised politically, economically and culturally without the formal administrative structures which characterized colonies and where a range of informal pressures and influences were used, which could include coercion and threat. Both terms imply an asymmetrical exercise of power by one group over another. I draw this distinction to show how in China, despite operating within a framework of extraterritorial privilege, Britain's lack of formal control limited the actions it could take to deploy its economic warfare policies effectively.²²

¹⁹ John Darwin, 'Imperialism and the Victorians: The Dynamics of Territorial Expansion', *The English Historical Review*, 112:447 (1997), p.617.

²⁰ Isabella Jackson, *Shaping Modern Shanghai: Colonialism in China's Global City* (Cambridge: Cambridge University Press, 2018), p.10.

²¹ Ann Stoler, 'On Degrees of Imperial Sovereignty', *Public Culture*, 18:1 (2006), p.136.

²² See page 13 for a description of Extraterritoriality.

Both China and some areas of South America, although fundamentally different, had similarities in terms of British influence, which provide instructive case studies for the analysis of the implementation of Britain's economic warfare policies. Neither area came under formal control, although each area had a large British presence, which hinged on trade and investment, and were places where Germany had become a major competitor by 1914. To provide some context for the analysis of the relationship of economic warfare and power structures, set out below is a description of Britain's power structures in both China and South America.

The nature of Britain's informal presence in South America is robustly debated. Alan Knight, using Argentina as a case study, where its 28,000 strong British community had a distinct Anglo-Argentine identity and was a powerful economic and cultural force, stated that the driving force was not fear or coercion but mutual self-interest.²³ David Rock maintained that in the period from 1810-1933, it would be difficult to say that Britain infringed Argentina's national sovereignty in any regular or prolonged fashion.²⁴ Legal privileges accruing from unequal treaties were removed from most Latin American countries by 1850 and, as trade and investment strengthened, the need for the British to use or threaten force receded by the later stages of the century. A closer affinity with the local population eliminated the need for foreign enclaves or the protection of extraterritoriality which characterized the British presence in China.

Up until 1914 Britain remained the world's greatest source of capital and Argentina offered a safe and profitable haven for overseas investment. The share of Britain's overseas investment in Argentina, though considerable, was dwarfed by the share of foreign trade in Argentina that came from Britain. In 1914 Britain absorbed nearly thirty per cent of Argentina's exports.²⁵ Britain could also rely on collaborating elites such as the *estancieros* whose economic interests fitted in with Britain's

²³ Alan Knight, 'Britain and South America' in Andrew Porter, ed., *The Oxford History of Empire, the Nineteenth Century*, Vol.III (Oxford: Oxford University Press 1999), p.148.

²⁴ David Rock, 'The British in Argentina: From Informal Empire to Postcolonialism', in Mathew Brown, ed., *Informal Empire in Latin America*, p.75.

²⁵ Andrew Thompson, 'Informal Empire', An Exploration in the History of Anglo-Argentine Relations 1810-1914', *Journal of Latin American Studies*, 24:2 (1992), p.9.

developing economy, and who were able to control the social situation of their community to such an extent that suitable political and economic structures were developed to support Britain's trade expansion. *Estancieros* were owners of large tracts of land and exercised wide ranging law-making and judicial powers over their tenants and servants.²⁶ They acted as vital intermediaries in easing Argentina step by step to closer relations with the advanced industrial nations of Western Europe.²⁷ Railways typified the Anglo-Argentinian commercial and financial relationship, and by 1900 Argentina boasted the most extensive rail network in Latin America, predominantly financed by British investment.²⁸

China, however, provides a very different example of 'informal empire'. Although China retained its sovereignty and the vast majority of the country remained untouched by foreign incursions, distinct areas came under foreign influence and control to protect the foreign population and to maximize trading advantages. British victory in the First Opium War forced the signing of the Treaty of Nanjing in 1842, the first of the 'unequal treaties' which imposed foreign trade on China, ceding Hong Kong as a colony and opening up five treaty ports: Shanghai, Guangzhou (Canton), Xiamen (Amoy), Fuzhou and Ningbo.²⁹ By 1917 there were ninety two treaty ports where some foreign settlements such as Shanghai, Hankow and Tianjin had a number of foreign enclaves, with extraterritorial jurisdiction. Most favoured-nation clauses in subsequent treaties spread the benefits evenly amongst the foreign powers and a variety of techniques were used to exercise power and ensure lucrative trading opportunities for all.³⁰ Extraterritoriality placed citizens of all powers having most favoured-nation agreements with China, under the jurisdiction of their own national laws,

²⁶ See Roy Hora, *The Landowners of the Argentine pampas: a social and political history, 1860-1945* (Oxford: Clarendon, 2001), chapter 1.

²⁷ H.S. Ferns, 'Britain's Informal Empire in Argentina, 1806-1914', *Past and Present*, 4 (1953), p.73-74.

²⁸ Colin M. Lewis, 'Britain, the Argentine and Informal Empire: Rethinking the Role of Railway Companies', in Mathew Brown, ed., *Informal Empire in South America*, p.122.

²⁹ Byrna Goodman and David Goodman, eds., 'Introduction: colonialism and China', in Byrna Goodman and David Goodman, *Twentieth-Century Colonialism and China* (Abingdon: Routledge, 2012), p.1; for further reading on the opening of China to trade see John K Fairbank, *Trade and Diplomacy on the China Coast: The Opening of the Treaty Ports, 1842-1854* (Stanford, CA: Stanford University Press, 1969); Michael Greenberg, *British Trade and the Opening of China 1800-42* (Cambridge: Cambridge University Press, 1970).

³⁰ Robert Bickers, *The Scramble for China, Foreign Devils in the Qing Empire, 1832-1914* (London: Penguin Books, 2012), p.173.

wherever they went in the country. In practice this gave foreigners distinct advantages in business and in security of person and property. The foreign powers retained their national identity, each with their own consular authority, national customs and celebratory days but were normally unanimous before 1914 in pulling together to negotiate better trading conditions and in warding off Chinese resistance and Chinese nationalist aspiration. Intense foreign competition after the Sino-Japanese war (1894-1895) generated an even greater variety of settlements as new territories were coercively leased such as the Russian Port Arthur, British Weihaiwei, German Qingdao and surrounding area, and Guangzhouwan by the French. Chinese sovereignty was breached even further as each country imposed their own administrative control over their respective leased areas.³¹ Other instruments of 'informal empire' such as cajolery, threat and protecting British prestige were used and reinforced by a significant military presence with garrisons in Beijing and Tientsin and the Royal Navy's China station patrolling the Yangtze and the West River. Although British influence was informal in many respects, there were aspects to its presence and the treaty port world which could be described as semi-colonial in nature as there was partial control of foreign territory although it never developed into full ownership (Hong Kong apart) or any claim over the territory.

The hub of British China policy was the Legation in Peking, strategically placed in the prestigious Legation quarter. From this radiated a network of consular officers throughout Britain's treaty port world. A Foreign Office ruling of 1869 that a consulate should be established in every opened port made Britain's consular service in China the largest in the world, although a number of consulates were of little benefit to British trade and in fact proved to be a considerable drain on government finances. Consuls were normally expected to cope with difficult situations which might arise, using their own initiative and local knowledge. Any unresolved disputes were referred to the Legation to sort out which normally held the government in Peking responsible for any government

³¹ Goodman and Goodman, ed., 'Introduction', *Twentieth Century Colonialism*, p.1.

misconduct by provincial officials. They enjoyed considerable discretion and crisis management was part of the job.³²

The treaty port which grew to be the largest trading centre and a model for other treaty ports, and which demonstrates the diversity of foreign influence that does not fit into any distinct category of colonial rule, was Shanghai. By 1914 it grew to be China's largest, most industrialised modern city, the home of most of China's leading business men, a manufacturing centre, a thriving shipping port and the hub for the distribution of most of China's import and export trade.³³ To understand the type of obstacles British representatives in China had to face when enforcing economic warfare policies, it is necessary to understand the nature of the Shanghai Settlement, which was the bridgehead for foreign businesses in China.

³² Osterhammel, 'Britain in China 1842-1914', p.156; for a more detailed account of the consular world see also P.D. Coates, *The China Consuls: British Consular Officers, 1843-1943* (Hong Kong: Oxford University Press 1988); D.C.M. Platt, *The Cinderella Service, British Consuls since 1825* (London: Longman Group Ltd, 1971).

³³ There is a rich literature about Shanghai, notable examples are: Marie Claire Bergère, *Shanghai, China's Gateway to Modernity* (Stanford: Stanford University Press 2002); F.L. Hawks Potts, *A Short History of Shanghai* (Shanghai: Kelly and Walsh Ltd, 1928); Rhoads Murphey, *Shanghai: key to modern China* (Cambridge: Massachusetts: Harvard University Press, 1953).

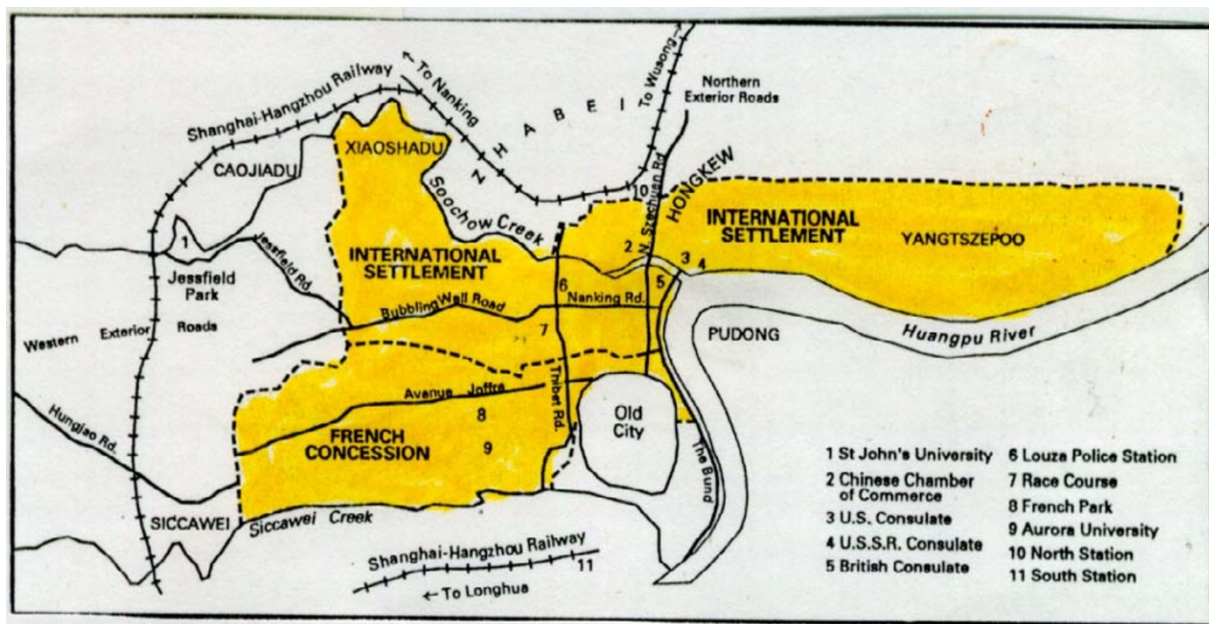


Figure 2. Plan of International Settlement, Shanghai 1920, source: image no 191, virtualshanghai.net

Shanghai

Like South America, trade was the main reason for the arrival of foreigners in China. Shanghai, strategically placed on the Huangpu River, near the mouth of the Yangtze River, with access to the vast central China river network, was well positioned geographically to become China's most thriving treaty port.³⁴ Initially the English Settlement, established in 1843, was a small enclave for traders, selling opium and cotton goods, and buying silk and tea. It was laid out along the river front northeast of the original walled Chinese city on a piece of land which had been set aside for the purpose, where foreign subjects could buy or rent land from local Chinese owners. In 1863 this was amalgamated with the smaller American Settlement, establishing the International Settlement, which, after its final extension in 1899, occupied 8.66 square miles.

The administration of the Settlement rested on shaky legal foundations as the Sino-foreign treaties made no provision for this type of arrangement.³⁵ The Settlement was answerable to no single foreign authority and administered by the elected Shanghai Municipal Council (SMC), a self-

³⁴ Robert Bickers, 'Anglo-Japanese relations and treaty port China, the case of the Chinese Maritime Customs Service' in Anthony Best, ed., *The International History of East Asia 1900-1968, Trade Ideology and the Quest for Order* (Abingdon: Routledge, 2010), p.36.

³⁵ Osterhammel, 'Britain and China 1842-1914', p.151.

perpetuating oligarchy which was not replicated in any other part of the world and exercised a power, which was almost fully colonial in nature.³⁶ The SMC governed the Settlement according to the land regulations, drawn up by the local Chinese administrator, known as the Taotai, with the first British Consul, which could only be altered by approval of the ratepayers. The Members of the Council, who were unpaid volunteers from the British, American and German communities, were elected each year by the ratepayers, a group of approximately one thousand foreigners who held the relevant property criteria to vote and hold office. Up to 1914 there were always seven Britons, an American and at least one German on the Council, often with the German or American being chair or vice-chair.³⁷ During the First World War a Japanese representative was elected but there was no Chinese representation until 1928, even though there was a significant Chinese population in the Settlement. Council members were drawn from the foreign moneyed elite; expatriates from the leading trading houses and settlers with business interests in the Settlement. The Council's influence was far-reaching regulating every aspect of the working and social life of the foreign and Chinese community living in the Settlement. It managed a multinational police force, volunteer service, fire brigade, electric department and a large workforce to maintain sanitation, road and wharf repairs.

The SMC was constitutionally responsible to its electorate and not to any consular or diplomatic body. The British Minister in Peking had no control over the Council, although claims against the SMC were resolved in a specially convened Court of Consuls, which was established in 1870, and to which judges were elected by the Consuls annually; its purpose being to enable the Municipal Council to be sued if required.³⁸ By contrast, the French formed their own settlement, which was differently constituted and formed a part of the French empire, under the authority of the French

³⁶ Isabella Jackson, 'Managing Shanghai: The International Settlement administration and development of the city 1900-1943', (Unpublished PhD Thesis, Bristol University: 2012), p.1; Isabella Jackson has recently published a book on the Shanghai Municipal Council, *Shaping Modern Shanghai, Colonialism in China's Global City* (Cambridge: Cambridge University Press, 2017).

³⁷ Jackson, 'Managing Shanghai', p.51.

³⁸ *The Directory and Chronicle for China, Corea, Indo-China, Straits Settlements, Malay States, Siam, Netherlands India, Borneo, the Philippines etc* (Hong Kong: the "Daily Press, 1917), p.785.

Governor-General of Indo China. It was regulated by the French Consul General with an advisory council, so overcame the uncertainties of the lines of authority, which characterized the International Settlement.³⁹

The defence of the Settlement was provided in the first instance by the Shanghai Volunteer Corps (SVC), formed in 1854, which drew volunteers from all the foreign powers and was organized into units according to nationality. Although an international organization, it was dominated by the British, and the SVC as a whole was commanded by an officer seconded from the British army. It was armed with British guns and supplied with ammunition from the British colony at Hong Kong. Each nation formed their own company and a German company was formed in 1890. All SVC companies drilled and practised, honing skills that could be used in combat, which was a display of communal self-reliance by the SMC, keen to distance itself from the watchful eye of the consular authorities, by demonstrating that order could be maintained without the constant back-up of the Royal Navy, although it was always reassuring to have it stationed nearby if trouble did break out.⁴⁰

The SMC had no authority to intervene in legal matters affecting Chinese subjects and, although Chinese residents were in theory subject to the authority of the Chinese state, over the years the Chinese authorities lost taxing and legal power over Chinese nationals living in the Settlement. Cases involving Chinese residents were adjudicated by the Shanghai Mixed Court, which was established in 1864. It was a hybrid system in which western legal procedures were used and a Chinese magistrate sat with foreign 'assessors' as co-judges. It dealt with cases concerning Chinese residents and between Chinese residents and foreigners. Foreign consuls sat to ensure International Settlement by-laws and regulations were upheld as far as possible and to check any misuse of court proceedings by Chinese authorities, who might use the court system to widen their sovereignty in the Settlement. In practice the foreign assessors constantly encroached on the prerogatives of the Chinese magistrate and during the chaos of the revolution in 1911, when China became a republic, the SMC in conjunction

³⁹ Bergère, *Shanghai, China's Gateway to Modernity*, p.31.

⁴⁰ Jackson, *Shaping Modern Shanghai*, p.124.

with the consular bodies assumed the right to appoint and pay the president of the Mixed Court, effectively bringing it under foreign control.⁴¹

The area which most reflected the commercial roots of Shanghai was the Bund, which stretched along the banks of the Huangpu river. It was the centre of gravity for the commercial community in Shanghai and was where most of the leading business concerns had their offices. It is therefore of central importance to this thesis and a description of the buildings which were important to the trading community is outlined below.



Figure 3: The Bund, c.1910, source: <https://www.hpcbristol.net/visual/pe01-060>

⁴¹ Katherine Brennan Meyer, 'Splitting Apart: The Shanghai Treaty Port in Transition 1914-1921' (unpublished Ph.D Thesis, Temple University, Pennsylvania, USA, 1984), p.243; see also Begère, *Shanghai's Gateway to Modernity*, p.112.

The Bund

The Bund was a visible display of the commercial wealth in the Settlement, as different firms and agencies competed for access to the waterfront and to build ever more palatial offices, designed generally by the foreign architecture firm, Palmer and Taylor.⁴² Many constructed their own jetties, which jutted out from the Bund and led straight to the doors of their offices giving them access to the river which was so strategically important for travel, communication and trade.⁴³

Shanghai's trading heritage was highly visible along the Bund, which had been transformed from a muddy flat into the main boulevard overlooking the Huangpu river, where an impressive line of classical buildings housed all the main banks, trading houses and official institutions of the Settlement. It was not only the heart of the British colonial presence but also an impressive display of the diverse nature of the foreign community. Important monuments were positioned along it, including the statue of Sir Harry Parkes, British Minister to China 1882-1885, a granite monument to Augustus Margery, murdered in 1875 when trying to set up a trade route between Burma and China and the *Illtis* monument which took the form of a broken mast and commemorated the death of the crew of the German naval gunboat SMS *Illtis*, which was wrecked in a typhoon off the coast of Shandong in 1896.⁴⁴

⁴² Jeremy E. Taylor, 'The Bund: Littoral Space of Empire in the Treaty Ports of East Asia', *Social History*, 27:2 (2002), p.126; see also Robert Bickers, 'Incubator City and the Crises of Empires', *Journal of Urban History*, 38:862 (2012), p.865.

⁴³ Taylor, 'The Bund', p.135.

⁴⁴ Bickers, 'Incubator City', p.869; also, Arnold Wright, *Twentieth Century Impressions of Hong Kong, Shanghai and Other Treaty Ports of China, their History, People, Commerce, Industries and Resources* (Lloyds Greater Britain Publishing Co. Ltd., 1908), p.372.



Figure 4 The British Consulate 1915, source: image 1490 from virtualshanghai.net

The British Consulate and Supreme Court held the prime site with manicured lawns and fine buildings on the South Bank of the Soochow Creek, a waterway connecting Shanghai with the hinterland.⁴⁵ Occupying an area extending to six acres, the Consulate was rebuilt in 1872 after the first Consulate was destroyed by fire on 23 December 1870.⁴⁶ After the Legation in Peking, it was Britain's most important official establishment in China and the British Consul General of Shanghai occupied an influential position as head of the British community, although it was an influence that was more apparent than real.⁴⁷ With a much larger staff than any of the other consulates, including specialist shipping and land registries, it was an important reference point for the British trading community in Shanghai and for the commercial community in the other treaty ports.⁴⁸

⁴⁵ Hawks Potts, *A Short History of Shanghai*, p.2.

⁴⁶ Hawks Pott, *A Short History of Shanghai*, p.21.

⁴⁷ Lo Hui-Min and Helen Bryant, *British Diplomatic and Consular Establishments in China, 1793-1949, II Consular Establishments 1843-1949* (Taiwan: SMC Publishing Inc., 1988), p.344.

⁴⁸ Coates, *The China Consuls, British Consular Officers 1843-1943*, pp.217-218.

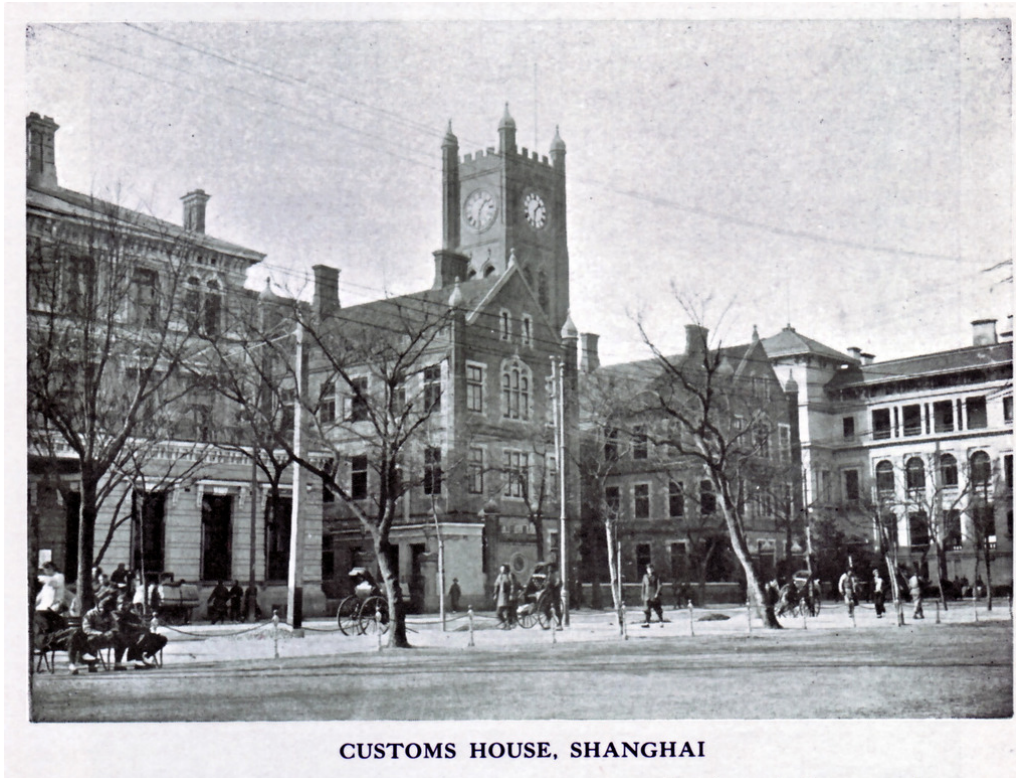


Figure 5 The Customs House, Shanghai 1917, source: image: 14925 virtualshanghai.net

An organization with a significant presence along the Bund and of great importance to the trading community, was the tudor-style Customs House, with its distinctive central clock tower modeled on Big Ben, complete with Westminster chimes.⁴⁹ The Customs House was the hub of Shanghai's hectic commercial activities, strategically placed to be visible to all arrivals in the port and to provide the customs staff with easy access to the cargoes of incoming vessels. It was central to the commercial life of the Settlement and housed the Chinese Maritime Customs Service (CMCS), formed in 1854 as an emergency measure to regulate trading revenue, as a result of the disruption to trade caused by the Small Swords Rebellion the previous year. It was an organization which highlights the complexities of waging economic warfare in a country such as China, as although the CMCS was always dominated by British interests, it was essentially a multinational organization which employed twenty-two other foreign nationalities, including French, German, American, Norwegian and Japanese. For example, the CMCS was beyond the reach of British control during the war, as employees were first

⁴⁹ Wright, *Twentieth Century Impressions*, p.383.

and foremost employees of the Chinese state and German staff continued to be employed until China declared war against Germany in 1917. The British trading community therefore had to put up with all the security risks to trade that the German presence in the CMCS entailed.

British domination of the CMCS was mainly derived from the influence of Sir Robert Hart, who was the long-serving second Inspector General (IG) (1863-1908), and responsible for shaping the organization into a powerful and efficient bureaucracy. It was modeled on the British consular service in China and the Indian Civil Service, with English being the predominant language used for most internal business. Under Hart's long-term guidance it became a large and ambitious organization, which was the source of a series of wide ranging 'internationalizing, self-strengthening or self-consciously 'modernizing' activities'.⁵⁰ Besides tariff duties, which were fixed by treaty and subject to agreement by all the treaty powers, the service's responsibilities were far-reaching and extended to harbour maintenance, the lighting of the China coast, publishing information sheets and reports on a range of China-related topics, policing smuggling and the running of China's Post Office.⁵¹ The Treaty of Tientsin 1858 ensured that the CMCS was extended to all treaty ports.⁵²

The staff profile became truly multinational at the end of the nineteenth century, as Hart was forced to respond to the political pressure created by the more competitive international climate, which emerged during that time. Each power realized the political significance of having a wide representation of their nationals in the CMCS staff to increase their influence over Chinese affairs. The IG, and Hart, in particular, was under continued pressure from foreign ministers seeking a greater share

⁵⁰ Bickers, 'Good Work for China in every possibly direction', p.26; see also John K. Fairbank, Katherine Frost Brunner and Elizabeth MacLeod Matheson, *The IG in Peking: Letters of Robert Hart, the Chinese Maritime Customs, 1868-1907* (Cambridge: Cambridge University Press, 1975); Donna Brunner, *Britain's Imperial Cornerstone in China: The Chinese Maritime Customs Service, 1854-1949* (Abingdon: Routledge, 2006); B.E. Foster Hall, *The Chinese Maritime Customs: An International Service, 1854-1950* (1977) and University of Bristol, 2015); Stanley Fowler Wright, *The Origin and Development of the Chinese Customs Service 1843-1911* (Shanghai: privately circulated, 1936); Stanley Fowler Wright, *Hart and the Chinese Customs* (Belfast: W. Mullen, 1950).

⁵¹ Albert Feuerwerker, *The Foreign Establishment in China in the Early Twentieth Century* (USA: Michigan, Ann Arbor, Centre for Chinese Studies, University of Michigan, 1976), pp.61-75.

⁵² Dean, 'British Informal Empire', p.68.

of responsibility for the CMCS, as a way of promoting their own national interests in China.⁵³ Britain held on to the IG position through securing agreement that, as long as British trading interests dominated, the IG would remain a British subject.⁵⁴ Although Hart pledged that the customs staff would be a fair representation of all nationalities with trading interests in China, British employees dominated the foreign personnel up to the First World War.⁵⁵ In 1915, of a total of 319 foreign indoor staff in the revenue department, there were 152 Britons, 21 Americans, 17 French, 37 Japanese and 30 Germans.⁵⁶ Germany's emergence as an ambitious foreign power corresponded with demands for greater representation in the CMCS. Germany became Britain's closest rival in the service, with German employees making the second largest contingent of foreigners. For example, in 1910, including those in the outdoor service, there were 664 British staff, who made up 52.3 per cent of the service, and 156 German staff, constituting 12.3 per cent.⁵⁷

As it was always an agency of the Chinese state, the CMCS straddled the Chinese and foreign spheres, which confused the issue of where allegiances lay, making its activities subject to conjecture and suspicion. Hart smoothed the waters to some extent, as his priority was always to reassure Chinese officials that the foreign staff were first and foremost public servants of the Chinese state. Much as the Inspectorate attempted to mould employees into a loyal cohort, whose national affiliations were of secondary importance, the tensions of the First World War ensured that national loyalties came to the fore, fueled by jealousies and rivalries that were always lurking just below the surface which threw the Inspectorate's principles of cosmopolitanism into disarray.⁵⁸

⁵³ Cathering Ladds, *Empire Careers: working for the Chinese Customs Service, 1854-1949* (Manchester: Manchester University Press, 2013), p.53.

⁵⁴ Feuerwerker, *The Foreign Establishment in China*, p.62.

⁵⁵ Ladds, 'The Life and Career of Us All': Germans and Britons in the Chinese Maritime Customs, 1854-1917', *Berliner China-Hefte*, 33 (2008), p.36.

⁵⁶ Feuerwerker, *The Foreign establishment in China*, p.68.

⁵⁷ David M. Crowe, 'Sino-German Relations, 1871-1917' in Joanne Miyang Cho and David M. Crowe, *Germany and China, Transnational Encounters since the Eighteenth Century* (USA: Palgrave Macmillan 2014), pp.74-75.

⁵⁸ Ladds, 'Germans and Britons and the Chinese Maritime Customs Service', p.50.

The Customs provided templates for other revenue collecting agencies such as the Salt Gabelle, established as a foreign inspectorate in 1913, to reconstruct the salt administration. The revenue from the Salt Gabelle was used to guarantee the re-organisation loan which the powers issued to the Chinese government after the Republic was formed in 1911, to help with modernising the country. As a condition of granting the loan, the consortium insisted on increasing their control over the Salt Administration to ensure that the revenues were collected to service the loan.⁵⁹ Sir Richard Dane, a former Indian civil servant with first-hand experience of salt administration in India, was appointed as the first foreign chief inspector. As with the CMCS, competition for positions in the organization was fierce as a way of gaining greater influence in Peking and Dane's appointment was disputed by the German authorities who wanted a German to head the service. Refusing initially to ratify the agreement, a compromise was reached whereby a German national, Herr von Strauch, was appointed as his deputy.⁶⁰ Unlike the CMCS, it only employed a few foreign nationals (forty-one in 1917) who, again, were employees of the Chinese state and provided the administrative staff for the foreign Inspector in Peking, whilst the others were stationed in the salt district areas as auditors and district inspectors.⁶¹

The fact that both the CMCS and the Salt Gabelle were ultimately controlled by the Chinese state, notwithstanding the dominant British influence, was of particular importance in the context of economic warfare. German employees, being subordinate to the Chinese authorities, were protected to some degree from Britain's purge against German interests as long as China maintained its neutral position.

Equally prominent along the Bund was the Hongkong and Shanghai Bank (thereafter Hongkong Bank), which financed much of the foreign trade in China. Established in 1864 to serve the needs of a multinational trading community, it was essentially a British bank, however, German

⁵⁹ Feuerwerker, *The Foreign establishment in China*, p.76.

⁶⁰ S.A.M. Adshead, *The Modernisation of the Chinese Salt Administration, 1900-1920* (Harvard: Harvard University Press, 1970), pp.86-87.

⁶¹ Feuerwerker, *The Foreign establishment in China*, pp.75-78

directors were appointed from the start indicating the close ties of the British and German trading communities. W. Nissen of Siemssen & Co from Hamburg was a member of the founding provisional committee and became chairman of the bank in 1867.⁶² These close German links remained in place up to the First World War even though the Germans formed their own bank, Deutsche Asiatische Bank (DAB), in 1889 to expand commercial links between Germany and Asia. Opening in Shanghai in 1890, the DAB occupied an equally prime site on the Bund and was the first non-British foreign banking establishment in China, becoming powerful enough to demand its fair share of loans to the Chinese government.⁶³ Other national banks soon opened along the Bund such as, the Yokahama Specie Bank, the Russo-Asiatische Bank, the Sino-Belgian Bank and the Banque de l'Indo-Chine, amongst others.

⁶² Frank H.H. King, *The Hongkong Bank in the Period of Imperialism and War, the focus of Wealth*, Vol.II (Cambridge: Cambridge University Press, 1988), pp.528-529.

⁶³ Most of the archives of the DAB held in Berlin were destroyed in the bombing during the Second World War but there is a history of the Bank, Maxamillian Muller-Jabusch, *Funfzig Jahre Deutsche Asiatische Bank 1890-1939* which was published in Berlin in 1940.

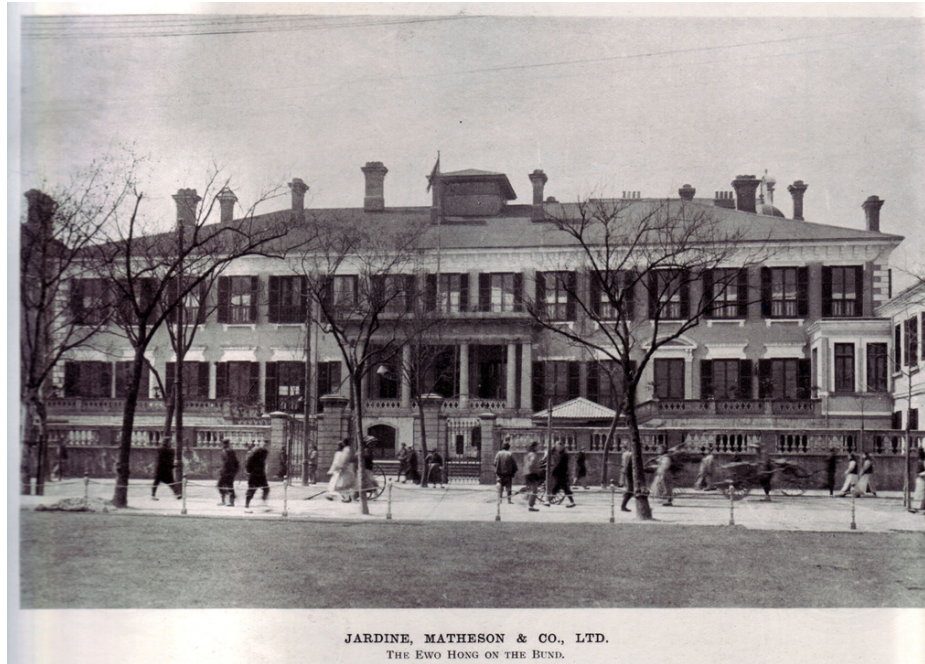


Figure 6 Jardine Matheson 1907, source: image no.16412 virtualshangha.net

Leading British trading houses such as Jardine Matheson & Co (Jardines) and Butterfield & Swire (Swires) were also well represented. Jardines' offices were based in the Settlement, whilst, Swires occupied large premises overlooking the river in the French concession. Jardines had wide-ranging business interests including a general foreign trade department and numerous agencies. It controlled the Indo-China Steam Navigation Company (whose forty-two steamers were a major presence on the Yangtze) and the large Shanghai and Hongkew Wharf Company. As manufacturing took hold in the late 1890s, its interests widened to industrial enterprise, such as silk reeling, packing, brewing, cold storage, sugar refining, engineering, cotton textiles and even railways.⁶⁴ Its extensive wharves and godowns (warehouses) occupied prime sites along the river in the eastern part of the Settlement and in the Pootung area on the opposite side of the river to the Bund. Swires, although smaller, was equally well situated throughout the Settlement, with shipping interests such as the China Navigation Company and numerous shipping and insurance agencies.⁶⁵

⁶⁴ W.A. Thomas, *Western Capitalism, A History of the Chinese Stock Exchange* (Aldershot: Ashgate, 2001), p.28.

⁶⁵ Feuerwerker, *The Foreign Establishment in China*, p.81.

To secure a stake in the scramble for infrastructure projects in an increasingly competitive trading environment which developed from the turn of the century, Jardines joined forces with the Hongkong Bank to form the British and Chinese Corporation (BCC). Closely connected with the British government which saw this type of organisation as a way of strengthening British influence in China, its objects were to construct, administer, manage or control public works of all kinds including railways, docks and tramways.⁶⁶

The British trading community was also well supported by the China Association, which was an organization formed to promote British trade in China. It was established on 4 March 1889 by 'Old China Hands' returning to Britain after working in areas such as commerce, shipping and banking in the Far East and its aim was to further the trading interests of the British trading community in China, Hong Kong and Japan. Members were drawn from the larger China houses such as Jardines and Swires, as well as Members of Parliament and retired colonial and military officials, which ensured that it had influential connections in Britain. Branch associations were formed in Shanghai in December 1892 and Hong Kong in June 1893. The Association had a close association with the Foreign Office and Parliament through its influential membership and members worked hard to draw government attention to the grievances of British traders in China, which they felt did not always receive the priority they deserved.⁶⁷ It was an important influence during the First World War as it played an important part in lobbying for stricter TWTE measures to help promote British trade, and target German commercial interests.

It takes two to start and perpetuate a war, which makes it important to understand the nature and extent of the German presence in Shanghai, for an analysis of economic warfare in the Settlement. Although German traders had a late start, initially representing the individual states and countries which made up Germany before its unification in 1871, they had rapidly established a significant presence in Shanghai. Their trading interests were further advanced when Prussia signed the Treaty of

⁶⁶ E.W. Edwards, *British Diplomacy and Finance in China 1895-1914* (Oxford: Clarendon Press, 1987), p.35.

⁶⁷ Nathan Pelcovits, *Old China Hands and the Foreign Office* (USA, New York: Octagon Books, 1969), p.159.

Tientsin in 1862, which gave it the political privileges enjoyed by the other foreign powers, and considerable efforts were then made to ensure it gained its share of political and economic power in China. Germany had acquired a much firmer foothold in China after the Sino-Japanese war (1894-1895), when it received concessions in Hankow and Tientsin, as terms of the peace treaty negotiations. Their forceful takeover of Qingdao in Shandong province in 1897, created a virtual German colony, consolidating German influence even further.⁶⁸ The Sino-German agreement signed in 1898, secured an area of two hundred square miles surrounding the bay of Qingdao and also extended to railway, mining and other concessions in the province. In a short time, Qingdao was widely considered the model town of East Asia, becoming a popular holiday destination. It was developed as a rival centre to Hong Kong and the Germans created a fine harbour with docks and wharves, sufficient to accommodate large war ships. It was a beacon of German ingenuity and enterprise and became an important centre for projecting German power and influence throughout China.⁶⁹

German firms such as Melchers & Co and Carlowitz & Co opened in Shanghai in 1877 and developed similar business interests to leading British firms. They were importers and distributors of all kinds of produce and occupied substantial buildings along the Bund in the French Concession and the Settlement. Melchers was the agent for the Norddeutscher Lloyd shipping line and Carlowitz & Co for the Hamburg Amerika line. Melchers operated the Chang Kah Pang Wharf Company which began operations in 1900, and, with its extensive 1000ft frontage, could accommodate the largest vessels coming to Shanghai. Its interests extended to agencies for large insurance companies and the control of wharves and godowns in the Pootung area, which was opposite the Bund, on the other side of the

⁶⁸ See John Schrecker, *Imperialism and Chinese Nationalism, Germany in Shantung* (USA, Cambridge: Harvard University Press, 1971).

⁶⁹ Thomas Edward La Fargue, *China and the World War* (USA, Stanford: Stanford University Press, 1937), p.17; see also John Schrecker, *Imperialism and Chinese Nationalism, Germany in Shantung* (Cambridge, USA: Harvard University Press, 1971).

Huangpu river. Directors of Melchers were on the board of the Hongkong Bank, and in 1908 they employed more than 100 Europeans and 1,500 Chinese in their vast commercial network.⁷⁰

Carlowitz & Co. was probably the largest German firm, with strong political links with Germany from the start, as its founder, Richard von Carlowitz, was appointed the first Consul of Prussia and Saxony in Canton in 1843. The Shanghai branch was established in 1877 and rapidly became the head office for East Asia. Joining forces with the firm Arnhold Karberg & Co., it operated the Yangtze Wharf and Godown Company, where numerous steamers discharged and loaded their cargo. The firm's business interests extended to Chinese government business: for example, they acted as intermediaries in negotiating a loan for the Chinese government. It supplied a number of provincial governments with mint apparatus for coining money, with machinery for flour mills, for powder, cartridge and gun-making factories, materials for railways including engines, carriages and freight cars, and it was an important distributor of 'Manchester goods'.⁷¹ Its trading network was far reaching; always expanding, it incorporated firms which developed and extended their trading capacity not only in China but globally. It occupied the largest building in the Settlement opposite the British Consulate, on the corner of the Szechuen and Soochow roads and had extensive warehouses, in the Pootung area. It employed 250 Europeans and 1000 Chinese and Japanese in 1908.⁷²

For many years German traders had been the poor relations and relied on British contacts and networks to promote their goods. But German trade had made a steady and progressive increase in the years 1906-1914, particularly in the four years leading up to the outbreak of war where the results for 1913, were Tls. 45,327,627 which was an increase of 100 per cent over the figure for 1909.⁷³ Encroaching on British markets and successfully competing with Britain's trading interests, in a remarkably short time German trade had not only expanded rapidly, but also explored and developed

⁷⁰ Wright, *Twentieth Century Impressions*, pp.618-620; see also Helmuth Stoeker, 'Germany and China 1861-1914' in John Moses and Paul M. Kennedy, eds., *Germany and the Pacific, 1870-1914* (University of Queensland Press, 1977), William Kirby, *Germany and Republican China* (Stanford: Stanford University Press, 1984), chapter 1.

⁷¹ Cotton goods.

⁷² Wright, *Twentieth Century Impressions*, pp.615-616.

⁷³ Department of Trade and Commerce, *Canada Weekly Report*, 9 November 1914, No.563, p.2016.

new markets, which had seen it develop into a much more formidable rival and had been the cause of deep resentment amongst the British trading community. Resentment about German success was a significant factor in driving the economic war against Germany in China during the First World War.

Recreation

Much as business was the driving force of the Settlement, social and recreational activities were of great significance and a meeting point for the foreign community. A survey of these will further demonstrate the interconnected character of life in the Settlement that would prove to be a major obstacle to British plans once war began. Social life centred around the various clubs: the British-run Shanghai Club, recently rebuilt in renaissance style prior to the start of the war over a two-year period (1909-1911), and the Country Club along Bubbling Well Road, were centres of the social whirl. The Shanghai Club was famous for its thirty metre bar and for the composition of its members, who were drawn from leading members of the British and American business communities.⁷⁴ All the social nuances and snobberies of life in Britain were exported to China and were all the more acute in such a small British community where it was starkly apparent who was eligible to join these elite clubs. The French and Germans preferred to gather in their own clubs, the former at the Cercle Sportif Français, in the French Concession and the latter at the Club Concordia. The Club Concordia moved from its more modest premises to a new building built on a prime Bund site previously occupied by the firm Gibb Livingstone & Co. Built over a two and a half-year period and completed in February 1907, the Club was reputedly the most striking building on the Bund. It employed a well-known firm of German architects, Becker and Baedeker, who had designed and built a number of highly regarded projects in Shanghai and other treaty ports. Ensuring it received the maximum publicity, Prince Adalbert of Prussia laid the foundation stone in 1904, in front of a large gathering of prominent residents and leading members of the business community of all nationalities in the Settlement. A cosmopolitan venture to

⁷⁴ Bergère, *Shanghai's Gateway to Modernity*, p.94.

enhance German prestige, the Russo-Asiatic Bank provided a fountain and the Dutch Bank (Nederlandsche Handel-Maatschappij) a large tiled picture. Relations with Britain were good, as members of the Shanghai Club stayed in the Club Concordia when their own club was being rebuilt.⁷⁵

Sport also played a significant part in Settlement life, with British-inspired sports being the main feature. The race course, with its impressive grandstand and clubhouse and covering an extensive area at the west end of the Nanking Road, was a large attraction. Jardines had been a keen supporter from the start and employees of leading companies and grandees from the Shanghai community acted as stewards and race officials. It hosted a three-day race meeting twice a year, in May and November, when most of Shanghai shut down to attend.⁷⁶ A cricket ground and tennis courts lay in the centre of the course. The Shanghai Golf Club was formed in 1894 and other clubs such as the Shanghai Rowing Club, the Yacht Club, the Paper Hunt Club, the Lawn Tennis Club, the Rifle Club, the Baseball Club and others provided a range of sports to suit every taste.⁷⁷ Companies such as Jardines encouraged their employees to take part in all the social and sporting activities partly as a way of maintaining and increasing a high profile in the Settlement.

British influence was present in every aspect of life in Shanghai, and in addition to consular officials, employees of the large trading houses and multinationals such as British American Tobacco (BAT), the Imperial Chemical Industries (ICI) and the Asiatic Petroleum Corporation (ACP), a large settler community had grown up over the years. Many worked in the smaller agency houses, for the SMC, the police and the Chinese Post Office; or as tailors, shopkeepers, engineers and workers in dockyards, factories, and other services, which underpinned a thriving commercial centre. They formed associations such as: the St George's Association for the British, St Andrew's Society for the Scots and St Patrick's Society for the Irish.⁷⁸ They viewed themselves as 'Shanghaiers' and differed from the

⁷⁵ Wright, *Twentieth Century Impressions*, p.391.

⁷⁶ Robert Bickers, *Getting Stuck in for Shanghai or putting the Kibosh on the Kaiser from the Bund* (Australia and Beijing: Penguin 2014) p.121.

⁷⁷ Feuerwerker, *The Foreign Establishment of China*, p.6-7.

⁷⁸ Feuerwerker, *The Foreign Establishment of China*, p.7.

expatriate community as their lives were based in Shanghai and their jobs were largely non-transferable. Fostering a sense of Britishness in all aspects of their daily lives, they were wary of all issues involving reform of fundamental treaties, and constantly vigilant of consular officials giving in to Chinese demands. They formed an intransigent force and fought hard to protect their livelihoods which were heavily vested in the continuing existence of British concessions and extraterritorial privileges.⁷⁹

The German Community was much smaller in number, but well-established and although they never acquired an enclave of their own in the Settlement, rumours were circulating in 1901 that they were seeking to establish one on the opposite side of the river to the International and French Settlement. The land immediately opposite the two settlements was owned by the French and British but the Germans had acquired a considerable amount of land higher up the river beyond the Chinese city and concern was expressed by the Consul General at the time, Sir Pelham Warren, that sooner or later they would make a determined effort to secure a concession of their own as they were, he believed, taking every opportunity to strengthen their presence in Shanghai.⁸⁰

Involved in all aspects of settlement life, the German community divided their time between business, family, the club and various sporting and cultural activities. They retained their national identity through having their own clubs, associations like the Deutsche Vereinigung, and through German institutions such as the German school (Kaiser-Wilhelm-Schule), their own newspapers: (*Der Ostasiatische Lloyd, Deutsche Zeitung für China, Der Ferne Osten*), their association for engineers (Chinischer Verband deutscher Ingenieure) and physicians (Deutsche Ärztesfirma or Deutsche Ärztevereinigung').⁸¹ They ran the T'ung Chi University and the Deutsche Medical and Engineering

⁷⁹ Bickers, *Britons in China*, pp.14-15 and pp.67-68; see also Robert Bickers, 'Shanghaiers: The Formation and Identity of the British Settler Community in Shanghai 1843-1937', *Past and Present*, 159 (1998), pp.161-211.

⁸⁰ TNA, FO 228/1410, Letter from P.L. Warren, British Consul General to Sir Earnest Satow, H.M. Minister to Peking, 2 October 1901.

⁸¹ Françoise Kreissler, 'In search of Identity: The German community in Shanghai, 1933-1945', in Robert Bickers and Christian Henriot, *New Frontiers, Imperialism's New Communities in East Asia, 1842-1953* (Manchester: Manchester University Press, 2000), pp.211-213; see also Françoise Kreissler, *L'action Culterelle allemande en Chine, De la fin du XIX^e siècle à la Seconde Guerre Mondiale*, (Paris: France: Fondation de la Maison des sciences de l'homme, 1989), which provides a more comprehensive account of German's cultural activities in China.

College in the French Concession. Recreational activities included their own amateur dramatic society, performing at the Lyceum and a highly regarded orchestra, the Deutscher Konzert Verein, formed in 1901. The concerts were a popular feature of winter activities in the Settlement, with the orchestra performing in the Town Hall. Membership, although predominantly German, was open to anyone with musical ability. Nine German musicians were also employed by the SMC to boost the performances of the Town Band, led by Rudolf Buck, its German conductor.⁸²

In short, before the war the German community was an integral part of Settlement life, playing an active role in Settlement affairs: not just politically through their consular officials, representation on the municipal council and their highly efficient SVO force: but also, commercially, through their highly efficient business network which was spread throughout the treaty port world and socially through the many recreational activities in the Settlement.

Anglo-German Links and Tensions

It is against this backdrop that this thesis explores the nature of Britain's economic war in Shanghai. Although commercial rivalry between Britain and Germany was entrenched and longstanding, relations between the two nations were much closer in China in the lead up to the war than the political conditions in Europe would appear to suggest.⁸³ There were strong financial, cultural and dynastic ties which had created a degree of inter-dependency between the two nations and German and British businesses had developed strong links in the treaty ports. Their joint business enterprises often combined German capital and expertise with British company law, for example the successful Anglo-German Brewery, which supplied beer throughout North East Asia.⁸⁴ There were links through German representation on the SMC and the SVC, with its strong German and Austro-Hungarian contingent; there were German directors on the Board of the Hongkong Bank; Germany

⁸² Wright, *Twentieth Century Impressions*, p.391, see also Bickers, *Getting Stuck in for Shanghai*, p.44.

⁸³ TNA, FO 405/215, Confidential print, Sir J. Jordan to Sir Edward Grey, 21 July 1914, p.73.

⁸⁴ Bickers, 'Anglo-Japanese and Treaty Port China', p.29.

was part of the six power Reorganisation Loan Consortium, which also included the British, formed to finance China's ever increasing debt in 1913. British and German enterprise cooperated on the construction of the Tientsin-Pukow Railway. The leading newspaper in Peking was owned by one of the managers of the DAB and was edited by a British subject, H.G.W. Woodhead.⁸⁵ Both the CMCS and the Salt Gabelle (after the initial disagreement about German representation) had significant German participation. However, notwithstanding these close ties, Germany's much more competitive commercial policy had also encroached on British interests, especially through its attempts to penetrate British commercial operations in the Yangtze Valley, considered by Britain to be its sphere of influence, which had made Britain much more cautious of German intentions in the pre-war period.⁸⁶

The coming of the First World War blew apart this unique relationship and the complex web of commercial links, which had meshed them together over the years. Sir Francis Aglen, Hart's successor as IG of the CMC wrote to one of his German Commissioners in August 1914, 'it is a thousand pities that the war must invade the Far East where our countries have so many mutual interests and where we English have so many German personal friends'.⁸⁷ Far removed from their home countries, a sense of common purpose united the foreign community, living up to the motto of the SMC 'Omnia Juncta in Uno', meaning 'all joined in one'.⁸⁸ There were many personal as well as business links between the British, German and Austrian communities through work, as partners and colleagues, through marriage and through social life as friends. Many did not want the war and wished it could be confined to Europe, but the strategic interests of the Western powers and Japan ensured it spread to China. It is this tension that foreshadows the difficulties and complications of Britain's economic war in Shanghai as explored in the following pages of this thesis.

⁸⁵ TNA, FO 405/215, Jordan to Grey, 21 July 1914, p.73.

⁸⁶ see Kazuo Kawai, 'Anglo-German Rivalry in the Yangtze Region, 1895-1902', *Pacific Historical Review*, 8:4 (1939) pp.413-433.

⁸⁷ Quoted in Bickers, 'Anglo-Japanese and Treaty Port China', p.29.

⁸⁸ Bickers, *Getting Stuck in for Shanghai*, p.66

Britain's wartime policy in China had many aspects: diplomatic, political and economic, raising complex questions about the meaning of neutrality and the extent of China's sovereignty. The multifarious, partial and discrete constellations of colonial power and the cast of colonial institutions operating across China, encompassing national diplomatic missions, railroad and mining operations, and the collection of foreign-administered departments of the Chinese central government, such as the CMCS and the Salt Gabelle, made effective implementation of Britain's economic policies a challenging task.⁸⁹ This thesis adds and develops themes in existing literature on 'informal empire' and economic warfare, through the lens of Britain's actions against Germans in Shanghai throughout the First World War. It will explore how the unprecedented wartime conditions and Britain's lack of formal control which had to take account of China's neutrality and other neutral powers, compromised Britain's ability to implement effective economic measures against Germany. It will also ask in what ways the war was seen as an opportunity to remove an ambitious commercial rival and to strengthen British trade at Germany's expense. Finally, it will ask what the consequences were of Britain's economic assault against German interests after China declared war against Germany, and what the wider implications were of Britain's actions in the post-war global environment.

The Structure of the Thesis

The thesis is arranged as follows. There will be four chapters with Chapter 1 asking what the complications of implementing Britain's TWTE legislation were, whether the law enacted was fit for purpose when deployed in China and how the difficulties were resolved. Britain's informal presence restricted the actions British officials could take to stop all trade with German companies in the context of the multinational nature of the commercial community in Shanghai. Not only were there difficulties with the way the legislation had been drafted, but the British government fell back on the long-held practice of defining the enemy by domicile rather than race, which allowed German trade to continue

⁸⁹ Goodman and Goodman, 'Introduction: Colonialism and China', p.8.

due to the extraterritorial status of the foreign community and China's neutrality. There were also considerable flaws in the administrative system in London which resulted in inconsistent policies being communicated to British officials abroad who were responsible for implementation of TWTE legislation. The chapter explores the complications and the measures taken to try and resolve the situation.

Chapter 2 asks what the impact of Britain's economic war measures was on the commercial community and the reaction and consequences. British firms had to examine forensically their companies for German links, a process which revealed how closely entwined British and German trade had become. Unraveling these ties proved immensely difficult given the legal complications and a reluctance amongst some traders to sever their German links. German traders went to great lengths to evade the legislation, making full use of strong links with their Chinese customers. Fully aware of the rapid advance of German trade since the turn of the century, the war was seen as an ideal opportunity to capture German trade and eradicate an important commercial rival. However, both Japan and the USA, with the Allies preoccupied elsewhere, used the war to strengthen their foothold in China, both politically and economically, an outcome not predicted by British officials, who were in no position to prevent it.

Chapter 3 asks what steps Britain took to strengthen its trading position in China. Extensive surveys of Britain's trading position conducted during the war revealed that Germany's commercial operations were much more efficiently run and German trading methods were superior to those used by British traders. The reports identified areas where Britain could improve, which led to the British Chamber of Commerce being formed to promote purely British trade and construct a new British presence to ensure Britain's long-term dominance in the area. The active support from consular officials indicated closer links between the foreign office and the commercial community, moving away from the 'laissez-faire' policy, which had dominated before the war.

Chapter 4 asks how the situation altered once China declared war against Germany and what it revealed about the nature of Britain's presence in China. Britain used China's declaration of war to

intensify its purge against German interests, but its agency was severely compromised by its reliance on Chinese officials to carry out any hostile actions against Germany. China relished this greater autonomy, clawing back some sovereignty from foreign powers for the first time since the 'unequal treaties' had been agreed in the nineteenth century. Division of German spoils was competitive, with other nations seeking their share and Britain came up against strong resistance from the Chinese business community, who were reluctant to sever their lucrative German links.

The conclusion will draw together the findings of this thesis on how Britain fought an economic war on the margins of its informal empire, where it lacked the formal agency to implement its wartime policies. By shining light on Britain's actions and their wider implications both intended and unintended, within the unusual power structures of cosmopolitan Shanghai, and to a lesser extent in the rest of treaty port China, this thesis will help to shape a broader understanding of the consequences of economic warfare in the far reaches of Britain's empire.

Sources

A broad range of sources will be used to gain an in-depth insight into the subject of economic warfare. Records at the National Archives provided a valuable starting point to explore the many different aspects of the subject. The meetings of the Committee of Imperial Defence show how economic warfare was discussed and the problems envisaged before the First World War. Although there were previous wars to take as a precedent, the scope of a global conflict could not be truly envisaged but discussions took place about the perceived realities of a world conflict and the need to protect the fragile global infrastructure which underpinned much of the world's trade. Admiralty papers provide a broader perspective on the discussions, demonstrating the wider implications of implementing economic warfare from a naval perspective. The Board of Trade (BT) records provide information on the influence the BT had on the development of policies for economic warfare. During the war new departments had to be created to cope with the realities and demands of the economic war. Foreign Office records shed an important light on foreign policies and the delicate diplomacy

required to carry out economic warfare in areas where Britain's control was informal. Much of the legislation for economic warfare was hastily constructed at the beginning of the conflict and had to be constantly reconstructed to respond to the changing circumstances of the war. Consular correspondence specific to China reveals a continuous dialogue which took place between China and London about the ongoing difficulties faced by consular officials, when implementing economic legislation.

Records of debates in the House of Commons from Hansard contain the discussions in parliament concerning the complexities of economic warfare during the conflict and demonstrate the concerns of members about the true impact that stringent economic policies might have on Britain's trading position globally.

The China Association continuously lobbied for better trading conditions for the British commercial community in China and its papers, held at the London School of Oriental and African Studies (SOAS) provide insights into the concerns of the trading community during the war. The reaction of the large trading companies to the policies can be seen through the records of John Swire & Sons at SOAS and Jardine Matheson & Co., which are held at Cambridge University. Evidence relating to smaller trading companies can mainly be explored through Consular correspondence, which provides less straightforward accounts of the problems encountered by these companies, as the letters are mainly a dialogue between consular officials clarifying difficulties with the legislation and are not independent accounts of the difficulties faced. The Hongkong and Shanghai Bank was constantly criticized for its German connections and the records held in their London archive have been examined so as to explore how the bank reacted to these criticisms and which actions it took to counteract them. Court records have also been reviewed to determine how traders were penalised for breaching the legislation and what penalties were imposed.

Newspapers such as the *North China Herald* shed light on the perspective of the local community. Newspapers cannot be used uncritically, however, and the *North China Herald* for example had a British bias and especially tended to give a British view, rather than reflect the

multinational nature of the community. *The Times*, the *Manchester Guardian*, and the *London Gazette* provide evidence of how economic warfare was reported in Britain. The Manchester Chamber of Commerce records in Manchester Library provide the views of the Manchester trading community and an opportunity to discover evidence of the extent of its German connections and reluctance to sever its trading links with German companies in China. *The British Chamber of Commerce Journal*, published from May 1915, in Shanghai, provides a useful account of the concerns of the trading community in Shanghai and the measures taken to promote purely British interests. The journal also outlines how the chambers were expanded to other treaty ports. *The China Year Book*, private diaries and papers and relevant secondary literature provide additional information to build up a comprehensive picture of the wartime period in China. All these sources have been instructive in the research and writing of this thesis.

The War reaches Shanghai

As the new year began in 1914, none of the leading powers in China could have envisaged that by mid-August, they would be locked into what would become a long and enduring global conflict with Germany, a key member of the diplomatic and business community, where contact either formal or informal occurred on a daily basis. Just the previous year, they had all celebrated Kaiser William II's Silver Jubilee, a lavish affair, where the streets were decorated with a profusion of bunting and by night, the Bund was lit up by the illuminations placed on all the principal hongs, which snaked their way along the river front.⁹⁰ Attended by all nationalities, with parades, torchlight processions, a church service and an enthusiastic rendition of 'Deutschland, Deutschland über alles' with a grand finale of fireworks, it was a unique celebration incorporating all aspects of life in Shanghai and drawing together a multinational foreign community.⁹¹ By early August Britain was engaged in a bitter conflict with

⁹⁰ A hong was a large general trading house

⁹¹ Mina Shorrocks, ed., *Social Shanghai and Other Parts of China, patriotic celebrations in Shanghai, August 1913*, No. II, Vol XVI, pp.115-120.

Germany. The effects of the conflict reached Shanghai at the end of July when the Shanghai Stock Exchange was closed, due to problems with the local money market making the course of prices uncertain. Retail prices rose, all trade in the port faltered, shipping ceased and in the Chinese city, Chinese workers were laid off as the silk and tea industry ground to a halt. Bankers remained optimistic about the impact of the conflict, in the firm belief that the war would be brief. As the conflict continued much longer than expected, its effects ricocheted through this close-knit treaty port world, splintering longstanding business and social ties, causing an irrevocable shift in the delicate balance that underpinned life in this unique cosmopolitan city.

Chapter 1: Economic warfare comes to Shanghai

Britain's declaration of war on 4 August 1914 provoked an unprecedented global financial crisis where confidence in world markets collapsed and mass selling of stocks and shares forced stock exchanges in every major country to close their doors.¹ Within the chaos, moderate policies of economic warfare were introduced referred to as 'business as usual' aimed at allowing some trade with Germany to continue in the expectation the war would be short-lived.² These policies consisted of the Blockade, aimed at blocking the maritime flow of goods to the Central Powers, which included Germany, Austria-Hungary and the Ottoman Empire and a series of royal proclamations issued on 5 August banning trade with any person or organization in Germany.³ Subsequent TWTE proclamations followed on 12 August 1914 to include trade with Austria Hungary, and 9 September 1914, which attempted to clarify certain aspects of the legislation, as the realities of implementation were very different to what had been predicted in the pre-war planning discussions of the CID. On 18 September 1914, the first TWTE Act was passed under which penalties were laid down for those who were said to have committed the offence of TWTE and prosecutions could be made either before a Court of Summary jurisdiction or on indictment for stricter penalties.⁴ During this period various committees were rapidly formed within government departments in London to implement the new regulations and to make decisions about how to wage the economic war. The TWTE proclamations were sent to British officials throughout Britain's empire, both formal and informal for them to be implemented across the wide patchwork of Britain's jurisdictions.

¹ Richard Roberts, *Saving the City, The Great Financial Crisis of 1914* (Oxford: Oxford University Press, 2013), p.195.

² John McDermott, 'Trading with the Enemy: British Business and the Law during the First World War', *Canadian Journal of History*, 32 (1997), p.203; see also David French, *British Economic and Strategic Planning* (London: Allen and Unwin Ltd., 1982), p.92.

³ J.W. Scobell Armstrong, C.B.E., *War and Treaty Legislation* (London: Hutchinson and Co., 1921), p.103. A Royal proclamation was a legally binding edict or executive order issued by the state in the name of King George V and his Privy Council which was published in the London Gazette.

⁴ Scobell, *War and Treaty Legislation*, p.105.

The legislation reached China in September 1914, and every Consulate was instructed to display the regulations and ensure the British trading community ceased trading with German nationals. The legitimacy of introducing the regulations was justified on the basis that they were the laws of Britain, which came within the terms of the China Order in Council of 1904, and were therefore applicable, as far as circumstances would admit, to British subjects living in China.⁵ Mixed messages emanated from the authorities in London, as they were divided about whether all trade should cease with German nationals living outside Germany or whether some trade should be allowed to continue to prevent severe disruption to the economy.⁶ China declared its neutrality at the outset of the war to try and prevent hostilities from spreading to China but its ability to maintain its neutrality and control foreigners was limited due to the extensive economic and political privileges which had been granted by the unequal treaties. Notwithstanding China's compromised sovereignty, China's neutrality was significant in restricting the actions that Britain could take against German nationals.

This chapter discusses the difficulties of implementing the TWTE legislation both from a London and Shanghai perspective. It concentrates on officials and how they managed and adapted the legislation to changing circumstances and interpreted it to suit different jurisdictions. I argue that successful implementation was hampered by a number of factors which are explored further in this chapter. Initially the chapter looks at the administrative problems in London, which arose from indecision about economic warfare policies and the lack of a suitable bureaucracy to cope with economic warfare on the scale of a global conflict. It then moves on to explore the difficulties in China, where Chinese neutrality and the need to respect other neutral powers restricted British actions, revealing the limits of British power. It gives an overview of the political situation in China, where instability and divisions in the Chinese government contributed to the difficulties British government officials faced when trying to implement economic warfare policies, owing to the different views and

⁵ Reports of the Cases decided in H.B.M. Supreme Court for China in 1917, 1918 and 1919 (Shanghai: Shanghai Mercury, Ltd.), pp.ii-iii.

⁶ David French, *British Economic and Strategic Planning 1905-1915* (Oxford: Clarendon Press, 1995), p.36.

loyalties in Chinese government circles. Further problems arose from the way the legislation was drafted, which allowed some German trade to continue and was linked to internal disagreement amongst the various government authorities in London about how far-reaching the economic war should be. The situation in the Settlement was not static, as British hostility to the German community increased as the conflict continued. The situation was further inflamed by security concerns in the Settlement, as the German SVC continued to be an active force, increasing anxieties on both sides of possible hostilities breaking out. Finally, the chapter explores how, as Germanophobia took hold, the British community lobbied for more stringent TWTE legislation to be introduced to prevent all trade with German nationals, even though this infringed on the business concerns of other neutral powers in the Settlement. By showing the diverse spectrum of problems British officials faced in China when implementing the TWTE legislation, this chapter aims to demonstrate the complexity of deploying economic warfare in an area of Britain's empire where it only had informal control.

Difficulties with Economic Warfare

British economic warfare policies at the start of the war were influenced by its dependence on exports to pay its way in the world, which is why moderate policies were introduced, allowing some trade with Germany to continue, as policy makers wanted to keep the disruption to trade to a minimum and had not envisaged a long drawn-out conflict.⁷ Views were divided about this policy at Cabinet level, however, ranging from limited interference with business affairs to an all-out aggressive economic campaign against enemy interests, with little concern for its diplomatic consequences or its impact on Britain's global trade. In earlier wars, trading with an enemy on any large scale was a physical impossibility. The facilities for conveying financial assistance to the enemy by wireless and cable did not exist, and a vigilant navy was all that was required to prevent the movement of merchandise to enemy countries on the Continent. In 1914 these conditions had profoundly changed owing to the

⁷ John McDermott, 'Trading with the Enemy: British Business and the Law During the First World War', p. 203.

globalised nature of business operations, which had been revolutionized by the development of transoceanic cable communication, the invention of the steamship and the development of an interconnected credit system.⁸ This brought with it a significant risk that financial and commercial transactions in Britain could be conducted by or with disloyal traders or enemy controlled firms, which might seriously prejudice the national interest.⁹ Addressing this risk was the rationale for the TWTE Act, which prohibited trade with the enemy and gave the Board of Trade extensive powers to inspect books and documents and search premises in cases where there were reasonable grounds to suspect that firms were committing TWTE offences. This saw a shift from pre-war 'laissez-faire' policies and involved much greater state intervention into the affairs of the business community.

As the reality of Britain's economic struggle took hold, the existing bureaucracy in Whitehall proved to be woefully inadequate to implement the TWTE measures and new departments and committees were formed to deal with the numerous issues that arose. Administration of the TWTE legislation became the responsibility of a new interdepartmental committee formed in the Treasury on 4 August 1914, whose members included representatives from the Home Office, Foreign Office and the Board of Trade.¹⁰ The aim of the committee was to ensure that TWTE proclamations were uniformly interpreted and administered by all departments concerned. As the new committee was frequently asked to clarify the TWTE legislation and other emergency legislation, Sir John Simon, the Attorney General, was appointed as Chairman, so as to provide comprehensive insight into all legal aspects of the legislation.¹¹ The Enemy Supplies Restrictions Committee, chaired by Sir Francis Hopwood, an experienced senior career civil servant, was an additional committee formed on 13 August 1914 to prevent supplies reaching the enemy. Great vigilance was kept on the neutral port of Rotterdam which was considered to be particularly vulnerable to enemy exploitation. The problem of assistance from

⁸ Lambert, *Planning Armageddon*, p.3.

⁹ Scobell, *War and Treaty Legislation*, pp.104-105.

¹⁰ David French, *British Strategy and Strategic War Aims, 1914-1916* (London: Allen and Unwin, 1986), p.112.

¹¹ H.W. Carless Davis, C.B.E., *History of the Blockade, Emergency Departments* (Foreign Office Printed Library, 1920), p.116.

neutral countries, and neutral flagged shipping providing channels for German trade, was an ongoing concern for British authorities throughout the war.¹²

As it soon became clear that the length of the hostilities had to be measured in years rather than months, which had significant financial and economic implications, there was a continuing dilemma about how to impose effective sanctions against enemy trade throughout the world which would not have a negative impact on Britain's global economic position. British policy makers also had to make sure that neutral trade was not severely compromised by its TWTE measures. In particular the United States government complained that its trading interests were compromised by British actions. American policy was based on a demand for the freedom of the seas and assurance that its goods and capital could be allowed to move freely round the world. It continually made clear its opposition to aspects of Britain's economic war and relations between the two countries were severely strained in the first two years of the conflict, as Britain refused to modify its blockade policies to accommodate American grievances. The question of to what extent Britain could wage its economic war without reaching the point where the disadvantages of antagonizing the United States outweighed the advantages of disrupting Germany's economy, posed a continual dilemma with Britain's economic warfare planning.¹³

David Lloyd George, particularly, remained optimistic about Britain's economic position, reassured that Britain was still the wealthiest nation and its considerable overseas assets would continue to finance the war.¹⁴ Others in the government were less optimistic and became increasingly concerned about Britain's deteriorating financial position. Sir Maurice Hankey, head of the CID, emphasised that the war was putting a strain on the British state. He highlighted the deficiencies in various government departments, which he associated with their failure to coordinate government

¹² Lambert, *Planning Armageddon*, p.220.

¹³ B.J.C. McKercher, 'Economic Warfare' in Huw Strachan, eds., *The Oxford Illustrated History of the World War* (Oxford: Oxford University Press, 2014), p.131; see also Thomas A. Bailey, 'The United States and the Blacklist Policy', *The Journal of Modern History*, 6:1 (1934), pp.14-35.

¹⁴ Lambert, *Planning Armageddon*, p.326.

policy effectively. He felt that the Board of Trade had been too lenient in addressing the continuing trade with Germans, influenced by its effort to maintain as much trade as possible.¹⁵ The failure to coordinate government action meant that the orders from Whitehall were often inconsistent and difficult to follow, as disputes continued about how far-reaching Britain's economic war should be. An inefficient bureaucracy, which was divided between several departments, resulted in considerable duplication and overlap, which meant businesses had to seek out a number of different departments to obtain clarification on issues concerning their business affairs. Complaints abounded from the British business community regarding the new bureaucracies' ignorance of the business world and what were considered to be the intolerably complicated rules and procedures governing the exportation of goods.¹⁶

The Foreign Office was responsible for enforcing the prohibitions in East Asia and corresponded with diplomatic representatives and Consuls about the enforcement and interpretation of the TWTE regulations. Its role included corresponding with foreign governments which complained that their subjects were adversely affected by the regulations; making enquiries abroad about neutral firms which were allegedly acting as intermediaries for trade between British subjects and the enemy; making representations to British firms which were found to be employing undesirable agents; and dealing with complaints from neutral powers that Britain's economic warfare policies were being used to strengthen its trading operations at their expense.¹⁷ It took its lead from the Board of Trade and other government departments but there was often considerable disagreement between government departments over how Britain's economic war should be waged, resulting in a lack of consistency in policy and implementation.

Inevitably such inconsistencies and inefficiencies had an impact on the ability of British consular officials in China to implement the legislation. As a result, they maintained a constant dialogue with

¹⁵ Lambert, *Planning Armageddon*, p.433-434.

¹⁶ Carless, *History of the Blockade*, p.124.

¹⁷ Carless, *History of the Blockade*, pp.198-199.

the Foreign Office throughout the war to try and keep abreast of the changes in government policy and to lobby for particular policies which would be effective in preventing trade with German nationals in the unusual conditions in China. Their task was made even more complicated as a result of China's declaration of its neutrality and the political instability which had developed in China since the revolution in 1911, as is further detailed below.

The Political Situation in China

China's proclamation of its neutrality on 6 August 1914 specified twenty-four strict rules by which neutrality was to be safeguarded. This approach was drawn from the 1904 British Foreign Jurisdiction Order in Council, which included belligerents not being allowed to occupy any part of the territory and water of China or conducting any act of war on Chinese territory. Troops of the belligerents, their munitions of war or supplies were not permitted across Chinese territory. Recruiting by foreigners amongst their own nationals in China was forbidden and the role of foreign troops stationed in China was strictly limited and regulated. Chinese citizens were also forbidden from taking any part in the war or giving any aid or equipment to the belligerents.¹⁸ A Bureau of Neutrality was set up to interpret the rules of neutrality and, where possible, to secure their enforcement.¹⁹

Yuan Shih-k'ai, the president of the newly formed Chinese Republic, was hoping to keep China out of the war, as the country had barely recovered from the revolutions of 1911 and 1913, which had first replaced the Manchu Empire and subsequently attempted to unseat him. The new regime was similar in many respects to its predecessor as it was effectively an authoritarian state governed by Yuan, a former military leader of the New Army (Hsin-chien lu-chün). Too much power hinged on Yuan's leadership, which had weakened authority at the centre and the real power lay with the disparate regional military forces creating divisions at a time when stability was required to eliminate the

¹⁸ W.B. Kennett, *Orders in Council, 1904-1915* (North-China Daily News & Herald Ltd., Shanghai, 1916), 'The Foreign Jurisdiction Neutrality Order in Council, 1904 pp.55-62.

¹⁹ N. Ariga and P.Fauchille, *La Chine et La Grande Guerre Euopéenne au Pointe de Vue Droit Internationale D'après les Documents Officiels du Gouvernement Chinois* (Paris: A Pedone, 1920), p.19.

disaffected elements within the state and strengthen the central government.²⁰ Yuan was beholden to the foreign powers in China through the harsh loan obligations which had been imposed by the foreign powers over the years. The Chinese Government was reliant on the receipts from the CMCS and the Salt Gabelle, both under foreign domination, to service these loans and to pay for government spending.²¹ The coming of the war threatened both sources of income and China, with no particular allegiance to either side, being as equally dependent on Germany as on the Allies for financial assistance, was left undecided about which side to back and what policies to pursue.²²

Although Yuan tried hard to keep China out of the conflict, it became clear over time that great power rivalries would ensure it could not escape being drawn in. Yuan's initial discussions with Germany over a possible Sino-German agreement which would result in Germany handing back Qingdao to China, saw hasty intervention from Britain and Japan, which were concerned about the wider implications of such a development for concessions held by other foreign powers in China.²³ Britain's request for Japanese assistance in destroying the German Navy under terms of the Anglo-Japanese Alliance (1902) provided the perfect excuse for Japan to declare war against Germany and occupy German territory in Shandong Province in November 1914; this included the Qingdao to Tsinan railway and the mines being worked by the Germans in the territory. The subsequent 'Twenty One Demands' presented to Yuan Shih-k'ai in January 1915 left no doubt about Japan's intention to claim hegemonic control over Chinese affairs which, if successful, would have been way superior to all other powers in China at the time.²⁴ The terms of the Anglo-Japanese Alliance only called for military

²⁰ Madeleine Chi, *China Diplomacy, 1914-1918* (Cambridge, Massachusetts: Harvard University Press, 1970), p.1.

²¹ S.A.M Adshead, *The Modernisation of the Chinese Salt Administration, 1900-1920* (Cambridge, Massachusetts: Harvard University Press, 1970); see also Julia C. Strauss, *Strong Institutions in Weak Politics: state building in Republican China, 1927-1940* (Oxford: Clarendon Press, 1998).

²² A. Philip Jones 'Britain's Search for Chinese Cooperation in the First World War' (London School of Economics: Ph.D thesis, 1976), pp.2-3; see also 'The Intervention of China', *The Times History of the War*, Vol.XIV (London, The Times Printing House Square, 1918), pp.109-145.

²³ Jones, 'Britain's Search for Chinese Cooperation', p.15.

²⁴ Adam Tooze, *The Deluge: The Great War and the remaking of Global Order* (UK: Penguin Random House, 2014), pp.92-93; see also Jones, 'Britain's Search for Chinese Cooperation', pp.11-12.

intervention if Hong Kong or Weihaiwei was attacked, which meant Japanese expansion into Shandong Province was purely for imperialist gain, not to assist its ally.

China's weakness and the limitations of Chinese sovereignty were uncovered in the wartime environment. Yuan's lack of political control over all of China's territory and the absence of an army capable of defending the neutrality regulations, meant that China was in no position to enforce any breaches of neutrality by the foreign powers.²⁵ Foreigners were protected by their extraterritorial rights which meant any neutrality transgressions could not be tried in Chinese courts but only by each country's own consular authorities, which were unlikely to find in China's favour.²⁶ Much as Britain considered itself an upholder of international law, the uncertainties of the wartime environment in China constantly gave rise to situations which tested Britain's commitment to respecting China's neutrality regulations. The general policy of the British authorities was not to take too strict a line on enforcing neutrality breaches by Chinese officials, as it granted them greater leeway for any breaches of their own. This was in stark contrast to their approach to breaches made by Germany, which were only too quickly brought to the attention of the Chinese authorities, as indeed were those of the Allies by the German side.

Although Chinese ability to regulate neutrality breaches was severely compromised, leaving significant latitude for foreign powers to take advantage of China's difficulties, some respect for China's neutrality had to be maintained, as the foreign community justified their presence in China by assurances of their 'civilising mission' aimed at helping China develop and modernize. British officials reluctantly had to accept Chinese management of a number of situations, which included alleged breaches by both German and British nationals. Two of these disagreements which concerned the supervision of shipping, which was itself subject to strict neutrality regulations, are described below.

²⁵ China had experienced a similar situation before during the Russo-Japanese war (1904-1905), where hostilities had also taken place on Chinese territory. China had been incapable of enforcing neutrality regulations on interned Russian vessels, see Bruce A. Ellman, 'Chinese Neutrality and Russian Commerce raiding during the Russo-Japanese War, 1904-1905' in Bruce Ellman and S.C.M. Paine, eds., *Commerce Raiding, Historical Studies, 1755-2009* (Newport, USA: Naval War College Press, 2013), pp.130-131.

²⁶ Jones, 'Britain's Search for Chinese Cooperation in the First World War', p.18.

They illustrate some of the tensions that British officials faced when dealing with the Chinese authorities over breaches of the neutrality regulations. They provide further insight into the reasons why Britain's economic war faced so many challenges in China and how British actions were compromised by not having formal control in the country.

The British tugboat '*Victoria*' had been requisitioned from Messrs. Wheelock & Co., a local shipping company, to supply British warships stationed outside Shanghai in Chinese neutral waters in 1915. It was seen going backwards and forwards to the ships, a fact which was revealed in the local press by an American newspaper. This led to accusations that the Allies were replenishing a belligerent fleet which was not permitted under the neutrality regulations. The publicity brought the matter to the attention of Vice-Admiral Lee, the Commander in Chief of the Chinese fleet. The German consular authorities had also contacted Lee about the incident. Two German tidewaiters in the CMCS prevented the tug boat from leaving after loading supplies on the French Bund and the acting British Commissioner of Customs, R.H. Wade under instructions from Lee, suggested that the tugboat was breaching China's neutrality laws, and threatened to take away the boat's licence.

The matter elicited a tetchy correspondence between Sir Everard Fraser, the Consul General in Shanghai and Lee about the legal aspects of the situation, with Fraser stating it was permissible to replenish supplies under Article 19 of The Hague Convention 1907, and Lee responding that this could only take place with the permission of the Chinese authorities. Lee questioned Britain's commitment to respecting Chinese neutrality, stressing that it was the duty of the neutral state to enforce its own neutrality laws and not the right of a belligerent state to interpret them to its own advantage. Fraser was of the opinion that Chinese interference was officious and rooted in an exaggerated sense of duty, which was not impartial and, which ultimately could not be enforced. He particularly drew Lee's attention to the provocation of German tidewaiters boarding British vessels and the associated security issues which could result from these actions.²⁷ It was a situation which in spite of Fraser's protests could

²⁷ TNA, FO 228/1912, 263/15, Enclosures about the Tugboat, *Victoria*, in Letter Fraser to Jordan, 25 August 1915.

not be resolved in Britain's favour, as both the German tidewaiters and Wade were employees of the Chinese authorities and were only carrying out their normal duties as Customs officials. Wade's position illustrates the dilemma British employees faced in the CMCS, a foreign-run organization which was subordinate to the controls of the Chinese government. A situation such as a global conflict placed employees in the difficult position of being answerable to the Chinese authorities but having loyalties to their own national cause.

Fraser highlighted what he perceived to be the Chinese authorities' lack of even-handedness over neutrality issues, as, whilst they avidly followed neutrality procedure in relation to the '*Victoria*', he considered that they had made little effort to disarm two German gunboats, the '*Otter*' and '*Vaterland*' stationed at Nanking. The ships' crew were suspected of relaying secret messages to German troops in Qingdao. Even after strong protests from the British authorities, the German crews had failed to dismantle their wireless telegraph, which was a breach of the neutrality regulations. The German authorities had convinced the Chinese authorities that they had sold the ships to the German firm Melchers & Co., and that they were being used as merchant vessels.²⁸ When closely observed at night, the ships were lit with electric light and four people could be seen in the wireless telegraph room. If they suspected that they were under observation the lights went out and the telegraph was always taken down in the day. British officials reported that there appeared to be no sign of any supervision of the boats by the Chinese authorities. Yuan was only too well aware that these tensions could escalate and advised Admiral Tscheng, the Commissioner for Foreign Affairs in Shanghai, to avoid friction with the British and to ensure good relations were maintained with the British Consulate in Shanghai.

There was a strong pro-German element within the Chinese authorities, and Yuan was unable to control the various divisions in his government to ensure a consistent and effective policy regarding neutrality breaches. In spite of subjecting China to polite pressure and in the last resort bulldozing,

²⁸ TNA, FO 228/1912,244/14, Telegram No.98 from Shanghai to HM Minister, 14 August 1914.

Britain had to accept the half-hearted handling of neutrality breaches of this sort by Chinese officials, as they had no alternative option. The greater autonomy China gained from these situations undermined the extraterritorial status of the foreign community, which caused tensions throughout the war.²⁹

Britain's extraterritoriality was the reason why TWTE regulations were extended to China but the complex web of trading interests and relationships which had developed over the years meant that the legislation had an impact on the trade of all nationalities with trading interests in the country. Targeting the trading network of a commercial rival in a neutral country inevitably had wide repercussions, which impinged on China's neutral rights and those of other nations who were not at war with Germany.

Implementing the Legislation in China

With the economic war in its infancy, interpreting the TWTE regulations and how they should be implemented in Shanghai and the other treaty ports, generated considerable confusion amongst the British authorities in China. The British Legation in Peking was the main centre for communication to and from the Foreign Office and dealt initially with TWTE matters before instructions were sent to the various consular officials in the treaty ports. Sir John Jordan (1906-1920), the British Minister in China, was an experienced diplomat and a skillful negotiator who spoke Chinese. He had been personally acquainted with successive Chinese leaders and had formed a particularly close association with Yuan Shih-k'ai.³⁰ Jordan's experience of Chinese problems was unrivalled, but even so, his diplomatic skills were severely stretched, not only by protecting Britain's interests but also through

²⁹ TNA, FO 228/1911, 154/14, Telegram Jordan to Shanghai, 15 August 1914; Jones, 'In Search of Chinese Cooperation', p.37.

³⁰ Ian Nish, *Alliance in Decline, a Study in Anglo-Japanese Relations, 1908-23* (London: The Athlone Press, 1972), p.8; see also Chan Lau Kit-ching, *Anglo-Chinese diplomacy in the careers of Sir John Jordan and Yuan Shih-kai: 1906-20* (Hong Kong: Hong Kong University Press, 1978).

coping with Japan's more aggressive imperialist policy in China which had been triggered by the war and the instability of the Chinese government.

The British Consulate General in Shanghai, as the leading trading port, became the hub for administering Britain's TWTE regulations and the main reference point for the many queries from the business community in Shanghai and other treaty ports relating to the impact of the legislation on their business affairs. Sir Everard Fraser was the Consul General during the wartime period and had been appointed to the post in 1911. Fraser joined the Consular Service in China in 1880 at the age of 21 and spent many years working in a number of treaty ports during the early stages of his career. He always had a keen interest in Chinese affairs and was one of the few foreign officials who was able to draft his own dispatches in Chinese. His wide consular experience meant he was well equipped to respond to the many wartime challenges.³¹ He was generally sympathetic to the plight of British traders, taking the view that although the advice to traders was to cease enemy trading, there should be some leeway granted to prevent British companies from suffering from too much loss owing to the sudden outbreak of the conflict, as trade was so interwoven and China such a remote country, that the impact would be less significant to British trade than some other countries.³² He tried hard to maximize the opportunities the war provided to improve Britain's trading position and to ensure that the necessary support was provided to the trading community.

When the TWTE legislation reached China, Fraser's advice to cease trading with the enemy hinged on an interpretation of the regulations by Hiram P. Wilkinson, the Crown Advocate in Shanghai. The decision was based on the interpretation of 'commercial domicile' in respect of which Wilkinson took the view that, as British citizens were subject to the exclusive jurisdiction of their own extraterritorial court and enjoyed extraterritorial immunity from the jurisdiction of China, they were incapable of acquiring a Chinese domicile of any sort and, even though they were not resident in a British dominion, they were still bound by the obligations of British law and subject to the TWTE

³¹ Obituary of Sir Everard Fraser, *North China Herald*, 25 March 1922, p.824.

³² TNA, FO 228/2595, D35, Letter Fraser to Anton, 9 September 1914.

regulations. He stressed that China was a neutral country where British subjects could continue their trade with China, but that they were prohibited from assisting Germans in their trade, as this would be assisting an enemy.³³ The legal basis for this interpretation of the TWTE regulations was drawn from Article 35 of the 1904 Order in Council, which was issued during the Russo-Japanese War and outlined the restrictions on Britons in China in the event of war. Countering the view that extraterritoriality was a 'working arrangement', dependent on the law of China, Fraser, cited Article 12 of the Mackay Treaty 1902 to argue that the existence and continuance of extraterritoriality in China was not dependent on China's wish but entirely on that of Britain.³⁴

However, this interpretation was at odds with Whitehall, as the legislation arguably provided for a purely territorial definition of enemy trade which made domicile not nationality the test of enemy character. When Fraser asked for clarification, he discovered from the authorities in London, notwithstanding extraterritoriality, foreigners trading in China acquired commercial domicile. On this basis, although direct trade with Germany was prohibited, trade with branches of enemy firms established in neutral countries or even in British territory were permitted, provided transactions did not involve the head office of a firm in enemy territory. Many complex business arrangements had been formed over the years between the two nations and Fraser was quick to highlight to officials in London all the further difficulties with the legislation, such as: how to identify whether a transaction was with an agent of an enemy principal, what was the ultimate destination of export cargo being carried in British ships and whether Germans could transfer shares in British companies or act as their directors or officers. This lack of clarity invited bureaucratic chaos as trade had become so closely entwined that the web of connections was virtually impossible to unravel, even with clear guidance.³⁵ The legislation was later extended to prohibit business with branches of enemy banks in neutral

³³ TNA, FO 671/377, 15/15, H.C. Wilkinson, the Crown Advocate to W.J. Clennell, HM Consul, Newchang, 14 October 1914.

³⁴ TNA, FO 228/2595, D35, 322/14, Fraser to G.E. Anton, Chairman of the Shanghai Branch of the China Association, 9 September 1914.

³⁵ TNA, FO 671/377, 69/15, Letter Fraser to Langley, 10 January 1915.

territory but still it failed to clarify awkward issues such as those described above. This allowed for a great deal of interpretational leeway, as although traders were advised to cease all transactions with Germans, whether to do so or not was left up to their discretion, which inevitably meant some trade with German nationals continued to take place. Notwithstanding these difficulties the British Government held fast to the idea that it was not nationality but domicile which determined enemy character. This was rooted in the assumption that a German, for the purpose of Britain's commercial war, could not be of material assistance to his country unless he was living under its jurisdiction.³⁶

The French were much clearer in their definition of the enemy. French law based on Article 77 of the Penal Code of 22 February 1810, was founded on both principles, nationality and domicile. Under a decree announced on 27 September 1914, which was subsequently ratified by the French Parliament, trade was prohibited with all persons residing in enemy territory whatever their nationality and enemy subjects were prohibited from trading directly or through intermediaries with people in French territory or French protectorates.³⁷ The main object of the legislation was to prevent any French subject from assisting the enemy, either directly or indirectly, to obtain supplies and funds for the prosecution of war. This clear definition of 'enemy' eliminated many of the difficulties that the British authorities faced when implementing their TWTE legislation. Britain's unclear TWTE policy was unpopular with the French authorities as they thought that Britain continuing to trade with Germany had obvious financial advantages and implied a lack of commitment to the conflict. The French government continually complained that, whereas their subjects were forbidden from trading with German merchants, British traders continued to trade with them, freely taking the business from their Allies and, in effect, promoting enemy business affairs.

The situation in Hong Kong compared to China was more straightforward. It was a colony which meant the TWTE legislation could be implemented to full effect, and all trade with German nationals was banned. In October 1914, German businesses were taken over by the colonial

³⁶ Carless, *The History of the Blockade*, p.185.

³⁷ Siney, *The Allied Blockade of Germany*, p.77.

government and liquidators were appointed with practically unrestricted powers. Any surplus that was left over after the liquidation of businesses was paid into the leading banks in the colony such as: the Honkong and Shanghai Bank, the Chartered Bank of India, Australia and China or the Mercantile Bank of India. No one was able to take over the business of an enemy without a special licence from the Governor. Care was taken to ensure that the trade of the colony was not damaged by large quantities of goods being thrown onto the market, irrespective of the demand for them.³⁸ German women and children were asked to leave, and German men of military age were interned. Eighty or so Germans arrived in Shanghai where they were given a cool reception by British nationals, despite their miserable circumstances, as anti-German sentiment was increasing in the Settlement. Sir Francis May, the Governor of Hong Kong had failed to keep Shanghai residents informed about their arrival but even though there were objections, nothing could be done as they were legally allowed to come.³⁹

As the British authorities in China struggled to interpret and implement the legislation, views initially were divided about ceasing all trade with German firms not only amongst Consular officers, who had divergent opinions and practices, but amongst the British trading community, due to the unique trading environment which had developed in Shanghai over the years. Many local traders were strong upholders of the cosmopolitan values of the Settlement, and against strict enforcement of the TWTE regulations, as they felt that 'the Germans in China were a different breed to other Germans';⁴⁰ some had a Shanghailander mentality and resented interference from outside into their business affairs.⁴¹ Others considered that as Shanghai was a neutral port, that its business operations should not have to be affected by the war.⁴²

³⁸ Carless, *The History of the Blockade*, pp.97-98.

³⁹ TNA FO 228/1912, 335/14, Telegram No. 139, 'Expulsion of Germans from Hong Kong', Shanghai to HM Minister, 19 October 1914.

⁴⁰ H.G.W. Woodhead, C.B.E., *Adventures in Far Eastern Journalism* (Tokyo, Japan: The Hokuseido Press, 1935), p.49.

⁴¹ TNA, FO 228/1950, 539/15, Letter Fraser to Jordan, Impact of the First World War on Shanghai: German activities in Shanghai, 13 December 1915.

⁴² TNA, FO 228/2595, D22, *China Press*, 2 September 1914.

In Britain, Manchester traders had strong links with German firms in China and were reluctant to stop trading owing to the considerable losses they would incur. They were the main suppliers of cotton piece goods to the Chinese trade and Manchester trade continued to such an extent that a list of German firms open for business in Shanghai had been printed in the *Manchester Chamber of Commerce Monthly Record*. Many Germans had settled in Manchester during the late eighteenth century as traders, often acting as links to their home towns in Germany. Nathan Meyer Rothschild was the most notable, coming to England in 1798 to represent his father's Frankfurt-based textile firm. He set up an agency in Manchester in 1800 to purchase local textiles. Stimulated by his success other firms followed, attracted by the cotton industry and its ancillary industries.⁴³ There were over a hundred German export firms in Manchester by 1851 and by the late nineteenth century approximately ten percent of its Merchants were German immigrants. These firms played an important role in the cotton industry up to the First World War, establishing new global partnerships which included Shanghai and Hong Kong.⁴⁴ German firms such as Arnhold Karberg & Co, Melchers & Co, and Carlowitz & Co acted as agents for these firms, distributing their goods throughout China which absorbed in the region of 10 per cent of Manchester's total exports.⁴⁵

Manchester traders were concerned that a complete ban on trade would severely damage their trading interests and would provide opportunities for other firms in China to take over the trade. These concerns were genuine as Japanese traders had already successfully broken into the cotton industry and were using the opportunities the war provided to tighten their grip on the trade even further. Manchester traders highlighted anomalies in the legislation which still allowed on-going trade with America which could result in German consumption, whereas the prohibition of trade in China

⁴³ Jonathan Westaway, 'The German Community in Manchester, Middle-Class Culture and the Development of Mountaineering in Britain, c.1850-1914', *The English Historical Review*, 124:508 (2009), p.5; see also Arthur Redford, *Manchester Merchants and Foreign Trade*, Volume II, 1850-1939 (Manchester: The University Press, 1956).

⁴⁴ Stanley Chapman, 'The Commercial Sector' in Mary B. Rose, ed, *The Lancashire Cotton Industry, A History since 1700*, p.81.

⁴⁵ TNA, FO 671/377, 730/15, Draft Letter Fraser to Jordan, copy to Board of Trade, 3 June 1915.

mainly affected Chinese consumption. They claimed that the small commission gained from continuing to trade with Germans helped keep British industries and shipping alive and provided employment for people in Britain.⁴⁶ They counteracted widespread criticism of their pro-German leanings by stating that the majority of their families had men at the front and that many had lost their lives fighting for the Allied cause.⁴⁷

Whilst policymakers took the views of Manchester traders into account, discussions about tightening the legislation against German traders continued and extended to consideration of how it would influence the prosperity of neutral countries such as those in South America. Consultation about the matter was wide-ranging due to the significant financial implications of imposing tighter legislation. It included the Foreign Office and the Board of Trade and extended to banks, Chambers of Commerce and important commercial houses from whom additional information was obtained, to gather as many views as possible. In China the trading arrangements were relatively uncomplicated but in many South American countries and Central American republics, national prosperity was so bound up with the success of German firms that it could have serious consequences if British trading and shipping facilities were withdrawn. German traders had succeeded in obtaining a large share of the trade in these countries which had formerly been carried out by British houses. It was reported that the coffee trade in Brazil and the hide and grain trade in Argentina were mainly in German hands, although the goods were generally shipped in British ships.⁴⁸ There was a large amount of British capital in both countries invested in railways, docks, harbours, gas, electricity, trams and water drainage, which were worked by British companies and could be open to attack in various direct or indirect ways. The possibility that Americans could take over German business interests if the ban was tightened, was a cause for concern, as although the Americans did not have the financial network or shipping in place in the early

⁴⁶ TNA, FO 228/1949, letter No 29, Fraser to Jordan, Impact of First World War on Shanghai: German trade in Shanghai', Political and Economic Reports 1914-1920, p.138.

⁴⁷ *The NCH*, 26 June 1915, p.921.

⁴⁸ TNA, FO 833/17, The War Trade Advisory Committee, Draft report of the Sub-Committee appointed to consider the definition of enemy, September 1915.

stages of the war to fill the gap left if all trade with Germany was banned, they were making great efforts to extend their trade in South America and it was felt that it would be pointless to introduce any scheme that might divert British trade into American hands.⁴⁹

Under the existing TWTE legislation, British firms and shipping companies were able to keep trading with German nationals, which was keeping alive and strengthening the German commercial organization in South America. British consular officials were in favour of stricter measures being introduced to restrict German trade, though it was thought that exceptions would have to be made in certain cases where British or local interests were too deeply involved. They argued that it was essential that the system should remain flexible and sympathetic to local conditions, and although there would be losses to British trade whilst new trading channels were established, ultimately there would be benefits for British trade in the long-term. Greater government support would be needed than had previously been provided to take advantage of the trading opportunities, which would arise from banning all trade with German companies.⁵⁰

As discussions continued about the wider implications of tightening the legislation, pressure from British traders in Shanghai to cease trading with Germans mounted as anti-German sentiment spread throughout the Settlement. The freedom that extraterritoriality allowed for the German community to continue their day-to day-lives in much the same way as before war was declared, antagonized the British residents, which was also the case for the German community against the British. There were a number of factors which increased British hostility to the German community, which are described in the next section. These were used to strengthen the case for ratcheting up the commercial war against Germany and for introducing stricter measures to alienate German influence in the Settlement.

⁴⁹ Bill Albert, *South America and the First World War, the Impact of the War on Brazil, Argentina, Peru and Chile* (Cambridge: Cambridge University Press, 1988), p.44.

⁵⁰ TNA, FO 833/17, Draft Report of Sub-Committee to consider definition of enemy, September 1915.

Security concerns were a continuing preoccupation for residents in the Settlement and gnawed away at the British community as rumours of German anti-Allied activity circulated. The incessant drilling of the German and Austrian sections of the SVC who continued to be armed with British Lee Enfield rifles, with free access to ammunition, was a particular cause of concern.⁵¹ Little could be done about the 170 strong German and Austrian companies as they were the responsibility of the SMC and, provided that they abided by its rules and regulations, no action could be taken against them. The British contingent was a similar size so would be no match if violence did erupt in the Settlement. The hands of the police were tied by extraterritoriality, which limited the actions that could be taken which added to the growing unease about safety in the Settlement.⁵²

As German nationals were protected by their consular authorities, the police had restricted powers for searching German premises. Germans were said to be storing arms in the godowns, which were disguised as umbrellas to prevent them from being examined by customs officials. They were then exchanged for actual umbrellas and the guns could be removed from the godowns at will without detection. Fraser complained that senior Customs officials were easily bribed to turn a blind eye to this activity.⁵³ These rumours had some foundation as the Yangtze Wharf and Godown Company which was registered in Hong Kong and where all the directors and the majority of shareholders were German subjects, was allegedly using its premises to store arms, which were waiting to be transported to India to assist the revolutionary movement. The company's offices were on the premises of Carlowitz and Co., the well-known German firm and located outside the Settlement, across the river at Pootung where the Municipal Police could not legally enter them. Jordan advised Fraser that he should use everything legally in his power to issue a warrant to search the premises if he thought valuable evidence could be obtained. However, showing how Fraser's actions were restricted in the Settlement,

⁵¹ TNA, FO 371/2320, Letter Major-General F.H. Kelly, Commander of the troops in South China to the Secretary of the War Office, 24 November 1914, *Shanghai Political and Economic Reports, 1914-1920*, p.117.

⁵² TNA, FO 228/1949, 343/14, Fraser to Jordan, 30 October 1914.

⁵³ TNA, FO 228/1950, Letter Fraser to Jordan, 29 December 1915 in *Shanghai Political and Economic Reports 1914-1920*, p.266.

the sanction of the German Consul was necessary before the SMC could issue instructions to the police to enter the property, which meant effectively that the premises were outside the jurisdiction of the Municipal authorities.⁵⁴ Stories of German exploits were generally greatly exaggerated and included rumours of a huge subterranean cavern under the buildings of the leading German firm Melchers & Co. in the French Concession, and of Arnhold Karberg and Carlowitz & Co. in the central district of Shanghai which were rigged with explosives.⁵⁵ These types of incident and rumours added to the increasing paranoia amongst British residents about the threat posed by living in such close proximity to their enemy.

Rumours circulated that Germans were allegedly involved with the Indian revolutionary movement, as Shanghai had become an important centre for Indian nationalist and revolutionary activity, due to China's wavering neutrality, and what was perceived by the British community to be the undue lenience of both the Chinese and Customs authorities. The cosmopolitan nature of the Settlement provided a safe haven for Indian nationalists owing to the various jurisdictions which operated there, and the Germans were allegedly offering them protection.⁵⁶ There was a large number of British Indians, mainly Sikhs employed in various capacities throughout the Settlement who were thought to be particularly susceptible to German influence. Although German exploits within the movement were greatly exaggerated, there was genuine concern amongst British consular officials about the security risk they posed especially as in 1915, Shanghai had the reputation of being one of the leading centres for anti-Allied activity in East Asia.⁵⁷

The German community was blamed for the anti-British propaganda which circulated throughout China during the war. They made good use of Britain's close association with Japan to

⁵⁴ TNA, FO 371/2653, 19885, Letter Jordan to Sir Edward Grey, 1 January 1915, p.165.

⁵⁵ US National Archives and Records Administration, Record Group 263, Records of the Shanghai Municipal Police Special Branch, File 1.0.145, Letter M. Armstrong, Chief Detective Inspector to Captain Superintendent of Police, 24 March 1917, Shanghai Municipal Council.

⁵⁶ TNA, FO 228/1950, Captain Seigne to Sir Everard Fraser, 21 December 1915 in *Shanghai Economic and Political Reports*, p.267.

⁵⁷ Clive John Christie, 'The Problem of China in British Foreign Policy, 1917-1921' (unpublished PhD Dissertation, University of Cambridge, December 1971), p.15; see also Jones, 'In Search for Chinese Cooperation', p.47.

highlight its complicity with Japan's much more aggressive imperialist foreign policy in China. Japan's actions in China were deeply unpopular with the Chinese population leading to boycotts of Japanese goods by the Chinese business community.⁵⁸ Many Chinese thought that Britain, France and Russia were secretly supporting Japanese demands so that they would ultimately benefit from any gains achieved.⁵⁹ British officials thought that Germany was well backed financially to promote anti-Allied propaganda as they allegedly had their share of the Boxer indemnity⁶⁰ and their part of the interest on two big Anglo-German loans and various other dues which were paid into the DAB, which were thought to be in the region of £3 million a year. Germans were said to use Chinese contacts to gain influence and control and there were allegedly 200 Germans travelling through China stirring up opposition to Britain.⁶¹

Propaganda was used widely both by Germany and Britain to boast of military successes and to undermine each other's position. British views were expressed in newspapers such as: *The North China Herald*, *The Shanghai Mercury*, *The North China Daily News* in Shanghai, *The Peking and Tientsin Times* in Tientsin and *The Central China Post*, in Hankow.⁶² Germans subsidized newspapers such as: *The Peking Post* in Peking, *The Tientsin Sunday Journal* in Tientsin, *The Hankow Daily News* in Hankow and *The War* in Shanghai which were all printed in English. They were backed by the DAB and articles were written about the Allies by an 'Englishman' by the name of Egging, who was the Manager of the DAB in Peking.⁶³ The Tageblatt Printing Office in the German Concession of Tientsin

⁵⁸ TNA, FO 228/1949, Letter H. Knipping, Consul General for Germany to E.C. Pearce, Chairman of the Shanghai Municipal Council, 17 May 1915, tensions with Germans in Jarman, ed., *Shanghai Political and Economic Reports*, p.201.

⁵⁹ TNA, FO 228/1949, 112/15, Fraser to Jordan with enclosure Captain Seigne to Fraser, 5 April 1915, in Robert L. Jarman, ed., *Shanghai Political and Economic Reports*, p.178.

⁶⁰ The Boxer Protocol was imposed on China in 1901 after the Boxer uprising in 1899-1901. It stipulated the payment to the powers affected, an indemnity of 450 million Tls (approximately £67 million) in gold over 39 years and guaranteed by CMCS receipts.

⁶¹ Letter Morrison to Fraser, 12 October 1916, Lo Hui-Min, *The Correspondence of G.E. Morrison, 1912-1920*, p.564.

⁶² Albert Feuerwerker, *The Foreign Establishment of China in the Early Twentieth Century* (USA: Michigan, Centre for Chinese Studies Publications, 1976, reprinted 1992), pp.107-109.

⁶³ Letter Morrison to Fraser, 12 October 1916, Lo Hui-Min, *The Correspondence of G.E. Morrison, 1912-1920*, p.564, see also H.G.W. Woodhead, *Adventures in Far Eastern Journalism, a record of thirty-three years of experience*, p.49.

became a centre for anti-British propaganda with some German employees living in the British Concession. H.G.W. Woodhead, editor of *The Peking and Tientsin Times*, claimed German propaganda was much more efficient than Britain's and was cleverly targeted at the Chinese and American communities. Many highly placed Chinese officials believed there would be a German victory as pamphlets and bulletins reporting German victories were distributed throughout China.⁶⁴ Alleged German plots were generally greatly exaggerated but they provided added impetus to the anti-German zeal which gathered momentum as the conflict progressed.⁶⁵

The news of the loss of British Shanghai residents on the Western Front and Germany's indiscriminate submarine warfare campaign contributed to increased hostility to the German community. Germany's submarine warfare policy had a number of early successes when it commenced in February 1915 but was deeply unpopular and considered a breach of the International laws regulating the rules of commerce in time of war.⁶⁶ The sinking of the '*Lusitania*' on 7 May 1915 provoked worldwide condemnation and the alleged rejoicing by Germans in Shanghai over the incident angered British nationals. The German Consul General, H. Knipping in a letter to the Shanghai Municipal Council expressly denied these celebrations had taken place, stating that the German community was being unfairly victimized and misrepresented in the local press.⁶⁷ In other correspondence he blamed the 'fanatic Fraser' for starting rumours that weapons were being collected in the German Club which he felt would be used by Britain, as an excuse to land British troops in Shanghai.⁶⁸ In spite of Knipping's protests, Britain, being the leading foreign influence in Settlement life, sanctioned increased action against the German community. Targeting the German community

⁶⁴ SOAS, CHAS/02/21, Circulars, Vol. VIII. Letter to Peking and Tientsin Times, 13 May 1915, see also Woodhead, *Adventures in Far Eastern Journalism*, pp. 47-67.

⁶⁵ Jones, 'Britain's Search for Chinese Cooperation', p.45.

⁶⁶ *South China Morning Post* (1903-1914), 3 March 1915.

⁶⁷ TNA, FO 228/1949, Letter Fraser to Jordan, 27 May 1915, Impact of First World War on Shanghai: tensions with Germans, enclosure Letter from H. Knipping to E.C. Pearce, Chairman of the Shanghai Municipal Council, 17 May 1915, *Shanghai Political and Economic Reports*, pp.198-202.

⁶⁸ TNA, FO 228/1949, Letter Fraser to Jordan, 3 April 1915 enclosing letter from Captain J.M. Seigne to Fraser, 5 April 1915 in *Shanghai political and Economic Reports, 1914-1920*, pp.178-180.

had started in January 1915, when British ratepayers in the SMC elections launched a campaign to purge the council of its one German member Heinz Figge, who was chairman of the Watch Committee which had responsibility for the security of the Settlement. He had resigned in January 1915 after four years of valuable service.⁶⁹ The purge continued with German doctors being removed from the Board of the General Hospital and German members being evicted from the Shanghai Club, the Country Club and shortly afterwards the Golf Club and the Rowing Club.⁷⁰ Britain was well positioned to alienate the German community as British nationals dominated all the main organisations which regulated the Settlement. German nationals had played an important part of life in Shanghai, but they were increasingly pushed to the margins of settlement life and any association with them was actively discouraged. Anti-German sentiment played an increasing role in intensifying the commercial war against the German business community which gathered momentum as the war progressed.

As a result of a much more hostile mood in the Settlement, the consular authorities backed by the British trading community exerted greater pressure on Whitehall to introduce legislation which would ban all trade with German nationals in Shanghai and the treaty ports. This was backed up by the London Office of the China Association which made strong representations to the government for the TWTE legislation to be strengthened stressing that Germans continuing to trade in China was detrimental to the prestige of British company law and British interests as a whole.⁷¹ German influence was largely created and fostered by German commercial houses and it was widely thought that a severe blow aimed at German trade would reduce German influence in China.⁷²

Under the existing legislation, German cargo from Shanghai continued to be shipped in neutral ships for neutral ports such as Rotterdam, Copenhagen, Arhus and Genoa and this trade could

⁶⁹ TNA, FO 228/1949, 342/14, Fraser to Jordan, 30 October 1914, see also Robert Bickers, *Getting Stuck in for Shanghai, Putting the Kibosh on the Kaiser on the Bund* (Australia: Penguin Group in association with Penguin (Beijing) Ltd, 2014), p.265.

⁷⁰ NCH, 15 May 1915, p.442.

⁷¹ TNA, FO 671/377, 94/15, Letter R. Truman to Fraser, 12 January 1915, p.75.

⁷² TNA, FO 833/17, The Trade Advisory Committee, Report of the Sub-committee appointed to consider the definition of enemy, September 1915, Annex 1, enclosure in note by Earnest M. Pollock, Solicitor General to Lloyd George, 14 March 1919.

not be regulated by the authorities in China. British officials claimed that the Germans made full use of their extraterritorial privileges and commercial domicile status to continue their trading operations. Fraser blamed the German authorities for encouraging their traders to break contracts and to act in a way which defied all the protocols of a normal business relationship.⁷³ If contracts were broken, there was no redress in the courts for traders as both the Consular Court in China and the appeal court in Leipzig were closed to British complainants during the war, which meant that broken contracts with an enemy subject could not be enforced by legal process.⁷⁴

Germans, by continuing to trade, could re-assure their Chinese customers that they were able to supply British goods as normal, in spite of the wartime conditions. They stated that this was due to British fear of Germany and the necessity for Britain to keep trading with Germany to overcome difficulties they had financing the war.⁷⁵ Admiral Von Hintze, the German Minister in Peking (1915-1917) was said to cultivate vigorously the pro-German tendencies of the Chinese authorities and to encourage their belief that Germany would win the conflict. Chinese traders had little interest in the war in Europe, except for the impact it had on their day-to-day trading operations in China and could be equally swayed by either side as to which country to back and which side would be the ultimate victor.⁷⁶

To strengthen their case in their lobbying for more effective legislation to prevent all trade with German nationals, leading British companies in China used a ruling by the Alexandria Prize Court in March 1915 to back up their demands.⁷⁷ Goods shipped on a German steamer by a German resident in Shanghai had been captured and brought before the Prize Court in Alexandria. The goods were confiscated on the grounds that they were the property of an enemy alien. It was contended by the

⁷³ TNA, FO 228/1949, Letter Fraser to Jordan, 12 February 1915, German Trade in Shanghai. pp138-146 (political reports 1914-1920 p.145).

⁷⁴ TNA, FO 228/1595, Letter Fraser to C.E. Anton, Chairman of the China Association, Shanghai Branch, 9 September 1914, D35. (p.99), also TNA, FO 671/377, 94/15, letter R. Truman to Fraser, 12 January 1915.

⁷⁵ TNA, FO 228/1950, 530/15, Letter Fraser to Jordan, German activities in Shanghai, 5 December 1915.

⁷⁶ Thomas Edward La Fargue, *China and the World War* (USA: Stanford University Press, 1937), pp.101-102.

⁷⁷ TNA, FO 671/377, 193/15, Letter to Fraser signed by leading firms in Shanghai, 25 January 1915.

claimants in the Court that as China was a neutral country, the goods should be released but the Court disagreed and held that, under extraterritoriality Germans did not acquire commercial domicile, either personal or commercial, in China, and that they must be treated the same as a German living and trading in Germany.⁷⁸

The matter of whether to ban all trade with Germany formed the basis of discussions amongst an enlarged meeting of the China and Far Eastern Committee of the Manchester Chamber of Commerce in May 1915, which was attended by representatives from the China Association and other leading firms connected with the China trade such as Jardines and the Hongkong Bank. The Hongkong Bank and representatives from Manchester traders were set against prohibition and Jardines stressed the importance of Japan being part of the ban since Japanese firms were continuing to trade with Germans as Britain's pressure on the Japanese authorities to cease enemy trade had not been successful. After much debate, a resolution to ban all trade with enemy subjects and firms domiciled in China was passed but, even so, a considerable minority voted against it.⁷⁹ Further consultations were carried out with the Attorney General, Sir John Simon and Walter Runciman, the President of the Board of Trade, about the impact of such a ban on British trade in China and the likelihood of British firms being able to take over all the business of German firms if they ceased trading.⁸⁰ Pressure to cease trading with Germans also came from other sources: G.E. Morrison who had been *The Times* correspondent for a long time in the late Qing and early republican period but had later become an advisor to the Chinese Government, voiced concerns about the enemy trade continuing in China due

⁷⁸ SOAS, CHAS/02/21, circulars, vol. XIII, letter from the China Association, London, see also TNA, FO 671/377/681/15, Letter, Chairman of the China Association to Fraser, 19 April 1915 enclosing press cutting about the ruling in the Alexandria Prize Court.

⁷⁹ *The Manchester Guardian*, 13 May 1915, also MS, JM 1/1/7, Letter C.H. Ross to David Landale, no.1138, 7 May 1915.

⁸⁰ Proquest Historical Newspapers: *The Guardian and the Observer*, *The Manchester Guardian (1901-1959)*, 14 May 1915.

to the reluctance of traders to compromise their business interests. He was particularly concerned about the continuing close German links of Hongkong and Shanghai Bank.⁸¹

The lobby to tighten the legislation against trading with Germans was eventually successful. On 25 June 1915 the TWTE legislation was extended to ban trade with persons of enemy nationality resident or carrying on business in China, Siam, Persia and Morocco. These four countries were selected because Germans enjoyed extraterritorial status in all of them. The Board of Trade was responsible for drawing up the proclamation and on the Board's advice, it was decided that it should only be fully enforced a month after publication so as to leave time for British firms to fulfill outstanding contracts.⁸² This new ruling was greeted with enthusiasm in Shanghai, although concerns were raised that the month's grace would give German importers enough time to lay down large stocks of British piece goods which would keep them going for a whole year and limit the effectiveness of the new legislation. The influence of Manchester traders was blamed for the Board of Trade's leniency in granting the concession for extra time.

As the effects of the new proclamation gradually became clear, Shanghai residents realized that the time factor and ability to fulfill the new policy would cause severe inconvenience to their day-to-day lives. Some British residents were renting houses from German owners on leases and needed permission to continue paying rent to their owners. With no precedent to follow decisions had to be made quickly and the judge suggested that the rent should be paid into a special account at the bank although he did accept that this would probably be unacceptable to the German landlord, which would probably result in the tenants being evicted. Others had let their houses to Germans and did not want to stand the loss of not receiving the rent. Some employed German clerks and servants and others had German employers. It was virtually impossible to make a clean break with existing contracts and obligations. Jordan was authorized to grant special dispensation in specific cases for continuing some

⁸¹ Letter G.E. Morrison to Sir Cecil Clementi Smith, Peking, 26 May 1915, Lo Hui Min, ed., *The Correspondence of G.E. Morrison II, 1912-1920* (Cambridge: Cambridge University Press, 1978), p.407.

⁸² Carless, *History of the Blockade*, p.186.

business links with Germany but complained that there was no possibility of devising a method of uniform treatment and felt that any exceptions should be put on a legal basis and incorporated in the TWTE legislation.⁸³ When writing back to England, he said that British residents, having clamoured for the tighter restrictions, were now finding that Germans were indispensable for managing hotels, keeping accounts, acting as experts, brewing beer etc and were asking for licences to retain their services. This placed the Legation in the difficult position of having to keep some German businesses open for a few British nationals but being criticized by the rest for unpatriotic conduct.⁸⁴

Jordan had misgivings about imposing the tighter legislation which disregarded Chinese susceptibilities. He was concerned that it would have wider repercussions and reduce Chinese goodwill towards Britain. The increased restrictions would also decrease the volume of trade, which would reduce the customs revenue and limit China's ability to pay its loan obligations.⁸⁵ Jordan was well aware of the benefits of capturing German trade so had been reluctant to press his concerns too far but had hoped his warnings would act as a restraint on the more extreme elements of the British trading community who had demanded stringent action against German interests irrespective of any undesirable political consequences.⁸⁶

The China proclamation was the first experiment by British policy makers, where nationality became the test of enemy character in economic warfare.⁸⁷ There were a number of difficulties anticipated with the new legislation such as the difficulty of determining nationality in the case of firms and companies incorporated in neutral territory, the difficulty of proving an offence, where it would be necessary to prove the nationality of the enemy firm and that the British firm was aware of it, the difficulty of preventing dummies, where a German could put his business through a neutral firm as the

⁸³ TNA, FO 350/13, Letter Jordan to Langley, 14 July 1915.

⁸⁴ TNA FO 350/13, Letter Jordan to Alston, 28 July 1915.

⁸⁵ TNA, FO 228/2595,83/15, Telegram from Jordan to the Foreign Office, 31 March 1915.

⁸⁶ Jones, *Britain's Search for Chinese Cooperation*, p.49.

⁸⁷ TNA, FO 833/17, Letter Pollack to Jordan, May 1919.

neutral firm could not be brought within any definition of enemy.⁸⁸ To prevent enemy firms from making use of neutral, British or Allied intermediaries to continue their trade with British subjects, a further proclamation was issued on 24 September 1915, which prohibited the consignment of goods from Britain to firms in China, whose names did not appear on a list of approved consignees in the *London Gazette*. This saw the introduction of the 'White List' which provided a solution to the problem of the need for a more specific identification of enemy character. All firms, British, Neutral or Allied, who were above suspicion of obtaining goods or other facilities from British subjects for the purpose of supplying them to the enemy in China, were placed on the list and shipments to firms not on the list were prohibited.⁸⁹ This was enforced by Order in Council under the Customs War Powers Act and applications to trade with firms not on the list had to go through the Minister in Peking or through Consular Officers in the Ports. The list was regularly updated and crucial to the success of strengthening the trade restrictions against German nationals.⁹⁰

The introduction of the scheme was thought possible in a country such as China where business affairs were relatively straightforward and where opposition to the scheme would be limited due to the chaotic nature of the political situation in China. It was thought to be less viable in South America, which was a more highly organized community with more complex business affairs.⁹¹ The Americans were unhappy with the new regulations, which placed American firms on the Black List and prevented them from using British banking and shipping facilities. British and Japanese ships in the China trade were being instructed to refuse American cargoes. Banking and shipping facilities could only be used if American firms complied with certain regulations which would then allow them to be

⁸⁸ TNA, FO/833/17, 14 March 1919, The Trade Advisory Committee, Report of the Sub-committee appointed to consider the definition of enemy, September 1915, Annex 1, enclosure in note by Earnest M. Pollock, previous chairman of the Contraband Committee and a member of the War Trade Advisory Committee but in 1919 he was Solicitor General to Lloyd George.

⁸⁹ Papers relating to the Foreign Relations of the United States (FRUS), 1916, Supplement, the World War, Document 449, File No.763.72112/2217, Letter the Ambassador in Great Britain to the Secretary of State, 24 January 1916.

⁹⁰ Carless, *History of the Blockade*, p.187.

⁹¹ TNA, FO 833/17, Draft Report of the sub-Committee of the War Trade Advisory Committee, appointed to consider the definition of 'Enemy' September 1915.

placed on the White List. This understandably led to protests about Britain seizing control of the China trade and trying to oust America's competition.⁹² Attempts were made to reassure the Americans that there was no attempt to interfere with the legitimate activities of neutral traders, the aim of the new legislation was to prevent British facilities being used to carry on business with enemy firms.⁹³

The TWTE legislation became even more far-reaching as in December 1915, the TWTE Extension Powers Act extended the trading with the enemy regulations to neutral countries. This included those in South America, indicating how economic warfare policies were stepped up in spite of the obvious implementation difficulties in South American countries. Britain hoped to take advantage of the massive strategic advantages they held over Germany in the South Atlantic, by restricting communications and commerce between South America and Europe. This resulted in the notorious 'Black List' where trade with firms on the list was prohibited, which greatly reduced neutral firms from overtly giving assistance to the enemy.⁹⁴ Germans admitted that the list posed a tremendous threat to their local standing, as businesses that refused to take up a strong anti-German line were heavily criticised.⁹⁵ Owing to the political and economic dangers of indiscriminate black listing where good relations with neutral states could be compromised by any sense of groundless persecution of their traders, any additions to the list had to be discussed and cleared with one or more of Britain's diplomats abroad. If neutral traders were debarred from trading just on the strength of suspicion, the position of Britain as the world's money market and an entrepot for the world's trade could be jeopardized. The Black list was revised and extended from time to time and published bi-weekly in the *London Gazette* and the *Board of Trade Journal*. Copies of the list were sent to trade associations, Chambers of Commerce in the UK and abroad and to diplomats and Consuls overseas.⁹⁶

⁹² Carless, *History of the Blockade*, P.190.

⁹³ Foreign Relations of the United States (FRUS), 1916, Document 449, File No.763.72112/2217, Letter Ambassador in Great Britain to the Secretary of State, 24 January 1916.

⁹⁴ TNA, FO 833/17, Letter Pollock to H.M. Chargé d'Affaires, May 1919, Carless, *History of the Blockade*, p.195.

⁹⁵ Dehne, *On the Far Western Front*, p.77.

⁹⁶ Carless, *The History of the Blockade*, p.146.

Extending the prohibitions generated a considerable extra workload, which had mainly fallen on the TWTE department of the Foreign Office which neither had the space nor the personnel to cope. British officials decided to create a new department, which could manage the extra workload and resolve the continuing disagreements and duplications between the Foreign Office, the Home Office, the Board of Trade, and the various war trade departments. The TWTE departments of the Foreign Office, Home Office and Treasury were amalgamated making a new department which was an outlying branch of the Foreign Office. The Foreign Trade Department (FTD) was formed in January 1916 and chaired by Sir L. Worthington-Evans, with its main aim being to recommend to parliament further restrictions on enemy trade. The new department was to use Foreign Office connections to communicate with traders round the world and to be developed further after the war to concentrate on overseas trade. Every effort was to be made to use the opportunities the conflict provided to expand British trade, which was to be accomplished by the destruction of German-owned and operated businesses and their replacement by British companies.⁹⁷

Conclusion

In this chapter I have shown the difficulties of deploying Britain's economic warfare in China. The difficulties started in London, as government departments had to respond to the demands of an economic war as it unravelled round the world. It soon became clear that the bureaucracy in Whitehall was inadequate to cope with the extra work generated by Britain's economic campaign, especially as new policies had to be developed to respond to the complex nature of the world's trading affairs and what proved to be the poor drafting of the TWTE legislation. The continued revisions to the TWTE legislation to accommodate the wide variety of British jurisdictions throughout the empire, had to ensure that the new policies did not damage Britain's trading network to the extent that it compromised Britain's ability to finance the war or alienate neutral countries. In China, although Britain dominated

⁹⁷ Dehne, *On the Far Western Front*, pp.70-76; see also CAB 39/74, Definition of Enemy and TNA, FO 833/17, Annex 6, Trading with the Enemy.

all the foreign organisations, which regulated settlement life, the extraterritorial status of the foreign community, with each nation being answerable to its own consular authorities, limited the actions that Britain could take against German nationals. Little could be done initially about the TWTE legislation, which had been drafted in such a way as to allow trade with Germans to continue much as before the war. As hostility to the German community intensified, aggravated by security concerns in the Settlement, reports of atrocities in Europe and long-standing bitterness at German commercial success, lobbying for more effective economic warfare policies against German commercial interests increased. The TWTE announcement in June 1915, which banned all trade with German nationals in China, Siam, Persia and Morocco brought Britain's TWTE policies in line with France but was a major departure from domicile which had previously been the test of enemy character. British traders who had divided opinions about the economic war had to work out how best to comply with the legislation and to drive commercial advantage from the unique opportunities the war provided to capture German trade.

Chapter 2: Impact on the Trading community

Much as companies such as Jardines, Swires and the Hongkong Bank dominated British trading interests in Shanghai, they also formed part of a rich tapestry of other business concerns, which had grown up in the Settlement over the years. Shanghai was the trade emporium of East Asia and the main collecting and distributing centre for the Yangtze Valley.¹ Its multinational community, although each fiercely protecting its own national identity, proudly boasted of the cosmopolitan nature of the city, where a complex web of trading and personal relationships had formed over the years. It was the inevitable outcome of a small international community working and living in such close proximity which was widely advertised as a 'model settlement' and a shining example of successful collaboration and enterprise. As the war progressed, the atmosphere in the Settlement changed, as each nation moved to protect its own national identity and trading interests, tearing these close links apart in the process. With 'Germanophobia' rife and the TWTE legislation penetrating every aspect of life in the Settlement, firms big and small were under pressure to try and exorcise their enemy links from their business enterprises. Removing enemy links proved to be a challenging task. A significant number of companies could legitimately be attributed to several nationalities, through their founders, their shareholders and their areas of operation. Set up in the main to serve the needs of a multinational community, the necessity of managing companies along national lines was often incompatible with their business practices and self-perception.² Using the sources available and developing these themes, this chapter will ask what the impact of the TWTE legislation on the business community's trading interests was and how they reacted as the conflict progressed. In doing so this will show the difference between the theory and the practice of economic warfare and the tension between the

¹ (Cd. 7620-90) No 5480 Annual Series Diplomatic and Consular Reports: *China, Report for the Year 1914 on the trade of Shanghai 1914* (London: HM Stationery Office 1915), pp. 3-5.

² Christopher Dejung and Andreas Zagger, 'British Protectionism and Swiss Trading Companies in Asia during the First World War', *Past and Present*, 207:5 (2010), p.182.

concept of nationality and the cosmopolitan values built up in the Settlement, where over time and often owing to expediency, business affairs had become closely linked and loyalties strong.

The Trading Conditions in 1914

Even under normal conditions, trading in China was never straightforward due to the highly competitive trading atmosphere, the general resistance of the Chinese to foreign trading initiatives and the chaotic political situation, which developed since the revolution in 1911.³ More localised problems such as transport difficulties, banditry, disease, and adverse weather conditions were part of the routine trading environment which companies had to deal with on a daily basis. Leading up to the war, events such as the collapse of the rubber boom (1909-1910), the failure of the Chinese banks and the considerable overtrading in 1913, had destabilised the market.⁴ In 1914 trade was further disrupted by a severe drought, making the waterways impassable, and banditry in Honan, Anhui, Hupeh and Szechuan, which prevented Chinese merchants from moving their cargoes and Chinese bankers from providing credits.⁵

In August 1914 the unprecedented wartime conditions brought a host of additional problems for the trading community. The railway and coasting lines from the north were affected by the siege of Qingdao and the military operations that took place there. There was a heavy fall in exports owing to the difficulty of financing cargo at the moment when Chinese produce was ready for shipment. The export trade was seriously affected by the closing of continental markets. Communications were hampered by the prohibition of code telegrams in England, which had greatly increased their cost.⁶ The severe reduction of shipping from Chinese waters following in the main to the internment or

³ Paul Varg, 'The Myth of the China Market, 1890-1914', *The American Historical Review*, 73:3 (1968), pp.1-2.

⁴ W.A. Thomas, *Western Capitalism in China*, p.191.

⁵ 1914-1916 (Cd.7620-90) No.5480, Annual Series. Diplomatic and Consular Reports, *China, Report of the Year 1914*.

⁶ Memo by Mr Ker, respecting the War and China Trade, Ann Trotter ed., *China, August 1914-October 1918*, Vol. 22, in Kenneth Bourne and D. Cameron Watt, *British Documents on Foreign Affairs, Reports and Papers from the Foreign Office Confidential Print, Part II, Series E, Asia, 1914-1939* (America: University of Publications of America 1994), pp.13-16.

blockade of the German merchant fleet had seen a considerable decline in ships available to transport goods which was compounded by the British government's policy of requisitioning British ships for war service. Nearly one third of the ships worldwide were unable to continue with the regular freight business.⁷ In terms of imports, the increased cost of manufacturing, scarcity of labour abroad and delays in delivery, caused by the disruption to shipping, all had a negative impact on imports to Shanghai.⁸ These difficulties were further compounded by violent fluctuations in the exchange rate, due to an approximate eight per cent increase in the value of silver. In addition, China became an important source of monetary silver and consequently there were heavy shipments abroad which led to silver shortages.⁹

Against this disruption, British firms had to work out how best to comply with the TWTE legislation, which put them under an obligation to scour their businesses for enemy links. Much as the ruling from London was unclear, British firms were in theory generally willing to follow the advice from Sir John Jordan and Sir Everard Fraser to cease all trade with German nationals, but this was balanced against the need to keep their businesses operational during these unprecedented times. As a result, they generally carried on business which they felt complied with the regulations even though some links with Germany remained, but the situation was so unclear that British Consulates throughout the treaty port world were bombarded with queries, for clarification about how the regulations should be applied to their particular business affairs.

⁷ *Department of Trade and Commerce, Commercial Intelligence Branch, Vol XV, No. 664, Monday 16, 1916*, published by authority of Rt. Hon. Sir George E. Foster, K.C.M.G., M.P. (Ottawa, Canada: Government Printing Bureau, 1916), p.893.

⁸ *Chinese Maritime Customs, Returns of Trade and Trade Reports 1916, Part 1, Report on the Foreign Trade of China*, (Shanghai: Kelly Walsh Ltd, 1917), p.1, *China, The Maritime Customs, Dicennial Reports, 1912-1921, Fourth Issue, Vol II, Southern and Frontier Ports* (Shanghai: Kelly & Walsh, 1924), also *China Trade Report 1914*.

⁹ MS, JM J1/1/8, letter No. 1186, J Johnstone, Shanghai to D. Landale, Hong Kong, 31 March 1916; see also King, *The Hongkong Bank in the Period of Imperialism and War, 1895-1918*, Vol. II, p.550 and 561.



Figure 7 The Hongkong and Shanghai Bank 1917 image No 14942 virtualshanghai.net.

Anglo-German Links

The Hongkong Bank in particular faced a number of difficulties, as direct German influence in the Bank dated back to when it was first founded in 1865 and continued up to the outbreak of the war. Although the four German directors of the Bank who represented the leading German firms on the China coast, Arnhold Karberg & Co. (from 1898), Carlowitz and Co. (from 1897), Melchers & Co. (from 1871) and Siemssen and Co. (from 1864), resigned in August 1914, criticism of the bank persisted throughout the war owing to the delays it encountered when unravelling its long-standing German ties. In particular the branch in Hamburg came under attack, as indeed did its role in financing most of the foreign trade in China, which of course, included German trade. It was also closely linked with the DAB through multiple and complex international loan agreements concerning the financing of the Chinese Republic. Although relations between the two banks were broken off, two loans remained in

place. These were known as the Chinese Reorganisation Loan and the Hukuang Loan of 1911.¹⁰ The DAB played an important role in the five-power Consortium made up of Britain, France, Germany, Russia and Japan, formed as a collaborative venture to prop up the finances of the Chinese government as the chaos of the civil war caused severe financial difficulties in China.¹¹ Relations between the five-power Consortium and the Chinese republic had to be maintained but this involved continued contact between the Hongkong Bank and the DAB. Sir Charles Addis, the influential chairman of the Hongkong Bank in London, was manager of the British group of the Consortium and came under pressure from the Foreign Office to dissolve and reconstitute it without the German group. The key challenge was how to maintain the existing arrangements without German participation and to keep the damage to Allied interests to a minimum.¹²

The Foreign Office exerted considerable influence over the Hongkong Bank, as it was the main agent through which the British government channelled finance for infrastructure projects in China. Addis was slow to bow to the prevailing hysteria and was against 'crushing' the Germans who he considered to be Britain's best customer. He felt that Germany would use everything in its power to ensure its trading arrangements continued throughout the conflict, and would react badly to such repressive measures being proposed, resulting in reprisals after the war.¹³ John Swire of Swires took a similar view and was sceptical of a policy which damaged the trade of a neutral country just to 'vent spite' against Germany, which he felt would be detrimental to British interests in the longer term.¹⁴ But as anti-German hysteria took hold, Addis was forced to modify his position to fend off these attacks from many quarters. He emphasised the essentially British nature of the Bank, eventually supplying the

¹⁰ Letter H.D.C. Jones to N.J. Stabb, 19 January 1916, The Hongkong and Shanghai bank Archives, Koo1/003 1916, also King, *The Hongkong Bank in the Period of Imperialism and War, 1895-1918*, p.578.

¹¹ See Anthony B. Chan, 'The Consortium System in Republican China 1912-1913', *Journal of European Economic History*, 6:3 (1977), pp.597-640; also K.C. Chan, 'British Policy in the Reorganisation Loan to China, 1912-1913', *Modern Asian Studies*, 5 (1971), pp.355-372.

¹² King, *The Hongkong Bank in the Period of Imperialism and War 1895-1918*, p.578.

¹³ Letter C. Addis to E.G.Hillier 4 Jan 1915, The Hongkong and Shanghai Bank Archives, 1915, correspondence between C. Addis and N. Stabb, HQ LOHII 0029; see also Roberta Allbert Dayer, *Finance and Empire, Sir Charles Addis, 1861-1945* (London: The Macmillan Press Ltd., 1988), pp.10-12.

¹⁴ JSSXII/4/1 21, John Swire & Sons Ltd, China Sundries Letter Book, 1912-1914, Letter John Swire to E.F. Mackay, 13 November 1914.

Foreign Office with information about the Germans' very limited shareholding, amounting to less than 5 per cent of the share capital, which improved the Bank's reputation with its many detractors to some extent, and went some way to restore the confidence of the Foreign Office.¹⁵

There was also a link between the Hongkong Bank and the DAB on a personal level through the long-standing friendship of two employees, E.H. Hillier and Heinrich Cordes. Hillier was the Hongkong Bank's agent in Peking, who had played a key role in the negotiations of loans to the Chinese government, and Cordes was the German manager of the DAB in Peking. Both had formed a close friendship over the years, with Cordes calling at the Hongkong Bank on a regular basis to accompany Hillier for a walk, as Hillier suffered from blindness. In a development which illustrates the personal cost of the economic war, these walks had to come to an end as Jordan warned Hillier that Cordes could only come to the Bank by invitation and only to attend essential inter-bank meetings as all everyday contact between the two banks had to stop.¹⁶

Criticism of the Hongkong Bank came from other quarters as well. France particularly expressed outrage at the Hongkong Bank's ongoing close association with German interests, accusing it of treasonous conduct.¹⁷ The press contributed to the critical voices with articles written in the *North China Herald*, by Valentine Chirol, foreign editor of *The Times*, and from G.E. Morrison, who was particularly critical and took every opportunity to discredit it, accusing it of unfair trading practices, suspect trading methods and of being at the heart of German commercial success before the war.¹⁸ At the root of the criticisms were what was considered the Bank's undue leniency in liquidating enemy firms and in winding up German affairs, which led to suspicion that it was motivated by a desire to facilitate an early resumption of trade with Germany after the war. Failing to replace the German

¹⁵ King, *The Hongkong Bank in the Period of Imperialism and War, 1895-1918*, pp.605-606.

¹⁶ King, *The Hongkong Bank in the Period of Imperialism and War 1895-1918*, p.608.

¹⁷ Dayer, *Finance and Empire. Sir Charles Addis, 1861-1945*, pp.85-87; see also Hirata Koji, 'Britain's Men on the Spot in China: John Jordan, Yuan Shikai, and the Reorganisation Loan, 1912-1914', *Modern Asian Studies*, 47:3 (May 2013), pp.895-934; see also Anthony B. Chan, 'The Consortium System in Republican China, 1912-1913', *Journal of Economic European History*, 6:3 (1977), pp.597-640.

¹⁸ Letter G.E. Morrison to Sir Cecil Clementi Smith, Peking, 26 May 1915, Lo Hui Min, ed., *The Correspondence of G.E. Morrison*, Vol.II, 1912-1920 (Cambridge: Cambridge University Press, 1978), p.407.

directors, who had resigned, added to these suspicions as it was thought that their posts were being kept open for them to be reinstated at the end of the conflict.¹⁹ The Hongkong Bank became a convenient scapegoat to vent pre-war jealousies by the other powers, over its dominant role in the commercial affairs of the business community, and little thought was given to the complex financial arrangements which made implementation of the TWTE legislation such a challenge.

A.G. Stephens was the manager of the Hongkong Bank in Shanghai and was also chairman of the Shanghai branch of the China Association. Stephens played an important role in settlement affairs and had the difficult task of managing the Bank's finances through the turbulent wartime period and having to cope with the widespread criticism of the Bank on his day-to-day round of social and business engagements.²⁰ Stephens had to deal with a German attempt to embarrass the Hongkong Bank when a pro-German Chinese official wired the Peking authorities to say that the Bank had closed in Hong Kong and Shanghai due to financial difficulties as a result of Germans sinking a number of British ships carrying the Bank's silver.²¹ This statement caused a run on the bank and, although the story was untrue and the crisis passed, Stephens had to keep constant vigilance to try and ensure that the Bank remained open for business and retained the confidence of the business community.

The Hongkong Bank, in line with other businesses, continued to do business with German firms, which did not infringe the TWTE restrictions in the early stages of the war. Stephens was in constant dialogue with Fraser about how to deal with a number of local issues concerning the TWTE legislation. One case involved a customer, Mrs Susemihl, whose German husband had worked for the CMCS as a harbour master in Tientsin but had died in 1913. She had subsequently moved back to Germany and had debentures lodged with the Hongkong Bank, together with the sum of 361.13 Tls, which she wanted transferred to the DAB in Germany. She now qualified as an enemy under the TWTE legislation but inevitably her husband's service with the Customs, and her links with China, made it

¹⁹ King, *The Hongkong Bank in the Period of Imperialism and War, 1895-1918*, pp.551-553.

²⁰ TNA, FO 671/377, Letter Fraser to Johnstone, 22 June 1915.

²¹ King, *The Hongkong Bank in the Period of Imperialism and War, 1895-1918*, p.575.

difficult, in moral terms, not to carry out her request. Fraser took the view that the sums could be transferred in spite of her being classified as an enemy. Inevitably with the close ties of the foreign community, there had to be some discretion with implementing the legislation to take into account the particular circumstances of each individual case, especially in this case when dealing with someone whose husband had been so closely involved in the treaty port world.²²

Some decisions made by managers of the various branches of the Hongkong Bank in other treaty ports were not always well received. For example, one case concerned the uncertainty about the 'commercial domicile' ruling. The local agent of the Hongkong Bank in Hankow, H.G. Gardner asked head office in Shanghai if he could advance the German firm Melchers & Co., 40,000 Tls to purchase local produce. Melchers and Co., with a head office in Bremen, was on a list of enemy firms recently drawn up but even so Gardner was instructed by head office to advance the money to the firm for the purchase of local produce, as the bank felt that the transaction was permissible under the existing TWTE regulations. The decision was possibly influenced by the close links of the Hongkong Bank with Melchers and Co., not only through it being a leading German firm in China but until August 1914, through one of its directors being on the Board of the bank's directors. The bank appeared to have been particularly determined to keep Melchers as a client, stating when questioned by the consular authorities, that the partners in Bremen had no say in the management of the firm in China.²³ The transaction was condemned by Harry Fox, the British Consul in Hankow, on the basis it was an advance for new business, not for the settling up of pre-war business affairs. Fox complained that the incident proved that the bank was putting its commercial interests ahead of its patriotic duty to support British government initiatives to destroy German trade.²⁴

The bank faced criticism for continuing to finance the cargo of neutral firms such as: Messrs Frazar & Co. (American), the Holland China Trading Company (Dutch) and the East Asiatic Company

²² TNA, FO 671/377, 68/15, Letter from the Manager of the Hongkong Bank to Fraser, 9 January 1915.

²³ TNA, FO 671/377, 379/15, Letter Fraser to Foreign Office, 17 March 1915, see also TNA, FO 671/377, 398/15, Letter Fox to Jordan 26 February 1915, enclosure in letter Fox to Fraser 26 February 1915.

²⁴ TNA, FO 671/377, 398/15, Letter Harry Fox, Consul General, Hankow to Jordan, 26 February 1915.

(Danish), thought amongst British business circles to be effectively the same as dealing direct with the enemy as the companies were said to be shipping goods for German firms.²⁵ As calls to cease all trade with Germans became more pressing, the bank's practices were influenced by, and began to conform, to the emotional environment in the Settlement. After the tighter TWTE legislation was introduced in June 1915, the position became much clearer and the bank was no longer put in the position, when it was expected to voluntarily to forego commercial opportunities, which, due to Germany being able to claim commercial domicile were legally permissible, but which were unacceptable to the more vocal elements of the public, convinced of the pro-German tradition of the bank.²⁶

These were the challenges facing the Hongkong Bank but there were a number of other business concerns which combined British and German interests. A number of different types of business concerns, combining the skills and expertise of both British and German nationals had built up over time. Many companies had been established as a result of the Hong Kong Companies Ordinances introduced after the Joint Stock Companies Act was passed in 1856 by the British parliament. The act laid down the foundations of modern company law and simplified the process for businesses wishing to incorporate as a limited company, encouraging entrepreneurship.²⁷ The advantages of these new provisions quickly became evident to business promoters of all nationalities in Hong Kong and the treaty ports in China. Registration in Hong Kong as opposed to London provided cheaper and easier access to the benefits of the act in China, which encouraged companies to make use of these new provisions. The regulations were loose and once registered in Hong Kong, the company could trade anywhere in China with the protection of the British controlled courts. There were 85 such companies in China in 1910²⁸ and many were joint ventures, where the national identity

²⁵ TNA, FO 228/1949, Letter Fraser to Sir Walter Langley, Under Secretary of State for Foreign Affairs, 4 February, 1915.

²⁶ King, *The Hongkong Bank in the Period of Imperialism and War, 1895-1918*, p.619.

²⁷ Dejung and Zagger, 'British Wartime Protectionism and Swiss Trading Companies in Asia during the First World War', p.182.

²⁸ CHAS/A/06, Annual Reports 1910-1915, Letter, Registration of British Limited Liability Companies in China, L.E. Canning, Secretary China Association, Shanghai, to H.C. Wilcox, Secretary, the China Association, London 14 December 1910, p.57.

of the firm had become blurred, which was characteristic of many business ventures in China, as closer bonds were formed between foreign traders to cope with the more complex trading conditions.²⁹ Companies such as the China Import and Export Lumber Company Ltd., the Central North China Godown and Press Packing Company Ltd., and the Anglo-German Brewery had been incorporated in this way, successfully operating by using the joint skills of British and German expertise with the security of British based company law.³⁰

These joint ventures posed a number of difficulties when efforts were made to remove enemy links. Besides the legal aspects, many did not want to lose valuable members of staff, especially if the war was going to be brief, and disruption to trade minimal. In some cases, company directors were granted leave of absence; in others they were retained, whilst some were dismissed immediately. 'Enemy directors' were similarly conflicted in their decisions, some resigning voluntarily, but others were reluctant to give up lucrative positions on the boards of companies, unless forced to, as their livelihoods and prestige depended on them. Before the legislation was tightened in June 1915, such foreign directors were legally allowed to remain, if they were not due for re-election. They could only be removed by shareholders in a public meeting, in accordance with the articles of association of each company concerned.³¹ However, enemy shareholders could exert considerable influence over companies as they could not be restricted or controlled. If in the majority, they could prevent enemy directors from being dismissed and, even if in the minority, they could try and persuade neutral shareholders to ensure enemy directors were retained. If enemy directors refused to leave when asked, there was little legal redress in the courts, as enemy residents could neither be prosecuted, nor sued in the British consular court during the war. The position was very different within Hong Kong, which

²⁹ Meyer, 'Splitting Apart, the Shanghai Treaty Port in Transition, p.42 and also Dwyer H.T. Montague Bell and H.G.W. Woodhead, *The China Year Book*, 1916 (London: George Routledge and Sons Limited, 1916), p.644.

³⁰ TNA FO 671/377, 354/15, Letter from Canning, to Wilcox, London, 19 February 1915.

³¹ TNA, FO 671/377, 578/15, letter Fraser to Sir Henry May (Governor of Hong Kong), 10 May 1915.

had full prerogative powers, such that enemy subjects were forced to resign their posts as directors and officers of companies.³²

Due to the lack of clarity of the legislation, some enemy directors were re-instated, having been initially dismissed. Consuls advised initially that such directors could be retained, provided they did not exert any undue influence over the company, although the position was unclear and the advice not always consistent. In the case of the China Mutual Life Insurance Company, which had been formed in 1898 under the Hongkong Companies Ordinance, and with offices in all the treaty ports, the Straits Settlement Singapore and Hong Kong, one of its directors, Carl Stepharius, a German national, was granted leave of absence when war broke out due to the uncertainty surrounding the position of enemy directors. After further discussion amongst the Board of Directors and after seeking advice from Fraser, he was reinstated, provided he abstained from any decisions where British interests were concerned. His reinstatement was greeted with surprise by some of the company's other offices in the Straits Settlements, Hongkong and Singapore in view of the British government's stance over commercial dealings with enemy subjects. Stepharius, however, was an influential member of the community in Shanghai and was also on the Board of the Chempedak Rubber Company.³³ Companies were reluctant to lose such key directors and took advantage of the loopholes in the legislation to let them remain on their boards. Stepharius, also may have made a feisty defence for his reinstatement as he became a key defender of German rights in the Settlement throughout the war. He questioned Britain's authority for imposing its anti-German measures pointing out that jurisdiction over the residents in the Settlement lay with the consular authority of each individual ratepayer, not with any one particular nation.³⁴ He put himself forward for election for the Shanghai Municipal Council in 1916, although he suffered a humiliating defeat, receiving only 131 votes.³⁵ Much as he was a respected

³² TNA, FO 671/377, 577/15, Letter Fraser to May, 10 May 1915, see also Peter Wesley-Smith, 'Legal Limitations upon the Legislative Competence of the Hong Kong Legislative', HeinOnline: 11 Hong Kong L.J.3 1981, p.4.

³³ NCH, 30 January 1915, p.323.

³⁴ NCH, 4 October 1917, p.640.

³⁵ NCH, 29 January 1916, p.283.

member of the community, and under normal circumstances a worthy candidate, all German residents by 1916 were under severe suspicion and his motives for putting himself up for election were questioned by British residents, sceptical that he would be unbiased when dealing with Settlement affairs.³⁶ His high profile in the Settlement was likely to have contributed to him retaining his position on the boards of companies, but German nationals were increasingly ostracised as the mood in the Settlement gradually hardened against all German nationals, however capable or highly regarded.

In the case of the Anglo-German Brewery, a joint venture based in Qingdao and set up in 1903 to slake the thirst of the German garrison stationed nearby, all the directors were British with the exception of Max Hoerter, who was German. He was head of the managing agents, Messrs Slevogt and Co., a German company appointed as sole agents from the start of business operations. The Brewery was a successful venture, with an award-winning German brewmaster. Hoerter was a popular figure, living on the prestigious Bubbling Well Road and married to a British wife whose father, J. Johnstone, was the Manager of Jardines in Shanghai. Hoerter was a steward at the racecourse and an active member of the Shanghai community. The British directors were loath to shut down such a profitable concern or lose Hoerter, who was initially retained, along with the German brewmaster. To eliminate 'German' from its name, its title, was changed to the Tsingtau Brewery Co. Ltd. in August 1915, but by October 1915, as the tighter TWTE legislation took effect, Hoerter and the brewmaster were eventually removed. Sixty per cent of the shares were owned by German nationals and as a result the British directors sold the company to the Japanese Dai Nippon Brewery Company Ltd., as they were not prepared to run such a profitable venture for the benefit of predominantly German shareholders.³⁷

Routine company matters, such as the issue of new shares and the payment of dividends became problematic in the context of economic warfare. In the case of the Dominion Rubber

³⁶ *NCH*, 22 January 1916, p.157.

³⁷ TNA FO 371/2310, correspondence regarding the Anglo-German Brewery, File 582, also *NCH*, 3 April, 1915, p.31, 7 August, 1915, p.362, 5 August 1916, pp.257-259, and Professor R. Bickers, Tsingtao-beer-complex.brew.html.

Company, the firm was advised initially against issuing new shares to enemy shareholders. However, the decision then had to be reversed, as companies registered under the Hong Kong Ordinance were allowed a separate register in Shanghai and for companies on such registers, there was no means of preventing the issue of new shares or the transfer of shares to enemy shareholders, as these transactions were legally permissible under the 'commercial domicile' interpretation.³⁸ The payment of dividends was similarly unclear and the head of the company, A. Butler Cement Tile Works Ltd. asked Fraser's advice about 547 shares, which were held by enemy subjects and to whom the company was unsure whether it could pay dividends. For the purpose of considering the question, the German shareholders were divided into four categories of shares: shares held by enemy subjects residing in Germany with no power of attorney; shares held by enemy subjects residing in Germany with powers of attorney held by enemy subjects, resident in Shanghai; shares held by prisoners of war in Japan; and shares held by enemy subjects living in Shanghai. Fraser advised that only dividends on the shares to enemy subjects living in Shanghai could be paid out, which again was due to the 'commercial domicile' interpretation. As a result of the stricter legislation announced in June 1915, an enemy dividends account was set up at incorporated banks chosen by the Minister in Peking. Payments of dividends, interest payments and share of profits, which would have been due to the enemy had a state of war not existed, were paid into this account. The regulations further stipulated that no sum could be paid out of the account except by order of the British Supreme Court in China. Special reasons had to be submitted to the Court, which were given due consideration depending on the circumstance and only then could the money be released. The jurisdiction of the British courts was limited by the terms of Britain's treaties with China and complex issues surrounding ownership and nationality had to be decided on a discretionary basis, using any relevant legal precedent which might provide some guidance on individual cases.³⁹

³⁸ TNA FO 671/377, 84/15, Letter Fraser to the Foreign Office, 14 January 1915.

³⁹ 'Introduction by Sir H. de Sausmarez' in *The Law as to Enemy Property, Reports of the Cases decided in H.B.M. Supreme Court For China in 1917, 1918 and 1919* (Shanghai: Shanghai Mercury, 1919), pp.i-iii.

Further legal complexity was encountered by consular officials when trying to determine the national identity of certain companies. Much as some companies came under enemy jurisdiction, they might still have identified with the Allied cause, either through expediency or through genuine allegiance. Czech citizens came under the protection of the Austro-Hungarian Consul, but in the case of the Czech soap company A. Sokya, a request was made to Fraser for the company not to be classified as an enemy concern, on the basis of the owner's support for the Allies and the company having no branches in Europe. All the company's funds went through the Hongkong Bank and its fire and marine insurance through British companies. They stressed that they had never been a member of the German Club or of any German association. Fraser advised that he had no power to differentiate between Czech and Austrian subjects and as long as they continued to be registered with the Austro-Hungarian Consulate, nothing could be done locally to alter the enemy status of the firm. Fraser did offer to send their request to the Foreign Office for further advice but he also pointed out that, as the legislation stood at the time, the 'commercial domicile' interpretation allowed the Hongkong Bank to continue dealing with the firm's affairs, provided it could be guaranteed that the business was solely established in China and did not involve sending goods and money to and from enemy countries.⁴⁰

The Czech director of the Austro-Belgian Trading Company made a similar request but, in his case, the Hongkong Bank refused further business with his firm, concerned about its enemy status. The director of the firm asked Fraser to issue a licence which would authorise the Hongkong Bank to continue business with the firm, and again support for the Allies was offered as a reason. Decisions about the firm were further complicated as the director's brother, with the support of Fraser was fighting with the British and Belgian armies in Europe, having left with the Shanghai, Hankow and Tientsin contingent of volunteers on the P & O. "*SS Arcadia*" in January 1915. People of Czech nationality also had special privileges under French laws and were exempted from the French trading with the enemy law. Fraser advised that if the director could produce certificates from the Belgian and

⁴⁰ TNA FO 671/377, 841/15, Letter L. Sokya to Fraser 19 May 1915.

French Consul Generals which supported this fact, he would be prepared to issue a licence as requested.

The cosmopolitan nature of the Settlement had created a community where national identities had become less distinct and allegiance hard to define, adding to the many difficulties consular officials faced when making decisions about effective implementation of the TWTE legislation as these two examples demonstrate.⁴¹

In some instances, certain established, predominantly German firms went to great lengths to eliminate the German element from their companies. Prominent German firms changed their German names to English names, for example: Siemssens became J. Manners and Carlowitz & Co. became Rayner.⁴² Both these firms were allegedly carrying on business as British firms and as a result were under the remit of the British consular authorities. However, they were allegedly continuing to utilise the administration and resources of their original German firms.⁴³

Two British partners of the influential firm Arnhold Karberg & Co., H.E. Arnhold and C.H. Arnhold who were based in Shanghai, tried to evade the legislation by reinventing the firm. The firm before the war was a joint Anglo-German venture with a German partner in Hamburg and a German director on the Board of the Hongkong Bank until his resignation in August 1914. The firm had originally been registered with the German consulate but the two British partners managed to have the partnership dissolved and then set up a purely British company in January 1915, taking over the original export business of Arnhold Karberg & Co., along with all assets and liabilities as a going concern. The new company, known as H.E. Arnhold, using all the influence its British directors could muster, seemed to gain acceptance from the consular authorities and the Board of Trade. The situation was complicated as British officials were trying to help the Hongkong Bank recover a large debt of £750,000 which Arnhold Karberg owed to the bank. Ceasing trade with German firms left the

⁴¹ TNA FO 671/377, 342/15, Letter C. Jedlicka, Austro-Belgian Trading Company to Fraser, 20 February 1915.

⁴² TNA FO 228/1911, 215/14, Telegram, Jordan to Foreign Office, 6 November 1914.

⁴³ TNA FO 228/1949, 56/15, Memorandum: German Trade in Shanghai.

Hongkong Bank with large debts which they were expected to absorb as a patriotic sacrifice for eliminating such an important commercial rival. The case of the firm Arnhold Karberg & Co. was controversial as it was widely recognised that, H.E. Arnhold and Arnhold Karberg & Co. were, in fact, one and the same company and H.E. Arnhold's manipulation of the company, through the loopholes in the legislation, had the effect of putting it beyond the reach of the British authorities.⁴⁴ Arnhold even managed to obtain a licence to retain four German export experts and in effect continue trading much as before the war.

The firm's transformation was viewed with great scepticism by rival companies such as Jardines, who regarded the firm as 'its strongest and best-equipped enemy competitor' and was only too keen to see it disbanded for good and to pick up any of its business in the process.⁴⁵ Jardines was baffled at the concessions the firm was granted by the British authorities, stressing to the consular authorities the anomaly of British firms being encouraged to take over German trade to prevent it being revived after the war, while H.E. Arnhold was allowed to keep all Arnhold Karberg & Co.'s previous connections open, which would enable the German firm's trade to be revived again as soon as the war was over. They lodged a complaint with Jordan about Arnhold being able to retain the four German export experts in their employment, stating that to prove the credibility of the firm, their staff should solely be composed of British, Allied or Neutral nationals.⁴⁶ H.E. Arnhold and his brother C.H. Arnhold were part of the fabric of Shanghai society, with H.E. Arnhold on the board of a number of companies and his wife a prize-winning horticulturalist,⁴⁷ while C.H. Arnhold, a member of the Shanghai Rowing Club, who again was fully involved in the social and business life of the Settlement.⁴⁸ Companies such as H.E. Arnhold, which fought hard and appear to have been willing to manipulate the system, to keep their commercial operations alive, demonstrate the difficulties the British

⁴⁴ TNA, FO 350/13, Letter Jordan to Langley, 28 July 1915.

⁴⁵ Jardine Matheson, J1/24/11, Letter C.E. Anton to W.S. Dupree, 17 August 1915.

⁴⁶ MS JM/J1/1/8, Letter 1156 C.E. Anton to D. Landale, 17 September 1915.

⁴⁷ *NCH*, 23 May 1914, p.597.

⁴⁸ *NCH*, 4 April 1914, pp.42-43.

authorities faced. Resistance to the legislation was fierce and the close business ties provided endless opportunities for firms to evade the new legislation, making them almost beyond reach of the law or its enforcement by the authorities. By contrast, the French government took a much tougher line: unconvinced that the firm was a genuine concern, it banned trade with both firms and any goods were subject to confiscation and a fine.⁴⁹

Even essentially British firms such as the prestigious Jardines and Swires had inevitably developed some business links with Germany in China over the years. From its impressive offices along the Bund, Jardines controlled the Shanghai and Hongkew Wharf Company, three cotton mills, a silk filature, a brewery, an insurance company and an important shipping line.⁵⁰ Swires, located in prime position along the Bund in the French Concession, was mainly involved in the handling of cotton, woollen and worsted goods and other textiles for sale in China. The firm was also involved in the produce trade of flour, rice, sugar, beans and beancakes, peas and salt. Its interests extended to shipping, insurance and other agency business through its agencies on behalf of the Alfred Holt's Ocean Steam Ship Co., the China Navigation Co. and the Taikoo Sugar Refinery.⁵¹ Each company was in constant dialogue with their various offices in the treaty ports and their London Offices about issues concerning compliance with the TWTE legislation, to prevent them from being prosecuted or blacklisted, which could have disastrous long-term consequences on their business activities.

Part of Jardines' business in Shanghai included storing and packing German cargo in one of its warehouses which continued up to May 1915. The firm supplied the British Consulate with all the details of shipment and the destination of the goods, leaving it to the consular authorities to approve the shipments as they thought fit. It was lucrative business, which other Shanghai firms such as Liddell and Mackenzies were also involved in and reluctant to relinquish, as the business operated within the

⁴⁹ JM, J1/1/8, Letter Chabrieres, Morel & Cie to C.H. Ross, Messrs Matheson and Co., Ltd., 16 October 1915.

⁵⁰ Robert Blake, *Jardine Matheson, Traders of the Far East* (London: Weidenfeld and Nicolson, 1999), p.219.

⁵¹ Shinya Sugiyama, 'A British Trading Firm in the Far East: John Swire & Sons, 1867-1914', in Shin'ichi Yonekawa and Hideki Yoshihara, eds., *Business History of General Trading Companies* (Tokyo: University of Tokyo Press, 1987), p.47.

bounds of the TWTE regulations. Despite this, Fraser advised all the firms that they should refuse to take any further German cargo and a notice was issued in the *North China Herald* to that effect.⁵² Jardines, as a large firm, was in a position to absorb the loss, but Mackenzies, a smaller concern, was hit hard by the decision, as they considered they could not afford to lose the business.⁵³

Jardines was represented in all the main treaty ports and its interests in Tientsin and Hankow extended to managing properties which were let to enemy subjects. These properties were generally on leases which were binding to both parties and under normal circumstances could not be broken legally. For example, Melchers, the well-known German firm, was a tenant of a property managed by Jardines in the British Concession in Tientsin on a fifteen-year lease from 1 July 1911. The lease could not be broken legally unless the property was sold, in which case Melchers had the right of first refusal of purchase. Always fully compliant with the terms of the lease and often paying their rent in advance, the firm was one that Jardines did not want to ask to leave, not only because of the legal implications of breaking the lease, but also because the firm was a reliable tenant. Continuing with the lease fully complied with the TWTE legislation as it stood but nonetheless advice was requested from Jardine's Shanghai office, which confirmed that the lease could continue.⁵⁴

In the case of a property Jardine's leased to the German firm, Telge and Schroeter in Hankow, however, although the three-year lease did not expire until January 1916, Jardines were keen to make use of the TWTE legislation to evict the firm early. The tenants were fierce competitors of Jardines and were involved in issuing anti-Allied propaganda through the Chinese press. Assured by the consular authorities in Hankow that even if the legality of early ejection was questionable, the likelihood of any legal action being successful if brought by the German firm in the consular courts after the war, was negligible. This advice was not supported by the lawyers, Bailey and Perry, but after further discussions with Fraser in Shanghai, Jardines took the risk and ejected the German firm. Jardines, took

⁵² MS JM J1/24/11, Letter Anton to David Landale, 14 May 1915.

⁵³ MS JM J1/24/11, letter Anton to Landale, 21 May 1915.

⁵⁴ MS JM J1/24/11, letter W.G. Ross, Tientsin to Johnstone, Shanghai, 30 June 1915.

encouragement by a decision of the Hongkong Bank, which had given the German firm Messrs. Bucheister, notice to quit its godowns, although this had been legally easier to do, as Bucheister only had a monthly tenancy as opposed to the three-year tenancy of Telge and Schroeter.⁵⁵ Although most relationships with German firms gradually ceased once the legislation was tightened in June 1915, some remained due to the legal difficulties of unravelling them. The perception of business expediency and long-standing, successful business relationships often played a part in decisions made about severing German links: Jardines, along with other companies, were not averse to taking a flexible approach to the TWTE legislation to retain a German tie if it suited them as in the case of Melchers & Co. but to sever one which did not suit such as Telge and Schroeter, despite the legal implications.

Companies were forced to make difficult decisions about enemy employees. Many were loyal, long-serving and fully integrated into the operations of the companies. For example, Jardines had to work out how to deal with a German clerk they employed in their Harbin office, P. Rosewanger. When war broke out, the Russians expelled all enemy nationals from Harbin and arrested those of military age who were sent to the Yakutak Saltmines in Siberia. Rosenwanger, afflicted with rheumatism contracted whilst working for Jardines in Sagahlin, was forced to leave Harbin as he was unfit to serve in the army. He was a hardworking, effective clerk who kept the books and acted as an interpreter. He was sent to the Changchun office as a temporary measure even though there was no work there and the Shanghai office was contacted to see if more permanent employment could be found for him elsewhere.⁵⁶ Much as the company wanted to retain him, he was later dismissed from the Changchun office on instructions from Shanghai stating that the firm was legally prevented from employing Germans due to the wartime conditions.⁵⁷ This is an example of the hard decisions companies were required to make, as there was a sense of obligation to Rosenwanger, who had suffered ill health due to a posting when he was working for Jardines. Despite the fact that he still remained a useful

⁵⁵ MS JM J1/24/11, Letter W.S. Dupree Hankow to John Johnstone, Shanghai, 5 July 1915.

⁵⁶ MS JM J1/24/9, Letter Dupree to Anton, 18 August 1914.

⁵⁷ MS. JM, J1/24/9, Letter Dupree to Anton, 11 August 1914, also letter Dupree to Anton, 18 August 1914.

employee who continued to work in spite of his ill-health, Jardines, as such a prominent British firm, had no option but to ask him to leave, as employing Germans was no longer permissible or socially acceptable, even though ending his employment could mean he could suffer permanent loss of employment and ongoing hardship,

Swires faced similar difficulties, as the firm was informed by the London office that its German agents, Kunst and Albers in Vladivostok, had to be replaced and preferably with a British agent. Finding a suitable British agent with the required language skills to deal with Russians would take time, and as a temporary measure, Bryner, Kousnetzoff & Co., a Russian firm, was appointed until a longer-term solution could be found. The situation prompted the idea of Swires possibly opening its own office in the port if a suitable candidate could be found.⁵⁸ Companies had to adapt to the wartime situation, in which the loss of loyal enemy employees and associates often compromised their business operations.

Operational Problems

Besides the need to scrutinise their activities for German ties, companies faced a number of other operational problems in the context of economic warfare. The safety of the shipping routes continued to plague shipping companies. There was a general nervousness about the possible dangers of the Suez route, which resulted in shipping firms making greater use of the Transpacific and Panama Canal routes.⁵⁹ In China, after the conflict started, the German East Asian Squadron stationed at Qingdao managed to escape out of the harbour and the *Emden*, which was part of the squadron, terrorised the East Indies and Indian Ocean routes in the early stages of the war. British ship owners were advised not to let ships out of Shanghai and Swires kept all their ships in the harbour at Shanghai

⁵⁸ JSSXII/4/1, John Swire & Sons Ltd, China Sundries Letter Book 1912-1914, Letter John Swire & Sons to Butterfield & Swire, 30 October 1914.

⁵⁹ *China Maritime Customs Decennial Reports, 1912-21*, Vol.II, Southern and Frontier Ports, The Statistical Department of the Inspectorate of Customs, pp.4-8.

due to the rumours of the German cruisers.⁶⁰ The *Emden* managed to sink sixteen Allied ships, amounting to 70,800 tons and an onshore oil depot at Madras was targeted where 346,000 tons of fuel was destroyed in a ten-minute attack. The *Emden's* captain received some notoriety after his exploits were reported in the *North China Herald*, highlighting his gentlemanly behaviour in rescuing passengers from ships before they were destroyed.⁶¹ Even so the enemy ship was eventually sunk by an Australian cruiser, the *Sydney* off the Cocos Islands on 9 November 1914, which brought an end to the exploits of the German fleet in East Asia.⁶²

Even so, safety concerns about shipping continued, as British companies had a long-established practice of shipping cargo in German and Austrian ships and, before these were eventually removed from the seas, British cargoes in enemy ships were vulnerable to capture. Jardines had a number of bills of lading for cargo on German ships destined for Britain, which had either been captured or been diverted, as German ships took refuge in neutral ports. Retrieving this delayed or lost cargo became a complicated task, as Jardines, along with other firms in a similar position, had to try and recover the goods from the German ships, but this incurred increased costs and delays as the goods had to be unloaded, stored and then re-shipped to Britain. Recovery depended on the help of the Admiralty and could only be carried out as and when The Navy was available to do so which inevitably led to delays which could leave cargo ruined and worthless.⁶³ As the cargo might be covered by German insurance, it was uncertain whether German insurance companies would be able or willing to pay out any claims once hostilities had ceased.⁶⁴ For British goods seized as prizes from German

⁶⁰ TNA, FO 228/1912, 202/14, Telegram Shanghai to Peking, 4 August 1914 and 204/14, Telegram Shanghai to Peking, 5 August 1914.

⁶¹ NCH, 5 December 1914, p.749.

⁶² Ian Nish, 'Admiral Jerram and the Pacific Fleet', *The Collected Writings of Ian Nish*, Part 1 (The Collected Writings of Modern Western Scholars on Japan, Vol. 6, Japan: Japan Library and Edition Synapse, 2001), pp.162-171; for more on the exploits of the German Navy, see Lawrence Sondhaus, *The Great War at Sea, a Naval History of the First World War* (Cambridge: Cambridge University Press, 2014), pp.62-93.

⁶³ MS, JM J1/1/7, Letter, No.1101 C.H. Ross to D. Landale, 17 September 1914.

⁶⁴ MS, JM/J1/1/17, Letter Ross to Landale, 30 September 1914.

ships, firms had to try and discover which ships were within which jurisdiction of which prize court, so they could enter valid claims in accordance with prize court rules.⁶⁵

British companies faced increased expenses, as freight rates were raised on account of high charges that were levied for war risk insurance. War risk insurance was introduced at the start of the war to mitigate losses to ship-owners to ensure global trade kept moving. The high cost of war insurance was mitigated to some degree by a scheme sponsored by the British government, which had been put in place before the war and was implemented by the Board of Trade once war broke out. Under the re-insurance scheme the government guaranteed eighty per cent of the risks undertaken, using three primary war risk insurers. Although the cost of war insurance was prohibitive, it was not meant as a money-making scheme. It was even intended, if at all possible, that the prizes taken at sea by the British, could be set against the premiums paid and a proportion returned to ship-owners.⁶⁶ Taking advantage of the government scheme and the subsidies offered to shipping companies, owners of cargo could only benefit from the scheme which had been registered as being part of the approved government scheme. With a large fleet at risk of enemy attack and the possibility of mines being placed in Chinese waters, Swires had little option but to insure their fleet against war damage despite the extra costs involved. All ships had to be registered at a British port but Swires were unable to do this as their ships were in China. They notified the Liverpool London War Risks Association of the names of 67 ships in Shanghai, hoping that they would still be covered.⁶⁷

Higher freight rates were also caused by a break-down in what was known in China as the Conference system. Freight rates before the war were kept relatively stable as a number of steamship companies of different nationalities had formed themselves into an organisation known as the China Homeward Freight Conference with the aim of supplying merchants with the tonnage required for

⁶⁵ TNA, FO 228/1912, 313/14, Telegram Shanghai to H.M. Minister, 12 October 1914.

⁶⁶ John Swire & Sons, China Sundries Letter Book 1077, JSSXII/4/1, Letter H. Robertson to C. Scott, 14 August 1914.

⁶⁷ John Swire & Sons, Ltd., China Sundries Letter Book, 1077, JSSXII/4/1, Letter to Butterfield and Swire, Shanghai and Hongkong, 14 August 1914.

their trade, at competitive rates. A system of gross rates of freight was introduced to ensure that traders remained loyal to the Conference lines, offering rebates to those who confined their shipments to those lines. This system was satisfactory to ship-owners and shippers, as it enabled the former to obtain stable freight rates, irrespective of the fluctuating rates ruling in the world freight markets and at the same time it protected the shippers, not only against large and sudden rate fluctuations, but also against the danger of a rival shipper upsetting their business by obtaining significantly cheaper tonnage outside the Conference. To ensure that the rebate system could be successfully enforced, it was necessary for the Conference to guarantee a sufficient amount of tonnage to meet the requirements of the trade. Prior to the conflict the Conference had always been in a position to meet those requirements, but this was no longer the case owing to the severe disruption to global shipping. Merchant ships of enemy nationality which were part of the Conference such as the Nord-Deutscher Lloyd (NDL), were no longer allowed to sail as a result of the restrictions on enemy trade, and British shipping companies had their vessels requisitioned by the Government in increasing numbers, which left a scarcity of tonnage. It soon became impossible for the Conference lines to make forward bookings on the previous scale.⁶⁸ Initially, as the requirement for tonnage was small because of the stagnation in business, the London Conference raised rates by twenty percent but in 1915, the continued demand for shipping space intensified and rates were raised by seventy-five percent and restrictions were placed on the kind of freight accepted. Pacific rates were also increased.

The rebate system became a severe handicap, owing to this rapid increase in freight charges. By way of example a ten per cent rebate which formerly varied from 2 – 5 shillings a ton, at wartime rates now increased from 10 – 17/6 shillings per ton which, for 1000 tons of seeds amounted to £800 as against £110 at the outbreak of war, which effectively meant that the shipper lent the Conference £800 for about nine months free of interest on every 1000 tons of cargo shipped. The small trader,

⁶⁸ Dehne, *On the Far Western Front*, p.44.

who also had to pay increased freight rates, could not afford to tie up such large sums in rebates, with the result that they were unable to participate in the business.⁶⁹

As the demand for shipping space was so great, especially if companies were going to compete for German trade, what were perceived to be British government inefficiencies with its management of the requisitioning scheme were particularly galling. The government requisitioned ships for army use and was accused of failing to maximise the use of the space available. The scheme had been placed under the control of the Admiralty Transport Department and although the government did accept that space was wasted, they responded by saying that they could not be held to account for inefficiencies which were outside their control.⁷⁰ Swires was less affected than other shipping lines by the government requisitioning scheme, mainly because their ships were unsuitable for the general requirements of the Transport Department, but the firm was conscious that its comparatively small contribution might well attract some unwelcome publicity as companies eagerly watched the level of contribution each made to the war effort.⁷¹

Swires had always kept a lower profile as a company than their fierce competitors Jardines and had been more reticent to provide employees to take up places on the Boards of companies or the SMC. Because of the turbulent wartime conditions, this policy came under review as gaps were appearing at management level in many important firms following the removal of German directors and pressure to fill them intensified to ensure these firms could continue to operate as going concerns. Swires were approached to provide employees for the boards of the Union Insurance Company, the Hongkong Bank and for the SMC. There was considerable expense and time involved in taking up these positions, which previously Swires had not been prepared to afford. The directors of Swires were not united in their views: Henry Robertson, in the London office, supported the idea of Swires taking its fair share of responsibility but Warren Swire saw no reason to change their existing policy.

⁶⁹ *British Chamber of Commerce Journal*, 1916, p. 126.

⁷⁰ *British Chamber of Commerce Journal*, 1916, p.131.

⁷¹ JSSXII/4/2, John Swire & Sons, China Sundries Letter Book, 1078, Letter John Swire & Sons to Butterfield and Swire, Shanghai, 31 March 1916.

Robertson's views prevailed, and candidates were put forward for the SMC, the Hongkong Bank and other companies if required. The threat made by the British government for more formal intervention if capable candidates could not be found to fill the posts on the SMC acted as an added incentive, as it was widely considered that this would have a negative impact on business affairs in the Settlement.⁷²

The initiatives to comply with the more stringent TWTE legislation and to cope with the endless paper work generated by having to monitor the origin, transport and destination of goods, involved a great deal of extra administration. Licences and certificates were required for the purchase of commodities and manufactured goods to try and prevent goods reaching enemy hands. To establish the nationality of firms, the national origin of the company, such as the registered location of the head office, the nationality of the owners and the nationality of senior staff, had to be identified. The terms 'enemy nationality' and 'enemy association', however, allowed for much interpretational latitude, which resulted in the question of nationality becoming of critical importance for the pursuit of business during the war, whereas previously it had always been a secondary issue.⁷³

The export trade was restricted owing to the inability of shipping companies to provide adequate space for the shipment of export produce, which meant companies could not respond to increased demand for produce from markets across the world. Exports from China consisted mainly of silk, tea, hides and skins, seeds and vegetable oils. The silk trade was badly affected, as a large portion of the crop had to be left in the hands of dealers, because in some cases foreign merchants were unable to fulfill their purchasing contracts and the Chinese were in no position to respond by financing these undertakings.⁷⁴ Normally silk was exported to France in large quantities but this outlet for trade was shut off and other markets such as India, Italy and the USA, were unable to absorb the excess, because there was very little demand for luxury goods during the war.

⁷² JSSXII/4/1, John Swire & Sons Ltd., China Sundries Letter Book, Letter John Swire & Sons to Colin Scott, 31 August 1914.

⁷³ Dejung and Zanger, 'British Wartime Protectionism', pp.187-188.

⁷⁴ *Canadian Commercial Intelligence Reports*, No.636, Vol. XIV, 3 April 1916, p.722.

The availability of shipping space was further disrupted as ports were congested owing to labour and railway difficulties. Ships were often delayed for several weeks in ports and unable to discharge their cargoes, as there were too few Customs officers at the docks, leaving cargo in warehouses for long periods whilst waiting to be passed by customs. This placed enormous strain on the facilities of the dock companies, the railways and the warehouses.⁷⁵

Further challenges arose because firms suffered staff losses when employees enlisted for war service. The first contingent of 110 men left by ship in October 1914 on the *Sawu Maru*, with other contingents following at various intervals.⁷⁶ Companies could spare a few employees, owing to the general stagnation in trade, but they were reluctant to lose too many, because senior managers felt that it would impact badly on their trading operations. In the case of Jardines, one employee who gained an army commission without consulting his employer, had his application to leave refused by the firm because he was required in the shipping office and his departure would leave the department short staffed. He was advised that if he insisted on going, he would have to resign, despite the fact that he had completed seven years' service with the firm, without any home leave.⁷⁷ Jardines offered more favourable terms to staff members whom they wanted to keep, agreeing to pay their salaries and promising to keep their jobs open for them whilst they were away, but the firm penalised those they considered were dispensable or acted against company wishes. Enlisting employees did give companies the opportunity to weed out staff members they did not mind losing by giving them less favourable terms in their absence. Volunteers working for the SMC were given special leave and assurance that their posts would be kept open for them.⁷⁸ The War Office declined to contribute initially to the cost of the passages back to Britain and the China Association stepped in, funding approximately 400 men in total, as a contribution to Shanghai's war effort.⁷⁹ In the region of 1,894 men

⁷⁵ *British Chamber of Commerce Journal*, 'Shipping and Freights' 1 March 1916, pp.129-131.

⁷⁶ *NCH*, 24 October 1914, pp.255-257.

⁷⁷ MS, JM J1/24/12, Letter W.S. Dupree to C.T. Todd, 25 October 1915 and letter Tod to Dupree, 27 October 1915.

⁷⁸ TNA FO 228/1912, 308/14, Telegram from Shanghai to H.M. Minister Peking, 7 October 1914.

⁷⁹ CHAS A/06, Annual Reports, Vol.5, 1910-1915, Volunteers for Service in his Majesty's Army, pp.50-58.

left China for war service, with approximately 200 losing their lives, including five from Jardines, six from the Hongkong Bank and five from Swires.⁸⁰

Patriotism was a significant factor in the decisions to enlist, because more and more men felt a sense of duty to sign up for the Front, especially as the war lasted much longer than expected. The loyalty to the home country was strong and intensified by the exigencies of war. Pleas for staff to stay behind to keep companies functioning and help take up the government initiative of capturing German trade often seemed to have fallen on deaf ears. The loss of staff prompted Swires to consider the employment of 'well-paid, good class Chinese' in some of their less responsible positions.⁸¹ Although it was fully recognised that volunteers were making a valuable contribution, the loss of employees reduced the capacity of the firm at a time when some perceived that the war presented unique business opportunities. These were hard-nosed business concerns, which were used to dictating terms to their staff, although relying on them for the day-to-day running of their extensive business interests, but managers gradually had to accept that company policies had to be relaxed and attitudes adapted to accommodate the unusual wartime conditions.

Other Factors

Although destroying German competition was the main priority of the economic war, it was recognised by the British commercial community that a watchful eye had to be kept on Japan, which had become a keen competitor and had made formidable strides to strengthen its trade with China before the war. Imports from China to Japan had trebled in the years between 1902 and 1914 and its exports to China had doubled. Japan had at a distinct advantage because of its close proximity to China, which lowered freight and other transit charges. With a cheap and hardworking labour force and considerable cultural similarities, Japanese merchants were better equipped to study and

⁸⁰ *NCH*, 2 November 1918, p.308.

⁸¹ JSSXII/4/2, John Swire & Sons, China Sundries Letter Book, 1078, Letter John Swire & Sons to E.F. Mackay, Shanghai and G.T Edkins, Hong Kong 1 October 1915.

understand the needs of the Chinese market than their western counterparts. Many Japanese traders spoke Chinese which enabled them to establish direct contacts with Chinese businessmen, eliminating the need for compradors and creating closer business relationships.⁸² Competition from Japan struck at the heart of the two most vital British interests in China: the trade in cotton piece goods and yarn and the carrying trade on the coast. Japan used the Allies' pre-occupation elsewhere during the war to expand its trading interests extensively.

Having established a secure foothold in Qingdao, Japan looked to use the area as a base, from which to project its influence and expand its trading operations, in a similar way to their German predecessors. As reported in consular reports, 'the Japanese are guided by principals which far surpass anything attempted by the Germans in the way of exclusiveness and commercial monopoly and which are in conflict with every British conception of fair trade and equal opportunity'.⁸³ They took over the Customs in Qingdao and placed restrictions on the port, preventing all shipping from entering the port on the pretext of alleged safety concerns, concerning three sunken German vessels and mines having been laid in the harbour, although Japanese ships were still allowed to call there. 10,000 tons of British cargo was detained in the port, waiting for re-shipment, but the only option for moving it on was to use Japanese ships. Britain was ridiculed by the Germans, because effectively Britain's trade was being restricted by its ally Japan, which was considered by British officials to be a severe blow to British prestige.⁸⁴ The aim of the Japanese was considered to be to establish a monopoly on the trade between Shanghai and Qingdao, by endeavouring to take over the shipping business from the two ports.⁸⁵ Japan discriminated against other foreigners, including the British, with their wharf charges

⁸² Allen and Donnithorne, *Western Enterprise in Far Eastern Economic Development*, p. 49: Compradors were Chinese agents who worked for foreign firms and acted as a link between the foreign firm and their Chinese customers; for more background to compradors see, Hao Yen P'ing, *The Comprador in the Nineteenth Century: A Bridge between East and West* (Cambridge, Massachusetts: Harvard University Press, 1970); and Kaori Abe, *Chinese Middlemen in Hong Kong's Colonial Economy, 1830-1890* (London: Routledge, 2018).

⁸³ TNA, FO 405/229. Annual Report, 1914, pp.22-25.

⁸⁴ TNA, FO 228/1949, 12/15 Letter R.H. Eckford to British firms, 6 January 1915.

⁸⁵ MS JM J1/24/10, Letter C.E. Anton to J. Boyce, Qingdao, 4 January 1915.

and shipping facilities, proving to be a much more testing competitor than their German predecessors.⁸⁶

Swires and Jardines were naturally incensed by what they perceived to be these unfair trading practices, making joint representations to Fraser about the seriousness of the situation. They expressed their concerns about Japanese attempts to secure an exclusive foothold in an area, where they had gone to considerable expense to build up trade, and which went against the established policies of open door and equality of opportunity.⁸⁷ Japanese authorities relented eventually, allowing four British vessels per month to call at the port but still on very restricted terms with only one ship being allowed in the port at a time, and only for seven days.⁸⁸

Swires, along with other shipping companies, highlighted that the Japanese company Mitsui Bussan Kaisha had taken control of Hunghun Mines, which were situated in Shandong. Mitsui Bussan, founded in 1876, was Japan's first 'general' trading company. It opened its first overseas branch in Shanghai in 1877, for the purpose of selling Japanese coal in China. By the eve of the First World War, it had more than thirty foreign branches in Asia, Europe and the USA and traded with more than 120 different kind of goods. It handled twenty per cent of Japan's total exports and imports. In the 1900s the firm also invested in Chinese cotton textiles production and opened a flour mill in Shanghai.⁸⁹ As the company had such a significant presence in China, Swires was concerned about the firm, which they perceived was trying to secure a monopoly on the supply of coal, as the firm already dominated the supply from Manchuria, raising the price by some forty per cent. If the firm did manage to secure a monopoly of the mines in Shandong, it would have a harmful financial effect on the shipping operations of other foreign powers.⁹⁰ These concerns were arguably the unintended consequences of

⁸⁶ TNA, FO 405/229, Annual Report, 1914, pp.22-25.

⁸⁷ TNA, FO 228/1949, 14/15, Letter Jardines and Swires to Fraser, 31 December 1914.

⁸⁸ TNA, FO 228/1949, 23/15, Telegram Jordan to Shanghai, 22 January 1915 see also Telegram Jordan to Shanghai 9 February 1915.

⁸⁹ Geoffrey Jones, *Merchants to Multinationals, British Trading Companies in the Nineteenth and Twentieth Century* (Oxford: Oxford University Press, 2000), p.48, Geoffrey Jones, *Multinationals and global capitalism, from the nineteenth to the twenty-first century* (Oxford: Oxford University Press, 2005), p.3.

⁹⁰ TNA, FO 228/1912, 372/14, Letter Fraser to Jordan, 23 November 1914.

Britain's economic war against Germany, which with Britain's attention focussed elsewhere, enabled Japan to secure a significant foothold in China, not only through increasing its trade but through its manipulation of the Chinese authorities.

Although Jardines and Swires faced considerable difficulties owing to the disruption in trade, caused by the high price of war insurance, losses to trade from the limited shipping space available and loss of staff, the war brought striking gains for both companies. Jardines' profits varied between HK\$ 800,000 – HK \$1.2 million in the years 1911-1914: whereas in 1915-1916, they reached HK\$5.3 million, in 1916-17, \$4.5 million, and they averaged \$3.1 million for the following three years. Having diversified into other commodities prior to the war, they were fortunate in being able to supply silk for parachutes, Very lights and packing explosives. They were also responsible for the 'British Warm', the much-celebrated army great coat which was manufactured with camel hair from the north of China.⁹¹ Swires in turn, made considerable gains, which is reflected by their increased tax bill, which included a tax levy brought on by the war, but still reflected good returns on trade. The total paid by the firm, the partners and the three companies, for income tax, super-tax and excess profits was in, £22,720 in 1915; £145,530 in 1916; and an estimated £511,890 or possibly considerably more for 1917.⁹²

The deeply entrenched and sometimes hostile rivalries between Jardines and Swires were also resolved to some extent as both companies understood the need to work more closely together to protect their business operations and maximise the opportunities the war provided to capture German trade. Much as both companies were keen to annex a large share of German trade in China, they made it clear that there were limits to how far they were prepared to go, even though the war allowed them discretion and choice in the lengths they could go to damage German trade. They turned down the suggestion of taking up German trade-marks, mainly they said, because there were extensive rules which governed their use and by using them, they would in effect maintain them for the Germans to

⁹¹ Robert Blake, *Jardine Matheson, Traders of the Far East* (London: Weidenfield and Nicholson, 1999), pp.217-220.

⁹² JSSXII/4/2, John Swire & Sons Ltd., China Sundries Letter Book, 1078, Letter John Swire & Sons to E.F. Mackay, Shanghai and G.T. Edkins, Hong Kong, 22 December 1916.

pick up again after the war was over. They also expressed themselves to be reluctant to adopt what they considered to be some of the more suspect trading methods that they thought were used by German businesses, keen to maintain the standards which had always prevailed.⁹³ There were, however, opportunities to improve existing trading practices, not only through having to work out how to innovate and ensure companies survived the severe disruption to trade during the war but by studying in detail how German firms had become so successful in a relatively short time leading up to the war.

Conclusion

To a casual observer there would have been little to indicate that a global conflict was taking place when visiting the International Settlement in Shanghai during the early stages of the war. Yet for the business community there was a profound change taking place as they came to terms with the severe disruptions to global trade created by the conflict and struggled to ensure their businesses survived the global crisis. Whilst negotiating the constantly evolving TWTE regulations, the British trading community discovered how closely emmeshed Anglo-German trade had become through collaborative ventures which penetrated every aspect of trade in China. Many of these relationships had developed through mutual respect and business expediency, using legal structures to protect them in what was often a challenging trading environment. Unravelling these ties proved remarkably complicated and to a certain extent traumatic, owing to what had become long-standing business and personal relationships and the legal implications of tearing these collaborative ventures apart. British companies had to cope with considerable disruption to their businesses through increased expenses, loss of staff, requisitioning of ships and limited cargo space but this unusual trading environment also forced them to review their trading operations to ensure their survival in an increasingly competitive world. There was a gradual shift in attitudes, drawing British traders closer together to collaborate

⁹³ MS JM, J1/1/8, Letter 1066, Johnstone to Landale, 31 March 1916.

more effectively to promote British trade. The disruption to trade provided a chance for Britain to reflect on its global trading position and despite the considerable problems faced by British traders, there were also considerable opportunities available to develop ways to strengthen their trading operations to compete more effectively in what had become a more hostile global trading environment.

Chapter 3: Strengthening Britain's Commercial Position

The war provided opportunities for individual firms, which was shown in the previous chapter, although more broadly it provided opportunities across the market as a whole, but these could only be realised if proactive measures were taken by Britain to change the trading environment. This chapter argues that, by employing a portfolio of different means such as, forming the British Chamber of Commerce, expanding the Commercial Attaché service and conducting a detailed survey of British and German trading methods, British officials worked more closely with British traders than had previously been the case. Officials sought to help British traders create better networks, explore new areas of trade and increase their skills, in order to strengthen British trade. Although strengthening consular assistance was mainly aimed at capturing German trade, it was also in response to Japan and America's greater efforts to use the opportunities the war provided to expand their trading operations in China and deepen their involvement in China's business and political affairs.

This chapter further argues that, as each nation fought hard to protect its trading operations to ensure they survived the wartime period, a more nationalistic movement developed, which emphasised national unity, national trade and national products, with the aim of creating a greater sense of British identity, which, with greater government support would, it was hoped, strengthen Britain's trading position.¹ The TWTE legislation, forbidding all trade between German and British companies in China, set the seal on this new spirit of commercial nationalism, galvanising initiatives to foster a more cohesive commercial identity. It was realised in business circles that the future success of Britain's trading operations relied on developing a much more progressive policy which incorporated many of Germany's successful trading methods to ensure Britain continued to play a leading role in the commercial affairs of China. Taking these steps would enable Britain to take

¹ Meyer, 'Splitting Apart', pp.125-126.

advantage of the commercial opportunities and demand for British goods, which were expected to materialise after the conflict was over.

This chapter will first explore 'top-down' initiatives such as, boosting the Commercial Attaché service and forming the British Chamber of Commerce, which were carried out in the early stages of the conflict. These initiatives were under discussion before the conflict broke out, but arguably needed the impetus of a severe global financial crisis to act as a galvanising force to see them carried through. The chapter will then continue by examining other actions, which were employed to bolster Britain's trading position, such as extensive surveys of Germany's trading methods, to provide an insight into what lay behind German success and discover ways to advance British trading interests. These actions were thought necessary to respond to the much greater competition, which had emerged in China during the war and to ensure Britain was well equipped to cope with a more competitive post-war global commercial environment.

Strengthening Measures

In response to the increased workload generated by the TWTE legislation, Archibald Rose, the British Consul in Ningpo, was transferred to Shanghai in February 1915, to assist China's Commercial Attaché, W.E. Ker, who was based in Peking. Shanghai was the chosen location because it was the leading commercial centre, linking all the other treaty ports, and where it was thought Rose could provide the most assistance to the British trading community throughout China. Before the war there were ongoing discussions about where China's commercial attaché should be based, since although Shanghai was the main trading port, the Legation in Peking was the hub of Chinese and foreign political activity where the Minister was in close contact with Chinese government officials. Foreign Office officials felt that a Commercial Attaché based in Peking, with closer links to the Foreign Office, was better positioned to assist with trading matters and to help secure any trading opportunities which

might arise.² Although Peking became the chosen headquarters, many British traders felt that Shanghai would have been a better choice. The appointment of Rose was made in response to this debate and in recognition, finally, by the British government, of the need for an additional Commercial Attaché post in Shanghai to provide greater assistance to the British commercial community.

Commercial Attachés were introduced in China towards the end of the nineteenth century, as a response to greater commercial competition from other powers, which had developed in the late nineteenth century and continued up to the outbreak of the First World War. British officials in the Foreign Office reappraised their long tradition of staying aloof from the commercial dealings of British subjects and engaged with initiatives which offered much greater diplomatic and consular assistance to their commercial communities. The first Commercial Attaché to China had been G. Jamieson, the Consul General in Shanghai who was appointed in December 1887. Jamieson was expected to combine both roles, but it was thought in British business circles that the huge range of tasks associated with each job made the new post unmanageable. It later became a post in its own right and, as we have seen, was moved to be part of the Legation staff in Peking. The Commercial Attaché role was still far-reaching, involving frequent visits to Shanghai, Tientsin, Hankow and Canton in order to keep in touch with the trading communities based in those ports; and every two years, the Attaché had to travel back to Britain to feed-back relevant information to chambers of commerce and manufacturers interested in the China trade. Duties of the role included writing annual and special reports; to oversee all tariff questions; giving advice and assistance to British consuls, merchants, manufacturers and shipping companies; assisting with the settlement of customs claims; and generally keeping abreast of all relevant commercial issues.³

² TNA, FO 371/2316, Letter Jordan to Grey, 10 June 1915, p.85.

³ TNA, FO 671/385, 4199/15, Memo re: Commercial Attachés' attached to letter from Jordan to Fraser, 3 December 1915; see also Platt, *Finance, Trade and Politics in British Foreign Policy*, pp.387-397 and. Pelcovits, *Old China Hands and the Foreign Office*, p. 268.

The changing expectations of the role resulted in friction between the China Association and the British authorities about its scope. For example, the Attachés' duties became even more far-reaching leading up to the war, when the Commercial Attaché, as part of Legation staff in Peking, was expected to assist with the negotiations for mining and railway concessions. This involvement was a step too far in the eyes of the China Association, which stated that it thought the Commercial Attaché no longer worked for the longer-term interests of British traders' resident in China, but for London capitalists, who it considered only had short-term money-making interests in the country.⁴

The role was generally contentious as Commercial Attachés often failed to live up to expectation which was hardly surprising as one Commercial Attaché, with responsibility for covering the political and commercial aspects of trade in a country the size of China, could never be in a position to provide the level of assistance hoped for. British traders did accept that Commercial Attachés should not be involved in official touting for orders or be a peripatetic agent when firms were reluctant, for whatever reason, to appoint their own agents or open branches in treaty ports. However, they generally thought that they were at a disadvantage compared to German and Japanese traders, because it was felt that the German and Japanese governments made much greater investment in the commercial departments of their consulates and went to greater lengths to help their respective commercial communities to secure commercial and investment opportunities.⁵

Under-resourcing was a key factor which undermined the effectiveness of the service, as the modest rates of pay meant it was difficult to attract skilled commercial men to take up the post. Initially Rose was expected to combine his consular duties in Ningpo with his new role as Assistant Commercial Attaché, without any additional pay. It was perfectly possible to combine the two roles, as the consular duties in Ningpo were not onerous, as it was a small treaty port, but still the new post did generate a

⁴ TNA, FO 228/1912,160/14 Memo by the China Association regarding headquarters of the Commercial Attaché in China, Enclosure in Letter from Fraser to Jordan, 8 July 1914.

⁵ TNA, FO 228/1912, 160/14, Memo: The China Association re: Headquarters of Commercial Attachés, 2 July 1914 enclosure in letter L.E. Canning, Secretary of the China Association, Shanghai to Fraser, 2 July 1914.

significant extra workload and the necessity to move to Shanghai. It was eventually agreed that his salary should be increased by £200 and that Rose should be allocated more suitable offices, where commercial information could be kept and displayed for visitors, and facilities provided for traders to meet and organise conferences, similar to the facilities provided at the German Consulate.⁶

The better-staffed German Consulates were the inspiration for these new initiatives, as they were considered to be a significant factor in giving Germany a greater commercial edge. There was no question, that in the big trading centres, there were many more German consular officials employed compared to the British. In 1914, the German Consulate in Shanghai employed eighteen officials, compared with the nine employed at the British Consulate.⁷ There was also an efficient commercial section attached to the German Consulate, which provided detailed information to companies looking for agents in China. It was generously staffed with trained advisors, all well informed about the type of goods required in China. It housed a large collection of well-illustrated catalogues and a ready supply of samples, which assisted new and existing companies with setting up new enterprises.⁸ Rose's appointment and the provision of new offices, went some way to offering British traders' similar facilities to those enjoyed by their German counterparts.

After a few months, Rose was given the title of Assistant Commercial Attaché, which identified his role more clearly, and his consular duties were eventually dropped as his workload increased.⁹ Rose was expected to devote considerable time to commercial matters, by establishing links with the various business houses, finding out their needs, suggesting solutions, putting in place an organised system of commercial intelligence and providing a link between the trader in Shanghai and the scattered

⁶ TNA, FO 371/385, 4199/15, Memorandum by Commercial Attaché (W.E. Ker) in Peking re: commercial work in the principal Consulates in China, in letter Jordan to Fraser, 3 December 1915.

⁷ TNA, FO 228/1912, 160/4, Memo from China Association in response to Memo from Jordan on the headquarters of Commercial Attachés, enclosure in letter Fraser to Jordan, 3 July 1914.

⁸ TNA, FO 228/1949, 148/15, Report on German Trade: official organisation and supervision of, enclosure letter Fraser to Jordan, 18 May 1915.

⁹ TNA, FO 371/2316, Letter Jordan to Grey, 10 June 1915, p.85.

distributing centres in the distant provinces. The intention was for the role to become an integral part of the consular system.¹⁰ There was a push from traders for the role to be expanded to the other important treaty ports such as Tientsin, Hankow and Canton. Although Ker and Jordan supported the proposal in principle, they stated that the financial constraints of the war prevented such measures being introduced while hostilities lasted. Instead it was suggested by consular officials that at each of these treaty ports, a suitable consular official should be appointed to specialise in commercial affairs, who would be the main reference point for queries from British traders, home firms and government departments, for information about trade in the various treaty ports.¹¹

Although steps such as these were taken to expand the Commercial Attaché role, under-resourcing remained a continual problem, as the financial burden of the war placed even greater constraints on treasury funds, which could otherwise have been available to support comprehensive initiatives of this kind. As discussed above, there was, however, a gradual realisation that there needed to be a shift in policy, which saw a greater focus on commercial matters in existing British consulates in the various treaty ports.

Rose provided a bridge between the Consulate in Shanghai and the trading community, but the need for a distinct organisation to promote purely British trading interests became more pressing, because German trade continued, in contravention of the TWTE legislation. Discussions about a British Chamber of Commerce to promote purely British trading interests had been under review for some time, but the impetus for its creation had never been strong enough before the war, as the commercial interests of the foreign powers were similar in many ways, and a chamber representing all their interests was thought to be sufficient.¹²

¹⁰ TNA, FO 228/1949, 155/15, Letter Fraser to Jordan, 22 May 1915.

¹¹ TNA, FO 671/385, 4199/15, Memorandum by Ker, 27 November 1915, enclosure in letter from Jordan to Fraser, 3 December 1915.

¹² Julean Arnold, *China, a Commercial and Industrial Handbook* (USA: Washington Government Printing Press, 1926), pp.378-380.

The Shanghai Chamber of Commerce, set up in 1847, performed this function and embodied the cosmopolitan principles of the Settlement. It was the chief organisation of consequence amongst foreign traders in Shanghai, with almost semi-official status and was the main body for voicing concerns about commercial matters to foreign governments with treaty agreements in China. This function was generally carried out by the senior Consul who would communicate with the various legations in Peking.¹³ Although it embodied the Settlement's cosmopolitan values, British firms such as Jardines felt that the British authorities paid little attention to the submissions of the local chamber and they were increasingly supportive of a British organisation which would have greater links and influence with the home authorities in Britain, so as to have their business interests better represented.¹⁴

British Chamber of Commerce

As anti-German sentiment became more pervasive, especially after the sinking of the *Lusitania*, in May 1915, British traders were resentful of the continuing trade in Manchester goods by German traders, which was still managing to continue regardless of the TWTE legislation. German traders were suspected of making every effort to conceal the British origin of their goods, and their continued prosperity was said to be almost entirely dependent on the sale of these British cotton goods. Further concern was expressed about the impact of continuing German trade on Chinese opinion, as it was reported that members of the Chinese business community were constantly asking Maitland & Co., the largest auctioneers of cotton piece goods in Shanghai, why German trade could continue, even though TWTE legislation had been implemented to restrict it.¹⁵ At an informal meeting of leading British businessmen at the British Consulate in Shanghai in May 1915, it was proposed to form a British combine to buy from the banks all bills covering goods consigned to German nationals. However, the

¹³ *North China Herald*, 6 June 1863, p.93, Wright, *Twentieth Century Impressions*, p.386.

¹⁴ JM MS JM/J1/22/4, Letter John Johstone to Henry Keswick 4 June 1915.

¹⁵ TNA, FO 228/1949. 155/15, Letter, Fraser to Jordan, 22 May 1915.

legal and practical aspects of such a scheme were questionable and it was decided at a further meeting of 83 of Shanghai's leading businessmen, at the Consulate on 20 May 1915, to establish a British Chamber of Commerce (BCC) to promote British trade specifically. The new chamber was designed to complement, rather than supplant the China Association, its aim being to enhance and exploit British trading opportunities and to deflect as much German trade as possible into British hands.¹⁶

Consular endorsement of the new chamber was signified by the agreement of Sir Everard Fraser to be the Honorary President and Archibald Rose to be Vice Chairman. It had the backing of the leading British trading organisations and John Johnstone, the head of Jardines in Shanghai, became its first chairman. All companies, big and small, were encouraged to join, with the aim of making it truly representative of every British trading interest and giving everyone a voice in its deliberations. About 155 companies joined the Shanghai BCC initially, allowing British nationals in the most important trading centres to communicate and exchange their views. In the same year, similar chambers were opened in Canton, Tientsin, Hankow, Foochow, Chefoo, Amoy, Chinkiang, Swatow and Newchang.¹⁷ It was hoped that creating a network of British chambers throughout the treaty port world, would facilitate a useful interchange of commercial information and act as a pressure group within China itself, both at consular and legation level.¹⁸

Fifteen sub-committees were formed to give more specialist attention to specific areas of trade such as shipping, insurance, piece goods, chemicals, etc. These sub-committees met throughout the year and the Annual General Meeting took place in March to review the Chamber's business over the year, giving traders the opportunity to discuss relevant issues and topics and to hear guest speakers who were invited to talk to the assembled BCC members.

¹⁶ Christie, 'The Problem with China in British Foreign Policy', 1917-1921', p. 229.

¹⁷ *British Chamber of Commerce Journal*, 1 September 1915, pp.1-7.

¹⁸ Christie, 'The Problem with China in British Foreign Policy', p.226.

The organisation was funded initially by companies paying a joining fee and then by an annual subscription, although financing the organisation was an ongoing challenge.¹⁹ Smaller companies objected to any increase in the subscription fee and larger companies had to pick up the shortfall. A post-war initiative to put the chamber on a more secure footing saw leading companies contributing to an endowment fund of Tls.60,000 which indicated their approval and appreciation of an organisation that they considered had proved its worth.²⁰

The level of appropriate Government assistance for chambers abroad was continually under discussion because the British government realised they provided useful channels through which to filter information to their trading communities. They were, however, essentially independent organisations run by local businessmen who often shied away from direct funding from the British government, which might limit their independence. The chambers still made efforts, however, to find some way of receiving financial assistance from the government to place their chambers' finances on a more secure footing, without having their independence undermined by government interference.²¹

The introduction of the BCC in Shanghai and elsewhere gave the British government and traders more tools to promote British government activities and political propaganda through trade journals and other publications. The launch of *The British Chamber of Commerce Journal* (BCCJ), which was first published in May 1915, recognised this additional channel to promote British trade. The aim of the journal was to provide information to British manufacturers and traders about the trading conditions in China, drawing them closer together with the aim of creating better links between them.²² Each month the new monthly journal, specifically geared to members of the chamber, published a wide range of information on all aspects of trade in China, including consular reports on

¹⁹ *British Chamber of Commerce Journal*, Vol I, September 1915, pp.4-5.

²⁰ MS JM J1/24/22, Letter A. Brooke-Smith, head of Jardines in Shanghai to J. Bell-Irving, head of Jardines in Hong Kong, 14 April 1920.

²¹ *NCH*, 5 July 1919, p.66.

²² *British Chamber of Commerce Journal*, 1915, p.48.

trade, trade enquiries, areas of trade to be developed, trading opportunities, informative articles about different areas of trade in China, such as shipping, insurance, trade-marks etc. It also played an important role in Britain's economic war as it published the White List of British companies which had been given the all-clear of any enemy association by consular officials.²³

A Chinese journal was similarly introduced to advance and promote British interests amongst the Chinese business community. There was no charge for the journal and the initial circulation was approximately in the region of 10,000 copies. In order for the journal to reach a wide audience, it was distributed in every province in China, to Chinese officials, Chinese chambers of commerce, trade guild, heads of industrial enterprises and Chinese traders, considered by the committee of the BCC to be reputable. To promote the British point of view, the Chinese edition included accounts of the British trading position, articles on British and Chinese relations, news of British commercial and industrial developments and advertisements of British goods and machinery from members in all parts of the Empire. Specific attention was drawn to the advertising possibilities of the journal as a way of reaching a wider audience. Introducing the Chinese journal was thought particularly important, because French, German and American Chinese journals were already in circulation. Fully alert to fostering more equal relationships with their Chinese customers, the title of the German Chinese journal was "*Mutual Aid Journal*" and the American Chinese journal titled "*East and West Review*" similarly acknowledging the need for closer inter-cultural exchange.²⁴ A specific sub-committee was set up whose duty it was to edit and circulate the English and Chinese journals. Guest editors were invited to edit the magazine and Rose edited one of the first issues. In 1917, two years after the chamber had been formed, the circulation of the English journal had increased from 700 to 850 copies and the Chinese journal from

²³ See Chapter 1, p.87.

²⁴ *British Chamber of Commerce Journal*, 1915, p.16.

10,000 to 13,500, showing it to be a popular and arguably effective initiative to advance British business and political interests.²⁵

As a further way of spreading the British viewpoint, the BCC supported the launch of a new daily Chinese newspaper, *The Hsin Shun Pao*, in February 1917. It was incorporated as a British company and started as a response to American, Japanese and German backed newspapers, which had been in circulation for some time. In coming to the view that the newspaper was an effective way of projecting British commercial and political influence, the general committee of the BCC worked closely with the war propaganda committee. A particular benefit was thought to be that it could be used to dispel distorted opinions and malicious rumour, which they felt were prevalent at the time. It proved popular from the outset, achieving a wide circulation amongst the Chinese community in a relatively short time.²⁶ British officials and traders became increasingly aware of the importance of newspapers as a successful way of raising Britain's profile and reaching a much wider Chinese audience, something their competitors had realised some time before.

The examples above illustrate the fact that creating the BCC and branches in the other treaty ports, was an effective way of drawing the British commercial community closer together, by establishing an organisation formed specifically for the promotion and expansion of British trade. In particular *the British Chamber of Commerce Journal* was distributed throughout the treaty port world, providing a publication dedicated to supplying commercial information targeted at British trade. These initiatives created a greater sense of British identity and common purpose in Shanghai which was a shift away from the cosmopolitan principles which had influenced foreign trade before the war.

Rose played an important role in the formation of the new chamber and its close liaison thereafter with the consular and diplomatic service in China. In his new role, he was tasked with looking

²⁵ *British Chamber of Commerce Journal*, AGM, 2 April 1917, p.82.

²⁶ MS, JM/24/16, 45, Enclosure, British Chamber of Commerce (Shanghai), papers relating to the start of the newspaper *Hsin Shun Pao*, 11 June 1917.

into the general position regarding British and German trade, concentrating on why German trade had been so successful in exploiting the Chinese market, without having any initial strategic or commercial advantage. Rose focused on areas of trade where Germany had secured a monopoly and he examined the methods they used to achieve their objectives, to have a better understanding of where their success lay and what lessons could be learnt to improve Britain's trading position.²⁷

Although the creation of the BCC was an example of measures taken by the British authorities in China to enhance British trade and foster a more proactive policy, assistance was also provided directly from Britain. The Board of Trade sent Thomas Ainscough out to China after the war began. He was a Special Commissioner of the Commercial Intelligence Department of the Board of Trade. The main reason for his visit was to explore opportunities to supply electrical plant in the Szechuan area of China, which was within Britain's Yangtze Valley sphere of influence. No British electrical representative had ever visited the province, even though it was readily accessible from Shanghai, and had been identified as an important area for the expansion of British trade. German companies, such as Siemens and AEG, however, had secured contracts to supply electrical plant and wireless stations in the region. A German diplomatic official also visited the Province in 1912 to explore hydro-electric possibilities.²⁸ It was felt that the conflict had weakened the German foothold in the area, providing potential openings for British trade.²⁹

The choice of Ainscough demonstrated the significance the British government placed on the future prospects of trade in China because he was an influential figure in the Board of Trade and had a wide experience of trade in China. He was part of the Advisory Committee on Commercial

²⁷ TNA, FO 228/1949, 27/15, Draft letter Jordan to Shanghai, 19 January 1915.

²⁸ R.P.T. Davenport Hines, 'The British Engineers Association and markets in China 1900-1930' in R.P.T. Davenport-Hines, ed., *Markets and Bagmen: Studies in the History of Marketing and British Industrial Performance, 1830-1939* (Aldershot, England: Gower Publishing Company, 1986), p.109-110 and *NCH*, 12 February 1916, p.358.

²⁹ For further information about electrical projects in China, see Frank Dikötter, *Things Modern, Material Culture and Everyday Life in China* (London: C. Hurst & Co, 2007), pp.133-153.

Intelligence formed by the Board of Trade in October 1913 and had spent six years in Shanghai before the war, working as an agent for the Bradford Dyers Association. He had knowledge of China beyond Shanghai, as he had travelled for four months in the Spring of 1913, journeying across western China to Burma, to study the tribal regions on the Tibetan border. Ainscough had studied business and commerce at Manchester University where he had also learnt Chinese.³⁰

During the war Ainscough spent a period of sixteen months looking at the prospects for British trade in China. His research did not include a study of Shanghai as the commerce and finance of the city was well documented in other trading reports. His survey, in addition to exploring electrical trade opportunities in the Szechuan area, was mainly directed at other little-known areas of the interior where travel was hampered by the lack of a railway network and a rudimentary road system. He visited eighteen of the twenty-one provinces of China and Manchuria, giving him a broad view of life in the interior of China and possible openings for trade.

He received and welcomed the support of staff of British American Tobacco (BAT) which was one of a handful of companies with a wide network of business operations in the interior.³¹ By contrast he wrote privately, however, about the lack of support he received from the Legation and consular officials.³² Although greater consular assistance was a significant aspect of the drive to strengthen British trade during the war, below the surface there was a deep-seated historic prejudice and snobbery about trading matters which was pervasive amongst consular and diplomatic staff, which included the Legation in Peking.³³ Wartime exigencies, however, did see some shift in outlook because it was acknowledged that better staffed consulates had a significant impact on securing trading

³⁰ SOAS, CHAS/04/18, An address delivered by T. Ainscough to members of the Far eastern Section of the London Chamber of Commerce and the China Association on 24 November 1915.

³¹ SOAS, Ainscough, Trade with China, Board of Trade – Commercial Intelligence Committee, Report on the Conditions and Prospect of Trade in China, p.3.

³² Davenport Hines, 'The British Engineers' Association and markets in China 1900-1930', p.110.

³³ Davenport-Hines, 'The British Engineers' Association and markets in China, 1900-1930', p.108 see also Zara Steiner, *The Foreign Office and British Foreign Policy, 1898-1914* (Cambridge: Cambridge University Press, 1969), pp.184-185.

contracts and assisting commercial communities to compete more effectively with other commercial rivals. The start of this shift in outlook was clearly demonstrated by the greater consular support provided for the new BCC initiative in Shanghai and other treaty ports.

Rose and Ainscough wrote numerous reports during the war, which were aimed at establishing the reasons behind German success and exploring ways to strengthen Britain's trading operations, in order to respond to opportunities which might arise both during the war and after the conflict was over. The main reason for conducting such an extensive survey of the British trading position was to deflect as much German trade as possible into British hands. Although deflecting German trade was the main priority, there was widespread concern in British government circles about Japan and America, which were making great efforts to tighten their influence over Chinese affairs. A description of American influence both before and during the war needs to be included to give an insight into the complexities and unintended consequence of Britain's economic war. America's efforts to expand its commercial and political interests in China during the war provided additional impetus for Britain's campaign to strengthen its trading operations to compete more effectively in a more hostile global trading environment.

America

America, like Japan, became a keen competitor with the other foreign powers during the war because it could see the vast potential of the China trade and the opportunities the war provided to secure a firmer foothold in the region. American economic influence in China had always been small in comparison to the other powers and its proportion of foreign trade had declined in China by twenty-five per cent in the period leading up to the war, even though the volume of trade overall increased

significantly. The table below shows a comparison of the value of China's direct trade with America taken from the reports of the CMCS for the years 1904 and 1913.³⁴

Years	Imports from USA	Exports to USA	Total trade with USA	% of China's total trade
1904	\$20,368,300	\$18,907,407	\$39,275,707	9
1913	\$25,826,427	\$27,447,069	\$53,273,496	7

Table 1: American Trade

America had instigated the British-run 'open door' system which was a statement of principles made in 1899 and 1900 for the protection of equal privileges amongst the foreign countries trading in China, and at the same time supporting Chinese territorial and administrative integrity. The purpose of the system was to prevent encroachments of other foreign powers within China, but under its watch China had effectively been divided into commercial zones, allocated to each power, which hardly upheld the 'open door' policy, so widely promoted by America.³⁵ American investment in China had always been relatively low, because American traders and investors were wary of the recurrent political instability and the general uncertainties surrounding trade in China, preferring to invest in what were considered to be other 'safer' global areas such as South America.³⁶ There were very few American commission houses, export organisations or banks. Standard Oil, the Singer Sewing Machine Company and the British-American Tobacco Company were the beacons of American enterprise, with the rest

³⁴ *American Commercial and Industrial Handbook*, USA p. 43.

³⁵ Eugene P. Thomas, 'Investment and Trade in China', *Proceedings of Political Science in the City of New York*, 6: No.1, *Mercantile Marine* (Oct., 1915), p. 1; see also Michael H. Hunt, *The Making of a Special Relationship, The United States and China to 1914* (New York: Columbia University Press, 1983); also Warren I. Cohen, *America's Response to China, A History of Sino-American Relations* (New York: Columbia University Press, 1971).

³⁶ Noel H. Pugach, 'Standard Petroleum Development in Early Republican China', *The Business History Review*, 45: 4 (1971), p.473.

of American trade mostly being handled by foreign commercial houses, which gave preference to their own nation's interests.

Until 1916, the International Banking Corporation was the only American bank in China and it had made little effort to encourage American investment. Washington was often resistant to providing assistance but equally, American business reportedly could be inefficient, tactless and risk averse.³⁷ American influence declined further after its withdrawal from the Six Power Financial Consortium in 1913, without consultation with the other foreign powers, which was considered a fatal blow to American enterprise in the region.³⁸ However, Woodrow Wilson, American president from 1913-1921, seemed to usher in a new era for America's relations with China, predicated on the principles of 'self-determination' and 'the equality of nations', which were focused on assisting China with its development, with a special emphasis on the moral and educational elements of its support.³⁹ Wilson, along with Secretary of State, William Jennings Bryan, distanced themselves from what they considered to be the imperialist policies of the European nations and Japan, which they felt indebted and thereby subjugated China to the bankers of the great powers.⁴⁰ This approach, however, met with resistance as America's professed desire to take a more independent position in relation to Chinese affairs, led to suspicion by the other powers that it was trying to convince China that America was its only true ally. Far from upholding the 'open door' system, the American approach saw America increasingly isolated and the foreign powers tightening their hold on their respective spheres of influence.⁴¹

³⁷ Noel H. Pugach, 'Making the Open-Door Work: Paul S. Reinsch in China, 1913-1919', *Pacific Historical Review*, 38: 2 (May, 1969), p.7.

³⁸ Pugach, 'Standard Petroleum Development in Early Republican China', p.455.

³⁹ Pugach, 'Making the Open-Door Work', p.162; see also Erez Manela, 'Imagining Woodrow Wilson in Asia: Dreams of East-West Harmony and the Revolt against Empire', *American Historical Review*, 111:5 (2006), p.1331.

⁴⁰ Cohen, *America's Response to China*, pp.77-78; and also, King, *The Hongkong Bank in the Period of Imperialism and War, 1895-1918*, Vol.II, p. 499; see also the background to the Consortium, chapters 7 & 8.

⁴¹ Pugach, 'Making the Open-Door Work', p.159.

The catalyst for a shift in American policy was Paul Samuel Reinsch, America's new minister to China appointed in 1913, who was a keen advocate of the 'open door' system. His appointment reflected the policies of the Woodrow Wilson administration, which encouraged overseas expansion.⁴² Reinsch initiated an economic offensive, suggesting that America should make use of the war to explore ways to expand American enterprise in China. He stressed the importance of economic power as part of an integrated programme of American action in the region. He pointed out that Europe would take some time to recover from the war, leaving opportunities for American capital to supplant British, French and German investments. He also suggested that America's loans to the Allies could be used as a lever to enforce a stricter 'open door' policy, which could try and weaken the closely protected spheres of influence which had been such a key feature of the foreign presence in China.

The success of American enterprise in East Asia depended on a drastic overhaul of American commercial methods and institutions, and the need to form a new private financial group, which would actively promote American business in the national interest. Reinsch was further motivated in his mission to strengthen American trade, by his irritation with Britain's TWTE legislation, which had an adverse effect on American trade and which he considered to be a serious breach of neutral rights. Several American firms, suspected of German links, were prevented from using British shipping, cables and banks, leaving Reinsch with the conviction that it was a deliberate attempt by Britain to squeeze out American interests.⁴³

During the war, under Reinsch's direction, the American Legation became the nerve centre for expanding American commerce. Similar to Britain, bolstering the commercial side of the American Legation became a vital component of expanding and strengthening American commercial interests in China. Reinsch recommended the appointment of competent commercial attachés who could help

⁴² Pugach, 'Making the Open-Door Work', p.3.

⁴³ Thomas A. Bailey, 'The United States and the Blacklist during the Great War', *The Journal of Modern History*, 3:1 (March 1934), pp.15-16.

American merchants and manufacturers to find foreign markets. They would assist with the establishment of commission houses to distribute goods, the organisation of sales associations to represent a number of manufacturing concerns and with the marketing of goods. In November 1915, the American International Corporation (AIC) was formed and was a highly professional organisation set up to evaluate, select, finance and operate viable foreign enterprises for American participation.⁴⁴ It was a fifty million dollar venture which by the end of the war had a sizeable stake in various shipping and trade ventures.⁴⁵ In 1915, similarly to Britain, a purely American Chamber of Commerce was formed with a membership of thirty-two firms.⁴⁶ However, unlike Britain, it was not a local chamber just for Shanghai but a united chamber to represent the combined American trading interests for the whole of China.⁴⁷

The area of trade that became the main focus for America was the textile industry, which was the backbone of British trade in China. American and British manufacturers competed for contracts to build cotton mills for the rapidly expanding cotton industry in China. The expansion of the cotton industry on a local level was mainly due to the reduction in cotton imports from abroad into China, as a result of the war, which provided the stimulus for Chinese businessmen to develop their own manufacturing for cotton goods and led to a strong demand for cotton spinning machinery. In one instance during the war a deal was struck between the British firm, William Kay and Company, represented by John Hetherington and Son and the Yu Heng Cotton Manufacturing Company, to supply 15,000 spindles, with the potential for 15,000 more after the successful delivery of the first instalment. This contract had been fiercely contested by the American company Saco-Lowell, represented by Andersen Meyer. The American combine had hoped to win the order by offering

⁴⁴ Pugach, 'Making the Open-Door Work', p. 12-17.

⁴⁵ Eileen P. Scully, *Bargaining with the State from Afar, American Citizenship in Treaty Port China 1844-1942* (New York: Columbia University Press, 2001), p.145.

⁴⁶ C.F. Remer, *Foreign Investments in China* (New York: Howard Fertig, 1968), p. 264.

⁴⁷ Remer, *Foreign Investments in China*, p. 264.

extremely favourable terms for price and delivery, by citing the fact that they had previously supplied the spindles for another new cotton mill, the new Hua Hsin Company, which had been built nearby. When the Americans were tendering for the firm, they stressed that John Hetherington & Co. would be unable to deliver the machinery within the agreed nine-month period as a result of wartime shipping restrictions. The American firm suggested a penalty clause to be inserted in the contract which would be set at £48 per day in the event of any delay in delivery. The British firm had to accept the penalty clause to secure the order. Competition was fierce, as American firms were using the wartime restrictions hampering British trade, as a pretext to deflect as much of this lucrative trade to themselves and were prepared to use all the necessary tactics to ensure they did so.⁴⁸ It was an unintended consequence of Britain's TWTE legislation that its effects appeared to form part of the motivation for America's change of approach. However, Britain's financial dependence on America during the war meant that little could be done to prevent America's economic offensive in China.

With its trading position under threat from many quarters, the need for Britain to innovate in order to maintain a stake in Chinese commercial affairs, became even more critical. Rose and Ainscough's reports were part of these efforts and provided the inspiration for the British trading community to adopt some of the more successful German commercial methods identified in these reports. They are described below because the German practices they described provided the motivation and a blueprint for the necessary changes that were required for firms to compete more effectively. Even though they were written by British officials, the reports provided insights into the perceived difference in British and German trading practices and at the same time dispelled some of myths and rumours about German trading methods which had circulated in business circles leading up to the war.

⁴⁸ TNA, FO 671/385, 4402/15, letter Fraser to HM Principal Secretary of State for Foreign Affairs, 20 December 1915.

German Trading Methods

There were a number of long-standing grievances amongst British traders, which fuelled the economic offensive against Germany. The level of government support was a key area of contention and speculation. Government assistance was said to be behind the reasons which allowed German traders to run their business operations with fine margins and long credit terms. The liquidation of German businesses in Hongkong provided opportunities for the British to scrutinise how these companies operated and appeared to provide some of the answers. When government officials were winding up the affairs of Jebsen and Co, rumours circulated that they had discovered evidence of a state-aided 'Financial Trust', operating before the war and thought to have been set up specifically to help transfer as much British trade as possible over to German channels. The Trust was said to be the reason why German firms could offer such favourable terms to their Chinese customers, because the alleged 'Financial Trust' picked up any shortfall in finance.⁴⁹ Rose disputed its existence and thought that rebates on transport and assistance with shipping by manufacturers in Germany could have been ways that German traders had been able to offer such competitive terms for business. He did agree that in exceptional cases government financial backing was provided, but only after very careful examination of the contracts by consular officials. In his opinion, having come across many German businessmen over the years, he stated in his reports that generally he did not think they enlisted the support of their consular officials, because they were only too well aware of the need for their business concerns to be successful ventures in their own right.⁵⁰

The views regarding state subsidies were varied, and other companies advanced different reasons for disputing the existence of state subsidies for German trade. Lowe, Bingham and Matthews,

⁴⁹ SOAS, CHAS/MCP/21, Letter H.E. Campbell, Ilbert & Co to F. Anderson, China Association, 29 April 1915, p.14.

⁵⁰ SOAS, CHAS/MCP/21, German and British Trading Methods in the China Market, Enclosure in letter W.J. Glenny, Secretary to the China Association, London to Commercial Intelligence Branch of the Board of Trade, 14 September 1915, Report on German and British Methods in the China Market.

a large British accountancy firm based in Shanghai, blamed bankers in London for giving more favourable terms to German traders than they provided to the British.⁵¹ German traders were said to prefer to use British banks, because they offered more flexible terms than the DAB, which was tightly controlled from Berlin, and where it was felt there was little knowledge about the needs of the local market in China.⁵² These claims about better banking terms being offered to German firms added to the controversy about the alleged pro-German bias of the Hongkong Bank, which its detractors said, was firm evidence of the bank's bias towards German interests.

H.E. Arnhold, the ex-director of the German firm Arnhold Karberg and Co., who, therefore, had some experience of the situation, provided an alternative perspective for the debate, stating that German companies were handicapped in a way that British companies were not, as they were expected to make large 'voluntary' contributions to German schools, the German church, the German Medical School and other German organisations, besides having to pay the heavy registration fees, which were compulsory for companies under German law. Although the 'voluntary' contributions were meant to be left to the individual firm's discretion, any firm not making them was regarded unfavourably by the German authorities.⁵³

A tendency to rely on assumption and rumour had been an important factor in the development of discussions about the level of government support for the German commercial community, but, as is shown by these examples, the situation was more nuanced than was suggested by the more extreme elements of the anti-German lobby. Although it was generally accepted that German traders received more consular support, there was a *quid pro quo*, as German traders were

⁵¹ TNA, FO 228/1949, 148/15, Enclosure, letter Messrs Lowe, Bingham and Matthews, Hongkong to Messrs Lowe, Bingham and Matthews, Shanghai, 8 May 1915 in letter Fraser to Jordan, 18 May 1915.

⁵² TNA, FO 671/385, Report on German Trade in Hong Kong, prepared by T.M. Ainscough, Commercial Intelligence Branch of the Board of Trade, August 1915, p.2.

⁵³ SOAS, CHAS/MCP/23, Vol. XV, Letter H.E. Arnhold to J. Johnstone, Chairman of the British Chamber of Commerce, 27 June 1917 also SOAS, CHAS/MCP/23, Vol. XV, Letter A.W. Burkill, Messrs A.R. Burkill & Sons to J. Johnstone, 3 July 1917.

expected to make contributions to German cultural organisations and pay significant business levies, which presumably was one way of Germany funding better staffed consulates.

Besides the question of government support, there were other factors in the way German traders conducted their trade, which intensified the hostility to the German community. British traders were critical of what they perceived to be the unprincipled way that German businessmen had forced their way into new areas of commerce, often using British expertise and contacts to obtain introductions. It was thought German firms offered cheaper prices and provided much more flexible payment terms. For example, British piece goods were sold in large quantities by German agents to their Chinese customers on long credit terms of six to nine months, sometimes with the assistance of the manufacturer if it was seeking to establish a particular product line. These more favourable credit terms that banks offered to German traders were said, however, to have encouraged wild overtrading which frequently resulted in bad debts.⁵⁴

Although they faced criticism for offering riskier payment terms, German traders defended their actions by stating that they had to be prepared to accept a certain proportion of bad debts, because it was often the only way that they could establish a foothold in the market, as these more flexible payment terms were much more attractive to the Chinese buyers and suited their financial circumstances better. British traders complained that it was only by giving long credits, cutting margins, lowering prices and selling large quantities of goods that they had been able to secure such a significant share of the market.⁵⁵ British traders stated that even if they were willing to do business with as little as one per cent commission, they were frequently underquoted by German traders by as much as five or ten per cent.⁵⁶

⁵⁴ *Department of Trade and Commerce, Canada, Weekly Report, Vol.II* (Ottawa Government Printing Bureau, 1914), 'German and Austrian Trade through Hong Kong', 14 December 1914, pp.2418-2419.

⁵⁵ TNA, FO 671/377,730/15, Letter Fraser to Jordan, 3 June 1915.

⁵⁶ SOAS, CHAS/02/11, letter Fox to Jordan, 5 February 1909, pp.283-284.

German traders had secured a significant share in the arms trade, mainly assisted by the use of German instructors being used to train the Chinese army, but also with liberal use of the 'squeeze' it was claimed by the British trading community. The training of the army on a German model meant that German instructors were well placed to push the purchase of German arms and munitions. Even though British arms and munitions manufacturers did have a share in the market, they were generally distributed by German agencies which contributed to German monopoly of the trade. For example, the leading British arms manufacturer Armstrong Whitworth & Co was represented by the German agents Messrs. Buchheister & Co. The fact that German agencies had managed to dislodge their competitors was allegedly due to the 'squeeze' which in this case was a system of secret commissions and doctored invoices. Doctoring invoices involved the supply of two invoices, each with different amounts, with the difference being the squeeze given to Chinese officials, if the contract was secured. One successful German agent openly admitted that he had to bribe every Chinese official from the Viceroy downwards if he was to secure a contract. The same agent had in fact left a British company because they refused to supply him with funds for these secret commissions.⁵⁷ Further ways to secure business included offering loans to purchase equipment to Chinese officials, although with high interest rates; one story in circulation was that the Governor of Kuangsi, with a 300,000 Tls. shortfall in the Treasury to reconcile, borrowed the money from Carlowitz & Co. at eight per cent interest. He received a proportion in cash, but the rest was in arms and ammunition.⁵⁸

The political department of the German Consulate was rumoured to exploit the instability and divisions in the Chinese government, achieved reputedly by securing large orders through the various provincial authorities, which then ensured that the local Viceroys remained in control of provincial finances. The financial independence of provincial authorities prevented the government in Peking from having central control of government expenditure throughout China, which may have seen the

⁵⁷ SOAS, CHAS/02/11, Circulars Vol.III, Oct 1908-June 1909, Letter Jordan to Grey, 27 February 1909, p.279.

⁵⁸ SOAS, CHAS/02/11, Letter Fox to Jordan, 5 February 1909, p.283.

contracts shared out more evenly amongst other foreign powers, and at more competitive rates.⁵⁹ Many German traders cultivated their relationships, socialising with high ranking Chinese officials and the directors of important commercial operations in the hope of gaining new contracts. Reputable British traders claimed they were not prepared to resort to such practices to gain contracts. They generally kept a distance from their Chinese customers, lacking the necessary language skills and were often disinterested or unfamiliar with Chinese culture.⁶⁰

As time went on and particularly following the publication of Rose and Ainscough's reports British traders had to accept reluctantly that German success in trade was mainly due to the untiring energy of German traders and to their tendency to negotiate more competitive rates, foster better relationships and develop more efficient transport systems, which facilitated their ability to provide more competitive terms.

German Trading Methods – a sober perspective

One of the key methods which Rose and Ainscough both identified by which Germany secured more trading success was with better collaboration between all the various organisations associated with German trade. In Germany the cooperation was not just between German firms and manufacturers but also between manufacturers, banks, railways and shipping companies. Special transport rates were offered for goods transported by rail or water to embarkation points, to help secure contracts for German manufacturers.⁶¹

In German trading operations in China, there was close collaboration between manufacturers in Germany and traders in the treaty ports. Manufacturers provided financial and technical assistance to the trading companies, which were then given the responsibility of finding new markets and

⁵⁹ TNA, FO 371/2331, Letter Arthur John Moore Bennett to Peking Gazette, 25 November 1914.

⁶⁰ SOAS, CHAS/02/11, Letter Ker, Acting Consul General, Tientsin to Jordan, 1 February 1909.

⁶¹ TNA, FO 228/1949, 148/15, Letter Fraser to Jordan, 18 May 1915, see also Hoffman, *Great Britain and the German Trade Rivalry*, p.90.

undertaking the promotion of new articles for sale. In the case of arms and ammunition and the aniline dye trade, where German traders had secured a monopoly, the manufacturer expected the trading house to create a network in the interior for distribution of the goods, which it then helped them to finance. Manufacturers in Germany gave incentives through commissions of approximately five per cent to their agents for the services provided and despatched experts to assist with the work. The agency, with a regular income coming from the manufacturer, was then in a stronger position to explore other trading opportunities at the same time.⁶²

Much emphasis was placed on better training in Germany, which had taken the lead in setting up colleges, specifically geared to commercial training. There was a proliferation of these commercial schools and universities in Germany leading up to the war, which were aimed at raising the profile and social position of the mercantile community. The benefits of the provision of a thorough, practically and theoretically focused education in commercial matters was fully recognised. It gave people entering the commercial world a more sophisticated knowledge and understanding of the economic conditions of commerce and industry in countries both where German interests already existed and where they hoped to expand.⁶³ Particular emphasis was placed on the study of languages to enable better communication with the local communities where German businesses were located.

Germany had been forced to develop a more progressive approach in order to break into the global trading markets, which had been dominated by Britain in the latter part of the nineteenth century. In China, British trading houses monopolised the leading export articles, such as tea and silk, and employed the best compradors, with the widest networks. German traders had to adopt more innovative trading methods to break in and went to great pains to develop what was known as the 'muck and truck' trade, which covered articles such as: piece goods, metals, hardware and sundries.

⁶² G.C. Allen and Audrey G. Donnithorne, *Western Enterprise in Far Eastern Economic Development, China and Japan* (London: George Allen & Unwin, Ltd., 1962), p.45.

⁶³ Cd.2237, No.619, Miscellaneous Series, Diplomatic and Consular Report, Germany, Report on Commercial instruction in Germany, p.45.

In the smaller ports of Tientsin, Hankow, Qingdao and Canton, German traders had expanded the scope of the export trade, by developing new processing techniques for raw materials. Machines for crushing oil-bearing beans and seeds were more highly advanced on the Continent than in Britain and Germans had done more work to learn how to process these raw materials into products that were more saleable in Europe than previously. German firms purchased land in the less popular areas of the Concessions, where land was cheap and equipped themselves with modern plant and laboratories, seed cleaning machinery, installations for purifying oils, tanks for storage and large warehouses for handling the produce.⁶⁴ By adopting a more systematic approach through structured planning and the use of scientific methods, they had secured a stronghold in these areas of trade in these ports.

German traders were said to be more diligent in researching Chinese tastes to find out what was required by the Chinese market. They maintained a close relationship with their Chinese customers and used local knowledge to discover the type of goods which were in vogue. They gave out free samples and ensured that the goods were well finished and attractively packaged whatever the value. Exhibitions for German businessmen interested in the Chinese trade were organised in key German cities such as Berlin, Stuttgart and Frankfurt, giving German manufacturers the opportunity to see the type of goods that they should be developing to increase their exports to China.⁶⁵ German culture was spread in China through the German-run middle schools at Qingdao, Tsinan, Canton and Hankow, together with the Qingdao Hochschule and the T'ung-Chi University of Shanghai.⁶⁶ A carefully planned approach which penetrated every aspect of China's social, cultural and economic structures was seen as the most effective way to expand German economic and political interests in China.

⁶⁴ SOAS, CHAS/A/18, 1915-1916, Report on British Trade in China by T. Ainscough, pp.14-30.

⁶⁵ Hoffman, *Great Britain and the German Trade Rivalry*, p. 172.

⁶⁶ Kirby, *Germany and Republican China*, p.15.

Efforts to Deflect Trade

British traders had to shoulder some of the responsibility for losing ground in the commercial world from the end of the nineteenth century and were widely criticised in consular reports for their alleged complacency and innate conservatism. The reasons, the reports outlined, were that British traders were so well-established, that they had been slow to respond to the changing commercial environment, which had allowed their competitors to develop and secure new areas of trade. In his report, Ainscough confirmed previous criticisms of British trading methods written in consular reports that; British traders tended to stay in Shanghai or, if venturing out, only travelled first-class along well-known routes; they acquired a superficial knowledge of China through their servants and compradors, failing to learn even a few words of Chinese.⁶⁷ They had been reluctant to make new contacts, develop new, more troublesome areas of trade or tap into the trading potential of the interior of China. They were risk-averse, only offering three-month credits, which were less attractive to their Chinese customers. Inevitably British traders defended themselves vehemently against these criticisms.

British traders were not the only target for criticism. British manufacturers were blamed for being too rigid in outlook, failing to study the needs of the market, adapt goods to the changing demand or recognise the need for new marketing techniques. They were said to be reluctant to take on small orders at low profits, to have a certain contempt for their customer's wishes and stubborn insistence on putting old styles and patterns on the market.⁶⁸ There had been little incentive to change because British trade was still prospering, partly because Lancashire cotton goods were still superior to those of other nations, and British trade had always been boosted by the freights earned by British shipping.⁶⁹ Both Japan and America targeted the textile industry with great success during the war,

⁶⁷ SOAS, CHAS/A/18, 1915-1916, T. Ainscough, *Report upon the Conditions and Prospect of British Trade in China*, pp.14-30.

⁶⁸ Hoffman, *Great Britain and the German Trade Rivalry*, p.85.

⁶⁹ NCH, 4 December 1915, pp.688-689, Hoffman, *Great Britain and German Trade Rivalry*, p.80.

undermining Britain's leading position, providing additional incentives to improve Britain's commercial methods.

Having implemented proactive measures such as forming the BCC and expanding the Commercial Attaché service so as to concentrate more specifically on British trade, Commissioned reports such as those by Rose and Ainscough and by W.F Ker, Britain's Commercial Attaché in Peking, had identified areas where British trading methods could be improved and areas of trade which could be developed further. Efforts were made and taken to implement the necessary change.

In London, the Board of Trade actively promoted the campaign to capture German trade and strengthen Britain's trading operations. The Commercial Intelligence Branch of the Board of Trade was the nerve centre, where information on all subjects of commercial interest was collected and catalogued, providing a reference point for traders on commercial matters. The department gathered information on foreign and colonial contracts open to tender and produced lists of companies abroad engaged in particular lines of business. *The Board of Trade Journal* was published weekly and was the primary medium through which intelligence collected by the Board of Trade, and intended for general consumption, was conveyed to the public. Much greater efforts were made by the Board of Trade during the war to provide a useful exchange of commercial information to bring suppliers and purchasers together.⁷⁰

The Board of Trade conducted a series of exchange meetings, displaying samples of successful German goods, with a view to finding British manufacturers prepared to make similar items. To complement these meetings, a British industries fair was organised in Britain in 1915 along the lines of the famous trade fairs held in Germany. It was held at the Royal Agricultural Hall in London and aimed at encouraging British firms to produce goods which had traditionally been imported from Germany and other countries. Samples of British goods, which would compete with the German

⁷⁰ *Board of Trade Journal*, Vol 89, 1915, pp.20-21.

goods, were displayed and only British manufacturing firms were allowed to exhibit. The first fair was attended by 34,000 people, and because of its success, further fairs were held in 1916 and 1917 at the Victoria and Albert Museum and in 1918 and 1919 at the London Docks.⁷¹

The need for better inter-firm collaboration and association was seen as an important way of creating greater efficiency in British trade. Britain had made some attempt to address this issue before the war with the establishment of the British Engineers Association (BEA) in Britain in 1912. The BEA was formed in recognition of the importance of the engineering industry and to act as a propaganda and intelligence organisation for British engineering exporters to China.⁷² It demonstrated the growing awareness by industrialists of the need for organisations which pooled knowledge and expertise to expand and develop existing markets. Its first president was Douglas Vickers, Chairman of Vickers, the leading armament manufacturers.⁷³

In spite of its worthy objectives, the BEA suffered from a number of difficulties from the outset. It was never well enough resourced and only one representative was sent out to China to launch and run the organisation in May 1913, who was not highly regarded in business or Legation circles. Jordan considered that the organisation did more harm than good to British prestige because of the nationalistic line it took which, 'caused intense friction amongst our competitors in China and placed them on their guard against our 'organised attempt to 'push' British material in the Chinese market'.⁷⁴ The office was opened in Peking, but many felt that Shanghai would have been a better choice because most of the important trading firms were located there. The organisation ran into further difficulties because, as it was an organisation claiming to represent British national engineering as a whole, so it could not be seen to promote one firm over the other, with the result that its main focus became

⁷¹ *The Board of Trade Journal*, Vol 89, 1915, pp.18-19.

⁷² Davenport-Hines, *Markets and Bagmen*, p.11.

⁷³ Davenport-Hines, 'The British Engineers' Association and Markets in China', p.115.

⁷⁴ Davenport-Hines, 'The British Engineers' Association and Markets in China', p.119; see also TNA FO 350/13 Jordan to Alston, 18 January 1915.

educating the Chinese to adopt British engineering principles and machinery and persuading them to purchase British products. As the two key factors for Chinese buyers were the product's price and the credit terms available, this proved to be an uphill struggle.⁷⁵ In a letter to *The Times* A.J. Moore Bennett, a businessman in China, contrasted the BEA, to a German set-up consisting of three chief German engineering agents, which possessed over sixty fully staffed offices where European expert assistants were employed, besides having some twenty or more offices where an intelligence department, run by Chinese compradors, was maintained. In addition, loan accounts were kept especially for the convenience of highly placed Chinese officials. He stated that unless Britain was prepared to run an organisation, which was as strong as its rivals, it would never be able to compete effectively.⁷⁶

During the war engineering projects were recognised as an important area for development and that significant investment was needed to combat the ever-growing competition from German and American firms. Ker outlined what actions he considered were required to gain these lucrative projects. He stressed that agents needed to be appointed who had a working knowledge of the individual provinces they covered, and it was essential for technical experts to be sent out by manufacturers who had a practical knowledge of engineering. They needed financial assistance to meet preliminary expenses and had to be prepared to extend credits to trustworthy Chinese customers. Quotations should be inclusive of cost, insurance and freight, clearly stating the time of delivery and terms of payment. There should also be a ready supply of attractive catalogues, samples if possible and working models of special machinery. To compete effectively with German and American firms, there was a need to go to great lengths and accept considerable financial risks to establish a firm foothold in the market.⁷⁷

⁷⁵ Davenport-Hines, 'The British Engineers' Association and markets in China', pp.111-116.

⁷⁶ *The Times Engineering Supplement*, 26 November 1913, p.24.

⁷⁷ *Board of Trade Journal* 1915, Vol 91, p.755.

Although the BEA had inauspicious beginnings, organisations which pooled knowledge and expertise were recognised as the way forward, provided they could be effectively run.⁷⁸ A similar organisation, the British Electrical and Allied Manufacturers Association was established in 1911 and the Federation of British (FBI) industries in 1916. In a post-war initiative, the FBI in their planned trade war to capture German international business hoped to coordinate an effort which would give British traders the right to develop factories outside the treaty ports, but the civil war in China prevented it coming to fruition.⁷⁹

Although initiatives to develop better trading practices were promoted during the war to strengthen British trade, the opportunity to recover trade from German firms was also considered to be a way of expanding and bolstering Britain's trading interests. One of the key revelations once war broke out was that German agents were the main distributors of British goods in China which surprised and shocked the British trading community. Manchester piece goods represented one third of the total foreign imports of foreign goods into China, which had mainly been distributed by German agents. The Consular authorities and the China Association went to considerable lengths to address this problem by using the opportunities the war provided to help British firms displace these agencies. Lists of British firms, which could be suitable replacements for German agencies, were circulated in British Consulates in the treaty ports.⁸⁰ There was keen competition amongst British companies to take up these lucrative roles, but British manufacturers were often measured in their response as many of these agencies had been offered to British firms before but been turned down. Furthermore, they found the more forceful sales techniques of their German agents in China achieved more profitable results than their British counterparts. British firms had to convince manufacturers in Manchester that

⁷⁸ TNA, FO 350.13, Letter Jordan to B. Alston, 18 January 1915.

⁷⁹ Davenport-Hines, 'The British Engineers' Association and markets in China', p.121.

⁸⁰ TNA FO 671/377,113/15 List of British firms as substitutes for German, enclosure in letter Anton, Chairman of the China Association to Fraser, 14 January 1915.

they would be as efficient as their German counterparts, which proved to be more difficult than anticipated, which is shown by the example of J.P. Coats and Co.⁸¹

J.P. Coats and Co. was a large British based thread company, which had always employed the German firm, Carlowitz and Co., as its agent in Shanghai. The agency role had originally been offered to British firms, but they had refused the business on the basis that they were not prepared to deal in smaller items, which they felt would not be profitable.⁸² Although the company was based in Britain, it had strong German connections, not only through contacts in Germany but through its German director, Otto. E. Philippi, who was responsible for sales in domestic and foreign markets.⁸³ Allocation of the agencies was controlled by the Central Thread Agency Co. Ltd. (CTA) in Britain, again under German influence, which was reluctant to make any changes unless absolutely necessary.⁸⁴ Uncertain of a successful outcome, Jardines made great efforts to take over the agency, not only by using private contacts, but by sending a representative to the CTA's offices in Glasgow to meet with its German secretary, Mr Vogilsang. The CTA was non-committal as it was sending its own representative, W.F. Wenyon, out east to research the options available and was not prepared to make any decision until it received his report.⁸⁵ When a contact from Jardines met up with Wenyon once he reached Hong Kong, he indicated that he was sure Jardines would gain the agency once it had been cleared with Carlowitz and Co. Jardines learnt later that Wenyon under instructions from the CTA opened an office and warehouse in Shanghai on their behalf. The CTA were reluctant to hand over the agency to a

⁸¹ Foreign Trade in China in 1914, Canada: *Department of Commercial Intelligence Journal, Weekly Bulletin*, published by the Department of Trade and Commerce for six months ending 30 June 1916, Vol.14, p.712, see also TNA FO 228/1949, 56/15, Letter Jordan to Foreign Office undated.

⁸² TNA, FO 671/385, Letter, H.E. the Governor of Hong Kong F.H. May to H.E. Minister, China, J. Jordan, 21 July 1915.

⁸³ Kim Dong-Woon, 'From a Family Partnership to a Corporate Company: J & P Coats, Thread Manufacturers', *Textile History*. 24 (1994), pp.193-195.

⁸⁴ MS, JM J1/1/7, Letter 1101, London Office to David Landale, Hong Kong 17 September 1914.

⁸⁵ MS, JM J1/1/7, Central Agency Limited, enclosure in letter 1107, London Office to Landale, 30 October 1914

British concern and made alternative arrangements during the war, waiting until Carlowitz and Co could resume the agency once the war came to an end.⁸⁶

The case of J.P Coates highlights the difficulties of replacing German agencies. Even though British companies were encouraged to apply for these roles, many British manufacturers had long-established, successful relationships with their German agents, which they appeared reluctant to relinquish easily. Manufacturers came under greater pressure as the war progressed to move to British agents, but many remained unconvinced that British firms would be as efficient or look after the firm's best interests as well as their German counterparts. Companies such as J.P. Coates, with such strong German influence, developed strategies which enabled them to preserve their business interests for the duration of the war, which meant that they could resort back to their German agents once the conflict was over.⁸⁷

The war provided opportunities for British companies to gain expertise in areas of trade where Germany had secured a monopoly by taking on British ex-employees of German firms. Many British employees left their German employers of their own accord when war broke out, but others were forced to leave when the stricter TWTE legislation was introduced in June 1915. Consular officials and British firms could see the potential of these highly skilled ex-employees for providing an insight into the business affairs of German firms. For example, Jardines was looking to develop an engineering branch to expand its business operations and in 1915, after much deliberation, it was able to appoint G.S. Aveyard, a British ex-employee of the German firm Telge and Schroeter (T & S). Aveyard was an engineering expert who had worked for nine years with the rival firm. Aveyard insisted on being employed on the same terms as with his previous employer and being allowed to bring his own Chinese staff. Although his methods of securing business and ideas about remuneration were contrary to Jardines normal business practices, the managers were prepared to be flexible because they were

⁸⁶ MS JM J1/24/11, Letter Johstone to Landale, 18 June 1915, see also *Directory and Chronicle* 1918, p.743.

⁸⁷ MS, JM J1/22/3, Letter D. Landale to H. Keswick, 12 November 1914.

impressed with his depth of knowledge and experience of the industry which they felt would help them break into this new area of trade.⁸⁸

T & S had handled a large business in the trade of both machinery and war munitions which Aveyard had helped them build up. In line with Ker's recommendations about the way to secure contracts in the engineering field, he had visited most of the provincial capitals and centres of industry in the deep interior of China. He was on good terms with high-ranking Chinese officials who were likely to place contracts and, although he had some knowledge of Chinese, if he was exploring different areas of the country, he always made sure he took an interpreter, who was able to communicate in the local dialect with the people from the region. He had a sound knowledge of the engineering industry and of the German firm's business methods, which he was prepared to share with Jardines.⁸⁹

Taking on Aveyard proved to be successful. He chaired the engineering sub-committee of the BCC⁹⁰ and, under his guidance, in February 1923, Jardines formed a private engineering company known as the Jardine Engineering Corporation Limited, which was organised and managed by him. In recognition of the benefits of learning Chinese, the knowledge of the language was stressed as an important requirement for employees working in the new company.⁹¹ Under normal circumstances, the possibility of taking on employees such as Aveyard would be virtually non-existent, because they were well looked after and handsomely remunerated by their German employers, but the war offered unexpected opportunities for British firms to take on experienced ex-employees of German firms and gain an insight into how these successful firms operated.

Opportunities arose across the market. For example, the aniline dye trade was an area monopolised by German traders. In China, it had largely been in the hands of the German firm Ehlers & Co., which was the agent for Badische Anilin and Soda Fabrik of Ludwigshafen in Germany. In 1913,

⁸⁸ MS JM J1/24/11, Letter Johnstone to Landale, 2 July 1915.

⁸⁹ MS JM J1/24/11, Report on the engineering possibilities in China: methods of German firms.

⁹⁰ *British Chamber of Commerce Journal*, 1918, p.15.

⁹¹ *NCH*, 3 March 1923, p.585.

imports of aniline dyes represented nearly £1,500,000 in value and virtually all came from Germany.⁹² Ehlers & Co. was sold to a Chinese combine during the war and the supply from Germany virtually ceased, which contributed to a sharp increase in prices. There were therefore opportunities to deflect trade as recognised by a Japanese combine which was also buying up all available stocks in the treaty ports, hoping to corner the market and take control of the trade.⁹³ The British government recognised the threat of Japanese competition and actively encouraged firms to break into this lucrative trade, offering financial incentives to encourage them to do so.⁹⁴ G.A. Haley, a British technical expert in aniline dyes, who had formerly worked for Ehlers & Co. but was dismissed during the war, contacted Fraser to see if he knew of any British firm which would offer him employment. Fraser made great efforts to find him a post to ensure good use was made of his expertise and knowledge of the workings of the German firm. A Manchester based firm, Levinstein Ltd offered him employment and in 1916 he was sent back to China to represent the company.⁹⁵ The firm was taken over by the British Dyestuffs Corporation (BDC) in 1919. In December 1919 Brunner Mond, a leading international firm was appointed their sole agent and Haley became the BDC representative in Shanghai. He played an active role in the British business community, joining the BCC on behalf of the BDC in 1920 and becoming a member of the BCC's chemical sub-committee.⁹⁶ He had a long, successful career in the industry, and was appointed to the Board of ICI in 1928, after Brunner Mond became part of ICI in 1926, and he eventually retired in 1948.⁹⁷ The chance to poach competent ex-employees of German firms proved to be successful as the example of Aveyard and Haley shows, because it gave companies the

⁹² 'Foreign Trade in China 1914', *Department of Trade and Commerce, Weekly Bulletin*, Monday 3 April 1916, No.636, Vol.14 (Ottawa: Government Printing Bureau), p.718.

⁹³ TNA, FO 671/385, Letter Fraser to Jordan with copy to the Board of trade, 532/15, 19 May 1915.

⁹⁴ MS, JM J1/24/10, Letter C.E. Anton to Keswick, 15 January 1915.

⁹⁵ TNA, FO 671/385/4639/15, letter G.A. Haley to Fraser, 30 December 1915.

⁹⁶ *British Chamber of Commerce Journal*, 1920, p.161 and 1923, p.245.

⁹⁷ Patrick Brodie, *Crescent Over the Cathay, China and ICI, 1898 to 1956* (Oxford: Oxford University Press, 1990), p.234.

opportunity to use their knowledge to gain greater insight into industries which were dominated by Germany, with the aim of establishing a firmer foothold in these expanding industries.

The other trade which was targeted during the war was the supply of electrical plant, which continued to have vast potential in a country the size of China. Electric light first appeared in China in 1878 and dazzled both the foreign and Chinese communities. With lights illuminating every building and public space, Shanghai became a city that never slept. The competition for electrical installations from local authorities and private companies was endless as demand moved from beyond the foreign enclaves to the cities and scattered villages in the rest of China.⁹⁸ The trade was dominated by German Siemens China Electrical Company, which had been established in 1909. It expanded rapidly, opening sub-offices in Hankow, Tientsin, Peking, Qingdao, Canton and Hong Kong and employing a large staff of trained electrical engineers. It was widely known in business circles that the company worked hard to become the leading supplier of electrical machinery and supplies in China. To try and secure a monopoly in this lucrative market, they published their own journals which were attractively laid out, with details of projects recently carried out, well-illustrated and translated into Chinese. It was just what was required to attract Chinese customers and to secure orders, Siemens was prepared to carry the up-front costs of financing entire contracts.⁹⁹

British firms, with their German rivals compromised, realised the potential of the market, and managed to secure contracts during the war for installations of electric light in the cities of Soochow, Changchow and Yangchow in the province of Kiangsu and for Ningpo in the Province of Chekiang, and they also supplied a large number of smaller projects. Although having secured the contracts, the ability to supply the machinery on time, was hampered by the wartime conditions. There were ongoing

⁹⁸ Dikötter, *Things Modern, Material Culture and Everyday Life in China*, pp.133-148.

⁹⁹ TNA, FO 671/385, Report by Mr T. Ainscough, Opportunities for the extension of British trade and influence in the Province of Hunan, Board of Trade Advisory Committee on Commercial Intelligence, Commercial Mission to China 1915, p.2; see also TNA, FO 228/385, 222, Report by T.M Ainscough, opportunities for the extension of British trade and influence in the province of Hunan, 1915, pp.2-3.

delays because of continuing shipping shortages and Government contracts in Britain, taking preference.¹⁰⁰ The Foreign Office was notified of the situation in the hope it could assist, because the need to reassure the Chinese of the reliability of British contracts was vital in the face of much greater competition from other countries such as America which was also bidding for these lucrative contracts.

While the economic war itself decreased the ability of German business to trade and provided opportunities for British firms to fill the gaps and take on expertise from ex-employees, there was a recognition following Rose and Ainscough's reports in particular that British business needed to make more fundamental changes in their approach.

The need for better communication was emphasised and the knowledge of languages was continually flagged up as a significant factor which gave German traders a leading edge. It was an area where British traders trailed behind, because many traders were often not interested in learning Chinese and thought it was too difficult.¹⁰¹ They left negotiations with Chinese customers to their compradors and tended not to give much priority to learning the language. It was considered an important area to develop and a sub-committee of the British Chamber of Commerce was created to explore the possibility of setting up a language school for the study of Chinese.¹⁰²

There was already an established language school in Shanghai, which had been set up by the company British American Tobacco (BAT). Employees of the company were expected to have a sound knowledge of the language, as many of BAT's operations were in remote areas of China. Their continued employment in the firm was only guaranteed if they acquired a level of competence within a certain time frame. The company offered to transfer the nucleus of the school over to the BCC and assist with setting it up. The British Language School was therefore opened by Fraser on 20 January

¹⁰⁰ TNA, FO 671/385,3474/15, Letter GEC to A. Rose, 9 November 1915.

¹⁰¹ Robert Bickers, 'Who were the Shanghai Municipal Police and why were they there? The British recruits of 1919' in Robert Bickers and Christian Henriot, (eds.), *New Frontiers, Imperialism's New Communities in East Asia, 1842-1953* (Manchester: Manchester University Press, 2000), p.172.

¹⁰² *British Chamber of Commerce Journal*, 1 October 1915, p.21.

1916, with Rose in attendance, a show of consular support for the new venture. Fraser was fully aware of the benefits of learning Chinese, as unusually for the time, he had studied Chinese and Chinese culture, which he felt gave him greater insight into the country where he worked and better skills to communicate with Chinese officials. The new school was backed by the business community and sixty students were initially enrolled to study Mandarin. Classes about Chinese customs, thoughts and manners were made part of the curriculum to provide students with greater insight into Chinese culture.¹⁰³

Companies such as BAT, the Standard Oil Company and the Asiatic Petroleum Company recognised the importance of encouraging employees to develop language skills because they had built up an extensive and efficient network of branches and Chinese agencies in the remoter parts of China. The knowledge of Chinese had helped employees form much closer relations with their Chinese customers, which had facilitated the development of the networks. Other companies soon realised the importance of learning Chinese as a way of strengthening their business operations, and with the new language school in place, firms such as Jardines and Swires set up incentivising schemes to encourage their employees to learn Chinese.¹⁰⁴ Jardines' employees were given three years to acquire a good working knowledge of the language and to pass their exams and by April 1916, Jardines had twelve men studying at the school. Keen to encourage young and junior members of staff to learn Chinese in other treaty ports, where there was no language school, Jardines' proposed to refund the employees the expenses they incurred for a teacher of approximately 15/20 Tls. per month, provided they were able to pass their exams within a three-year period and acquire a good working knowledge of the language.¹⁰⁵ Employees, having a greater knowledge of Chinese, would allow other companies to

¹⁰³ *British Chamber of Commerce Journal*, 1 February 1916, p.108.

¹⁰⁴ J1/24/13, Letter Johnston to Keswick, 13 March 1916.

¹⁰⁵ J1/24/14, Letter B. Anton to D.R. Mackenzie, Peking 17 July 1916.

follow BAT's lead in exploring trading opportunities in the remoter parts of China which had been identified in Ainscough's reports as an important area of trade to develop.

As the review of Britain's trading position in China became more far reaching, it focused on more innovative ways to promote British influence. It was widely felt that significant benefits accrued from promoting educational and vocational training for Chinese students as a means to further Britain's business interests. It was a subject which had been broached at the inaugural meeting of the British Engineers Association in 1912 and was reconsidered during the war.¹⁰⁶ The growing importance of American influence, for example, was thought to be a direct result of large numbers of Chinese students being sent to America for educational purposes.¹⁰⁷ The Americans had remitted a portion of the Boxer Indemnity on condition that it was used to fund Chinese students to study in America.¹⁰⁸ Providing education not only fostered good relations with the Chinese authorities, but also, when Chinese students returned to China, they usually occupied important political and commercial positions. Trained in American ways and well-versed in American manufacturing and commercial methods, they were more inclined to recommend American products for any future projects.

Very few Chinese students were educated in Britain because the bureaucracy to arrange it was too cumbersome, unlike the easy-going system that operated in America. There had also been resistance to allowing Chinese students into manufacturing works in Britain for training purposes because of concerns that, if they acquired too many skills, it might be detrimental to British interests. The British Chamber of Commerce in Shanghai made the education of Chinese students in Britain a special priority because the hidden benefits of this cultural exchange were widely acknowledged.¹⁰⁹ It was not until 1922, however, that the British implemented a similar policy to America. A China

¹⁰⁶ SOAS CHAS/A/6, Speech, British Engineers' Association Inaugural Dinner 3 December 1912.

¹⁰⁷ Bickers, *Britain in China*, p.144.

¹⁰⁸ SOAS CHAS/MCP/26 Vol XVIII, Letter Anderson to Under Secretary of State for Foreign Affairs, 7 October 1920.

¹⁰⁹ *British Chamber of Commerce Journal*, 1915, pp.45-46.

Indemnity (Application) Act was announced in 1922 and passed into law in 1925, which allowed for receipts from the Boxer indemnity to be used for educational and other purposes of mutual benefit to Britain and China.¹¹⁰

Britain was realising fast that it was no longer possible to rely on old-established trading practices, which had served the British commercial community so well for so many years. Providing education and training for Chinese students not only improved Anglo-Chinese relations but had proved to reap handsome rewards as America and Germany had already shown.

Conclusion

Germany was still way behind Britain in terms of its percentage of trade in China leading up to the war but had made significant progress in securing a monopoly in certain areas of trade, causing much bitterness in British trading circles. The war provided the impetus for an in-depth review of Britain's trading position in China and detailed reports commissioned during the conflict revealed the reasons behind German success, which were recognised as being mainly the result of better collaboration between the German government, the banks, the railway and the shipping companies, reducing costs and increasing efficiency. Having identified key areas of trade, and actively supported by their well-staffed consulates, German traders, with a more systemised approach, had managed to break into the established trading environment, which had been mainly the preserve of British traders. Venturing out into the interior, equipped with a sound knowledge of Chinese, they worked hard to discover the tastes of their Chinese customers, forming closer links and networking with high-ranking Chinese officials to secure orders whenever and wherever they could.

The war provided opportunities for British traders to recover trade from their German competitors. Proactive measures such as forming the British Chamber of Commerce in Shanghai and

¹¹⁰ Bickers. *Britain in China*, p.144.

other treaty ports assisted them with this process, by creating a greater sense of national identity, with the aim of promoting purely British trading interests. The appointment of an additional Commercial Attaché in Shanghai provided a greater level of consular assistance to help the British commercial community develop more efficient trading techniques and to deflect German trade into British hands. The carefully researched reports that were commissioned during the war identified the need for closer collaboration in order to bring manufacturers, distributors and technical experts closer together and create a stronger more effective system to maximise trading opportunities. The drive to modernise Britain's trading techniques and operations was thought even more essential in response to the much greater competition from America and Japan which was taking place during the war.

Exploring the possibility of expanding trade into the interior became a key focus for development which relied on better communication with Chinese officials and the business community. The necessity of learning Chinese was therefore given a high priority, which saw the British Chamber of Commerce establishing the Language School in Shanghai. Well supported by local companies looking at more innovative ways of conducting trade, employees were actively encouraged to learn Chinese to communicate more effectively and create closer networks, with their Chinese customers. In a departure from past practices, the benefits of sponsoring Chinese students to study in Britain was seen as a more innovative way of promoting and spreading British influence. To assist with the review and modernisation of Britain's trading operations, great efforts were made by consular officials and the Board of Trade in London to provide more detailed information about future trading opportunities and prospects, in the knowledge that once the conflict was over, German firms would re-enter the market with even greater zeal than before. Every opportunity was taken to continue the assault against German trade which was made considerably easier once China declared war against Germany in August 1917.

Chapter 4: China enters the war on the Allied side

The question of Chinese participation in the war on the Allied side was discussed as early as 1915 amongst the Allies, fuelling rivalries and debates about what contribution China could make to the war effort and what each power could gain from its involvement.¹ The Allies' hand was forced, however in February 1917, when America encouraged neutral countries, to break off diplomatic relations with Germany owing to its renewed submarine campaign. China's decision to break relations with Germany was made easier as, on 24 February 1917 the French ship *Athos* was sunk in the Mediterranean by a German submarine, with the loss of 543 Chinese labourers who were on their way to work behind the lines in France.² Paul Reinsch, the American Minister in Peking, launched an intensive campaign for Chinese involvement in the war. Chinese government officials in Peking finally agreed to sever relations with Germany on condition that Reinsch honoured their request for greater financial assistance, and with the provision that they would be able to have full participation at the Paris Peace Conference. In addition Reinsch made assurances to assist China with strengthening its sovereignty, by restricting further growth of special privileges and spheres of influence.³ China broke off relations with Germany on 14 March 1917 and subsequently declared war on 14 August 1917.⁴ From Britain's perspective, China had little to offer the Allies at this stage of the war, because of concern about an escalation of events that might weaken Britain's long-term prospects and position in China.⁵ China was already providing a Chinese labour force of approximately 175,000 to help the supply lines on the Western Front, and previous attempts by the Allies to tap into China's vast pool of

¹ There is extensive literature on this topic, see Jones, 'Britain's Search for Chinese Cooperation', Chapter 7; Christie, 'The Problem of China in Britain's Foreign Policy', Chapter 1; Xu Guoqi, *China and the Great War, China's Pursuit of a New National Identity and Internationalisation* (Cambridge: Cambridge University Press, 2005).

² La Fargue, *China and the World War*, p.98.

³ Jones, *Britain's Search for Chinese Cooperation*, p.204.

⁴ Robert T. Pollard, *China's Foreign Relations, 1917-1931* (New York: The Macmillan Company 1933), p.36.

⁵ Jones, 'Britain's Search for Chinese Cooperation', p.198.

resources to support the war effort, had come to naught, due to diplomatic disagreements amongst the Allies, and continual internal strife amongst Chinese government officials. Although British officials in London were lukewarm about China's declaration of war, the British trading community had maintained a strong campaign to strengthen actions against Germany, which, in spite of Britain's economic wartime measures, was still managing, as we have seen, to maintain a commercial presence in China. Ongoing concerns about China being used as a safe haven by German and Indian nationalists, combined with reports of German atrocities in Europe and seditious activity against the Allies in China, united the Allied foreign community in their demand for tough measures to be introduced against enemy nationals in China.

This chapter argues that although, after China declared war, it appeared British officials had greater legitimacy to exert pressure on the Chinese government to remove German political and commercial influence, British action was still restricted by its informal presence, which had to take account of Chinese sovereignty and required the general agreement of the Allied and Neutral powers. To show the difficulties Britain faced, this chapter will first explore Chinese agency, which once China severed relations with Germany, was greatly increased by having to take control of the German concessions in Hankow and Tientsin. It will then look at the agency of the Allies, who after much discussion, agreed in principle to grant China a number of financial benefits for its participation in the war but in return made certain demands and finally it will examine British agency. Britain was the driving force behind the assault against German business interests and initiatives such as the repatriation policy for German nationals which were introduced, aimed at bringing its economic war to a successful conclusion, but it discovered despite still being the dominant power in China, it was far from a straightforward process.

Chinese Agency

Both China and the Allies conducted the negotiations for China's entry into the war with a view to securing maximum advantage for themselves. On the Chinese side, apart from wanting to be part of the peace process, they sought material and diplomatic assistance from the Allies. It was Nishihara Kamezo, a Japanese government official, who in February 1917, influenced China to present the Allies with a list of financial requests in return for declaring war against Germany. These demands were, the suspension of the Boxer indemnity installments for ten years, a revision of the customs tariff and cancellation of the provisions of the 1901 protocol relating to Legation guards and to the exclusion of Chinese troops from Tientsin.⁶ On the Allied side, they saw China's entry into the war as giving them greater legitimacy for the total destruction of German business enterprise in China and for the deportation of all German residents from the country. A collective note was issued on 8 September 1917 agreeing to Chinese demands but in return for these concessions, the Allies made efforts to influence the steps taken by Chinese officials against German nationals in Shanghai and China more broadly. Their requests included, no further trading between Chinese traders and enemy aliens; the internment of enemy aliens identified by the Allied Legations; the sequestration and liquidation of enemy firms; the reorganization of the former enemy concessions in Tientsin and Hankow into a type of international concession; and, subject to payment to the Chinese authorities, the handing over of interned enemy vessels.⁷

The Chinese Government was only partially in agreement with Allied demands, making a measured response to matters concerning TWTE and the sequestration of German firms by, for example, agreeing to take over enemy commercial firms, only if, 'where a Chinese inspection has

⁶ Madeleine Chi, *China Diplomacy, 1914-1918* (Cambridge, Massachusetts: Harvard University Press), p.131.

⁷ John V.A. MacMurray (ed.), *Treaties and Agreements with and concerning China 1894-1919, Republican Period (1912-1919)*, Vol 2 (New York: Oxford University Press, 1921), p.1376.

shown that they (the enemy commercial and industrial establishments) should be closed, they will be closed, and officials appointed to administer them'.⁸

Although China declared war and was fully prepared, in principle, to support the Allies, political instability throughout the country limited its ability to play its part. The decision of whether or not to enter the war had left the nation divided. Chinese businessmen were concerned about the disruptive effect the war would have on their business activities, and Chinese political elites argued that the new republican political structure was too fragile and unstable to gain equality with other nations or to uphold International law if it joined the Allies.⁹ Chinese officials were inexperienced in dealing with questions of control over the movements, activities and trade of enemy subjects, which were made more complex by the existence of extraterritorial rights.¹⁰ The Chinese faced constant criticism and interference from the Allies, who were generally dissatisfied with measures they suggested to target German business affairs and also became increasingly concerned at the greater agency China gained from its entry into the war.

An immediate consequence of severance of relations with Germany in March 1917, was that the German Legation in Peking was closed down, Legation staff were handed their passports, and the extraterritorial rights of German and Austro-Hungarian subjects were terminated. Of further significance, following the expulsion of Admiral von Hintze (1915-1917), the German Minister on 14 March 1917, the Chinese local authorities, under instructions from the Peking Government, took over the administration of the German Concessions in Hankow and Tientsin, to which was added the Austro-Hungarian Concession. These concessions had been under control of the Chinese authorities since China severed relations with Germany in March 1917. In March, they issued new regulations for their

⁸ Pollard, *China's Foreign Relations 1917-1931*, p.40-43.

⁹ Guoqi. *China and the Great War*, pp.204-222; Ghassan Moazzin, University of Cambridge, 'From Globalisation to Liquidation: The Deutsch-Asiatische Bank and the First World War in China', *Cross-Currents: East Asian History and Culture Review*, E-Journal: 16 (September 2015), p.56.

¹⁰ TNA, FO 405/222, Letter Balfour to Green, 24 November 1917, p.171.

administration, and on the legal status of enemy subjects still living in the Concessions. They became designated Special Areas, and a temporary bureau for the Provisional Administration of the Special Areas was set up, which was run by a Chief of Bureau, appointed on the recommendation of the Ministry of the Interior. He was in charge of the Municipal Council, the police force and any new resolutions passed by the ratepayers had to have his approval. All other rules and regulations governing the administration of the areas were maintained, with the exception of those which conflicted with the laws, rules and regulations already in force in China.¹¹ The Chief of Bureau, in effect, took control of all aspects of their administration previously carried out by the German Consul, including policing the foreign community.

The Allies were disturbed by this show of independence and certain Allied Ministers pushed to have the German concessions placed under Allied administration to be run on similar lines to the International Settlement at Shanghai.¹² The Allies were concerned that the Chinese police had jurisdiction over the German residents, who still remained in the concessions, but the Chinese insisted on keeping control of the administration. Chinese action unsettled the Allies, who were nervous that their privileged position would be undermined by this limited reinstatement of Chinese sovereignty.¹³ They were concerned that it would break the system of extraterritoriality and other unilateral privileges on which they believed their safety and prosperity depended.¹⁴ The Chinese authorities were reluctant to respond to Allied concerns and promised that the concessions would be reorganized as 'Model Voluntarily Opened Sino-Foreign Trade Marts'.¹⁵ A Trade Mart was a mart, which was opened to foreign residence and trade by China, for example there was a Trade Mart outside the city of Tsinan which had been opened to foreign trade and residence by the Chinese government in 1906.

¹¹ MacMurray ed. *Treaties and Agreements with and concerning China 1894-1919*, p.1370.

¹² TNA, FO 405/222, No.82, Balfour to Alston, 18 March 1917.

¹³ Christie, 'The Problem of China in British Foreign Policy', p.43.

¹⁴ La Fargue, *China and the World War*, p.104.

¹⁵ Pollard, *China's Foreign Relations*, p.42.

Foreigners lived in a settlement outside the city administered solely by Chinese officials, giving the Chinese much greater authority over foreigners.¹⁶

Once China declared war in August 1917, the Chinese authorities published regulations, determining the organization of these special areas and the name of the bureau for their administration was changed to a Bureau for Municipal Administration of the Special Areas. The Italian Minister in Peking, Baron Aliotti, hoped to profit from the new situation by suggesting that the former Austro-Hungarian Concession at Tientsin should be added to the adjoining Italian Concession. When word leaked out about his suggestion, he defended his proposal by saying it was only a request, not a demand.¹⁷ British officials could see the advantage of incorporating the German Concession into the British Concession in Tientsin, in the hope of acquiring greater water frontage to provide increased wharf space for shipping. The aim was that it would assist with a possible post-war trade revival which they were hoping would take place. It was decided, however, not to pursue the matter because they thought that it was unlikely that the Chinese authorities would agree to the proposal and it could trigger similar claims from other powers.¹⁸ The Allies were always looking opportunistically to make any gains they could but were careful not to escalate a situation which they might not be able to control or might work out to their disadvantage.

The question of the judicial rights of German nationals living in China following the departure of Von Hintze, raised complex legal issues. The treaties agreed between Germany and China accorded special political rights to the German government which were exercised by their consular representatives in China over German nationals. Chinese officials were hoping to take over full jurisdiction of Germans, but were limited by the fact that, although a few modern prisons had been built across the country, a modernized legal system was still in its infancy. In addition, Chinese officials

¹⁶ Eric Teichman, *The Consular Officer's Vade Mecum*, pp.8-12.

¹⁷ Pollard, *China's Foreign Relations*, p.39.

¹⁸ SOAS/CHAS/MCP/25, Vol XVII, Memo, F.A. Anderson, 15 March 1919.

were concerned that if the Allies did not approve of the provisions they made for jurisdiction over German nationals, the Allies could use their reservations as an excuse to further delay China's demands for the removal of extraterritoriality and foreign privileges. In Article 12 of the Mackay Treaty, 1902, Britain undertook 'to be prepared to relinquish its territorial rights when it was satisfied that the state of Chinese laws, the arrangement for their administration, and other considerations warrant her doing so', which meant China was always working towards that goal.¹⁹ The Chinese Government finally agreed to a compromise, whereby if there was adequate provision, that certain crimes would be handled by a modern Chinese court, but the rest would be handed over to the Dutch Government, which was already looking after German interests. The Dutch Minister, Frans Beelaerts van Blokland, assumed control of German interests from March 1917.²⁰ The Chinese authorities were keen to stress that this arrangement was a favour rather than a legal obligation, as International law made no provision for the handing over of consular jurisdiction to another state.²¹

Once China declared war, the problematic situation regarding enemy employees in organisations such as: the Chinese Maritime Customs Service, the Salt Gabelle and the Post Office became more straightforward, as all German staff of the Chinese State were dismissed in 1917. The loss of 146 German and Austrian CMCS employees, along with the 102 who had already left for various reasons, depleted the customs service and removed one of its most influential and hard-working contingents, which affected its general efficiency and day-to-day running. Sir Francis Aglen, Hart's successor as Inspector General had some sympathy for German employees and was saddened to see such a loyal contingent of staff dismissed, as many of them were long-serving and trusted employees.²² Numerous British customs' staff had also left as military volunteers, depleting the service further. To Aglen's dismay, the vacant spaces were rapidly filled by Japanese nationals whom he saw as being

¹⁹ Teichman, *Vade Mecum*, p.3.

²⁰ Moazzin, 'From Globalisation to Liquidation: The Deutsche-Asiatische Bank and the First World War, p.59.

²¹ Pollard, *China's Foreign Relations*, p.24; La Fargue, *China and the World War*, pp.103-104

²² *NCH*, 18 August 1917, p. 369. See also Ladds, *Empire Careers*, p. 48.

keen to exploit the opportunities the war presented to promote and strengthen their trading interests. To try and fill the gaps, Aglen did make greater use of the Chinese customs staff albeit in the less prestigious administrative and secretarial positions.²³ Concerned at the number of Japanese customs' staff joining the service, Aglen turned to Jordan to seek his help to try and limit the exodus of foreign personnel to prevent unwelcome Japanese penetration of the service and protect British influence. British dominance of the service had been jealously guarded but Japan, using the Allies preoccupation with the war in Europe, actively sought to strengthen its influence over the Chinese government and its institutions, at the expense of the Allies.²⁴

Chinese agency during the war was challenged on many accounts but mainly because it was a deeply divided nation and also through having to cope with the strong foreign presence which pervaded many of its institutions. The foreign powers judged China by its own standards and were critical of the measures implemented by the Chinese authorities against German nationals. However, China showed remarkable resistance to Allied pressure and was keen to assert and retain the authority which it had unexpectedly acquired.²⁵

Allied Agency

Although each nation fiercely protected its own national identity and interests, in times of crisis the foreign powers knew the importance of working more closely together. Communicating more closely became even more crucial once China had declared war as decisions were needed about how to respond to Chinese demands for its participation and how to ensure it implemented effective measures against enemy nationals. When discussing the concession of the postponement of the Boxer indemnity payments for five years without interest, the Allies were divided about the proposal because

²³ Documents Illustrative of the Origin Development and Activities of the Chinese Customs Service, p.412.

²⁴ Robert Bickers, 'Anglo-Japanese Relations and Treaty Port China: The Case of the Chinese Maritime Customs Service', in A. Best eds. *The International History of East Asia 1900-1968* (London: Routledge 2010), pp.43-44

²⁵ Jones, 'Britain's Search for Chinese Cooperation', p.110.

the Russians, Italians and Belgians did not support it, claiming that the matter would have to be referred back to their respective governments owing to the state of the public finances in their home countries. Prince Koudachef, the Russian Minister, stated that, as twenty-nine per cent of the indemnity payments went to Russia, that they had the most to lose by the proposal. Russia finally agreed to the suspension of only one third of the indemnity which it currently received.²⁶ The Allies eventually agreed to the postponement without interest of the annual installments. The payments to Germany and Austria were withdrawn which meant a saving of £60,000 per month for the Chinese government.²⁷

An overdue revision of the Chinese Customs tariff rates was on the list of Chinese requests as the existing tariff rates were based on the average values in existence from 1897–1899, which in spite of numerous previous appeals for a review, had been consistently overlooked. With the rise in prices during the war, the treasury of the Chinese government received only three tenths of the effective five per cent tariff revenues to which it was properly entitled. The Tariff Conference, consisting of representatives from fourteen interested parties and from the Chinese government, set up to review the tariff rate, eventually met in Shanghai in January 1918, the meeting having been postponed from 1 December 1917. It took two months before the rules of procedure could even be agreed. The delay was mainly owing to a lack of cooperation and procrastination by the Japanese negotiators, but the Chinese delegate also became a scapegoat for allegedly not having the required English skills.²⁸

The main challenge for the Allies, as perceived at the time, was the need to honour the promise made to the Chinese government for a tariff review but to keep any increase as low as possible to ensure Allied trade retained its competitive edge. The Allies considered that a tariff rate based on the prices for 1917-1918 would have made the tariff excessively high. The CMCS thought it should be based on 1917 prices, which had the support of America but neither Britain or Japan would agree.

²⁶ TNA FO 405/222, Alston to Balfour 10 September 1917,

²⁷ TNA FO 405/222, Alston to Balfour, 1 September 1917, Chi, *China Diplomacy 1914-1918*, p.131.

²⁸ Pollard, *China's Foreign Relations*, p.40.

The Tariff Commission finally came to agreement in December 1918 and the new rates were fixed at 5 percent of the average values for the years 1912 – 1916, which was a compromise suggested by the Japanese. The new rates eventually came into force on 1 August 1919, twenty-two months after it was first agreed in principle.²⁹ To compensate for this less than generous increase, the British delegation, represented by Harry Fox, the Commercial Attaché, secured agreement that the position would be reviewed again in two years.³⁰ As was becoming common occurrence with wartime promises to the Chinese, the outcome of the tariff revision was much less generous than was originally proposed as the Allies were reluctant to lose their business advantage. Any alteration to trading terms was fiercely contested by the foreign powers to ensure maximum profit for their trading interests.

With its wide ranging and well-established shipping interests, Britain hoped to dominate the strong Allied competition to acquire enemy shipping which was seen as one of the prizes for China's break with Germany.³¹ The disposal of the ships, however, was much debated amongst the Allies and their acquisition keenly contested, offering an attractive solution to the shipping shortages which had plagued the export trade since the start of the war. To pre-empt any safety issues prior to China's rupture with Germany in 1917, the Chinese navy, assisted by W.F. Tyler of the Customs service and Lt. Bernard Firth of the British Navy, quickly secured the six German ships which had been voluntarily interned in the harbour since war began. Lt Firth was a well-known businessman and manager of the firm Wheelock & Co., who were agents for Shanghai Tug and Lighter Co. for many years. He received an O.B.E for his work with the navy in Shanghai during the war.³² Allied concerns that the ships might escape from the harbour or pose a security risk if they were blown up or injured in some way by their German crew, were well-founded as when naval officers boarded the ships, three of the six ships were

²⁹Teichman, *Vade Mecum*, 1920, pp.84-86; Pollard, *China's Foreign Relations*, p.40.

³⁰H.G.W. Woodhead and H.T. Montague Bell, *The China Year Book, 1921-2* (Tientsin and Peking, Tientsin Press), pp.828-830; Christie, 'The Problem of China in British Foreign Policy 1917-1921', p.60.

³¹*NCH*, 29 December 1917, p.754.

³²*NCH*, 2 November 1932, p.176.

rigged with explosives.³³ Other ships in Swatow and Amoy were also seized but at Canton the German crew managed to sabotage the gunboat *Tsingtao* before it was seized.³⁴

Although Chinese action was praised for preventing considerable damage to the harbour, the Allies hoped to seize the initiative by using Anglo-American forces to secure the ships, with the support of the Allied volunteer force. Foreign Office officials thought differently and saw the political expediency of supporting independent action by the Chinese authorities in carrying out any hostile action against Germany as part of China's contribution to the war effort. Some considered such a demonstration of Chinese authority was damaging to foreign prestige and were sceptical of Chinese ability to secure the ships effectively. Interference and pressure from the Allies had to be measured as they realized that they had to be prepared to allow Chinese officials to take control of certain situations, which would allow the Allies to take a tougher line on measures they particularly wanted to force through.³⁵

Negotiations amongst the Allies for the disposal and allocation of the ships started in March 1917 after they were seized once China severed relations with Germany. British government officials offered an incentive of £1 million to the Chinese authorities if they would allow them to take over their allocation, provided they were handed over in good order.³⁶ However once war was declared, the Chinese authorities took control of the ships, which included three additional Austrian vessels: *Bohemia*, *China* and *Silesia*, as a result of China's declaration of war against Austria. Negotiations about their disposal were protracted, because both the Allies and the Chinese authorities fiercely competed to claim their share of the spoils. In addition, Tsao Ju-lin, the recently appointed Chinese Minister of Communications was allegedly hoping to profit from a scheme, managed by a Japanese firm, where the ships would be chartered to various private companies. Tsao Ju-lin had close ties with

³³ *NCH*, 24 March 1917, p.622.

³⁴ Jones, 'British Search for Chinese Cooperation', p.145.

³⁵ Jones, 'British Search for Chinese Cooperation', p.149.

³⁶ TNA, 405/222, Telegram Alston to Balfour, 3 March 1917.

Japanese authorities, who were thought by the Allies to be behind the scheme, in spite of denials to the contrary, owing to the amounts involved and the secrecy surrounding the negotiations.³⁷ Tsao was forced to abandon his scheme by the Chinese authorities, who subsequently formed the Ta Ta Company to take over the chartering of ships. Some of the ships were required for China's own use and the rest were to be sub-chartered to the Allies at a rate agreed by all parties. The Allies were disappointed with the outcome and at having to deal with an organization such as the Ta Ta Company which they considered to be of 'questionable' repute.³⁸

Allied disappointment with the process continued as there were further frustrations and disagreements over assessing the repairs necessary for the ships to become sea-worthy. A number of people were placed in charge of the assessment and appeared to be working to gain as much as they could from the situation. Arguments over the extent of the specification for the ships saw Fletcher, the official from Lloyds appointed by the Chinese government, at loggerheads with Parker and Reilly, a local shipping company appointed by the Ta Ta Company to carry out the work. Fletcher was trying to limit the costs, but the Ta Ta Company briefed Parker and Reilly that there was no need, as the Chinese government were picking up the bill.³⁹ The Ta Ta Company hoped to gain further from the situation by requesting a year's charter money in advance from the Allies when it was current practice for only one month and also expected the Allies to pick up the insurance costs.⁴⁰

The Chinese government eventually allocated the ships in December 1917, but the British trading community was disappointed at what they considered to be a lack of partiality in their distribution as America and Japan received a third each, but Britain, France and Italy had to share the other third. The vessels totalled approximately 35,000 tons but Britain's eventual share amounted to

³⁷ TNA, FO 228/2676, 18, *The Japanese Advertiser*, 1 October 1917.

³⁸ TNA, FO 228/2676, 18, note Fraser to Alston, 10 October 1917.

³⁹ TNA, FO 228/2676, 61, Letter Fox to Jordan, 8 November 1917. P.92.

⁴⁰ TNA, FO 228/2676, 50, Charter of Interned Enemy Ships, Minutes of Meeting held at the H.B.M Consulate General, Shanghai on 2 November 1917.

1,200 tons, which was only enough to serve the coast trade and did little to resolve Britain's chronic shipping shortage. There was dismay at Japan's generous allocation, especially as the Allies felt that their needs were more pressing than Japan's.

Rivalry and disappointment over the spoils to be gained from Germany's demise in Shanghai and China as a whole reflected the shifting power base which was taking place during the war in which British dominance was constantly being challenged by Japan and America. Much as Britain wanted from the outset to control the allocation of the ships, it had to accept early on that the Chinese authorities had to be left to find their own solution, and that it was America and Japan which ultimately had greater influence over the procedure as to how they were eventually allocated.⁴¹

British Agency

The need to acknowledge Chinese sovereignty influenced British actions and decisions throughout the war, but once China declared war against Germany, Britain felt it had greater legitimacy to pressurize and cajole Chinese officials to carry out severe actions against German nationals, owing to China's obligations as a co-belligerent. However, British officials discovered early on that there were limits to its agency and ability to interfere in the actions that were taken against German nationals. Fraser had to reluctantly accept that the Chinese authorities had responsibility for the measures to be taken against the German community in Shanghai, but he constantly stressed the importance of observing the customary procedures required once a state of war was declared. Fraser pushed for enemy nationals to be subject to a permit system, to be subject to frequent reporting and to be placed under police surveillance but these measures were rejected by the Chinese authorities, who felt that the registration of enemy nationals at the Bureau for Foreign Affairs was sufficient and followed the principle 'that enemy subjects should be leniently treated as long as their behavior was exemplary in

⁴¹ *NCH*, 29 December 1917, p.753-754.

Shanghai'.⁴² Fraser was in constant dialogue with Chinese officials about what he perceived to be the undue leniency of the Chinese authorities and was the driving force behind actions that were taken to close down German businesses and expel the German community, constantly reminding the Chinese government that these were the conditions of Allied agreement to Chinese financial requests.

Closing of the DAB

By way of illustration, the sequestration of German businesses was central to Allied demands and Britain's lack of agency can be seen clearly by events surrounding the closing down of the DAB, which was the focus of much of the British community's anti-German feeling during the war owing to its wide promotion of German interests. Britain could do little initially to influence the process as Chinese officials quickly took control of the arrangements for the DAB's closure in August 1917. New government administrative departments were formed such as the Central Bureau of Liquidation, established as part of the Bank of China. Overseeing the process were the Minister of Foreign Affairs and the Minister of Finance, who appointed the governor of the Bank of China, as head of the government bank, to take over the buildings and assets of the various branches of the DAB.⁴³ Regulations were drawn up by leading members of the Bank of China, representatives from the Wai Chiao Pu (the Chinese office for Foreign Affairs) and the Ministry of Finance, and with the involvement of Georges Padoux, French Legal adviser to the government. All matters concerning the liquidation had to be approved by the Ministry of Foreign Affairs and the Ministry of Finance, which meant Britain had little to do with the management of the process.

Besides Padoux, other foreign employees from the various foreign banks in China, along with employees of the Bank of China, were appointed to carry out its closure. In Peking arrangements were

⁴² *The Minutes of the Shanghai Municipal Council*, Vol XX (Shanghai Classics Publishing House), Minutes, 29 August 1917, pp.123-124 and Minutes, 5 September 1917, pp.128-129.

⁴³ Moazzin, 'From Globalisation to Liquidation', p.55.

made for the branch to be sealed off by A.J. Pernotte, Manager of the French Banque Industrielle and Wu Shao Yuan, Manager of the Bank of China. By contrast in Hankow, the Bank was sealed off by the Chinese police, as the Chinese authorities had already taken control of the German concession after relations with Germany were severed in March 1917. In Shanghai, Canton and Tientsin, the Chinese Minister for Foreign Affairs asked the British Legation to instruct the British consuls concerned to arrange for the sealing of the Bank doors by the Municipal Police, pending the arrival of the delegates appointed by the Chinese government to take over the Bank.

After all the branches of the DAB were sealed off, liquidators were appointed to close down their affairs. In Shanghai, an Italian employee of the Bank of China, Gaspero Passeri, together with Sung Han-chang, Manager of the Bank of China, were appointed to liquidate the Shanghai Branch. Passeri was also one of several foreign advisors to the Chinese government.⁴⁴ S.E. Lucas, the assistant Manager of the Bank of China in Peking was appointed to the Tientsin branch and MacEuen of the China Bank and a Japanese employee of the Pao-Li Bank to the Canton branch. All had to cooperate with the local managers of the Bank of China.⁴⁵

The liquidation of the DAB was dogged with problems and inefficiencies from the start as shown by arrangements to close down the bank. The Dutch authorities had been vested with consular jurisdiction over German nationals after China broke off diplomatic relations with Germany, but Jonkheer F. Beelaerts van Blokland, the Dutch Minister in Peking, had become an avid protector of German interests and a keen advocate of strict adherence to international law on all sides. Van Blokland argued that China had no right to take over the bank as it was a purely private concern, which was protected from seizure by the Hague Convention of October 1907. The Chinese authorities

⁴⁴ SOAS, *Directory and Chronicle*, 1918, p.689.

⁴⁵ TNA, FO 228/2842, 55/19/89, Enclosure in letter from S.E. Lucas to Jordan, 29 December 1918.

justified their actions by highlighting the bank's close ties with the German government and its promotion of German national interests.⁴⁶

On a practical level, owing to a delay in the Chinese arrangements, the DAB in Peking was not taken over until late in the day and when Chinese officials arrived, they found it strictly guarded by Dutch soldiers, appointed by the Dutch Minister.⁴⁷ In Shanghai, the Dutch Authorities reluctantly handed over the keys, but it was discovered that several million Tls had been placed in the Dutch treasury. In Peking, it transpired that almost all the assets of the DAB amounting to approximately seven million Tls had been transferred to the account of the Netherlands Legation after China broke off relations with Germany. The transfer was purely a cover, because amounts were transferred daily from the Dutch Legation to provide for the bank's everyday operations and expenditure, removing the possibility of large sums being found in the bank's treasury, which could be seized by the liquidators.⁴⁸ In Shanghai, the Dutch Authorities reluctantly handed over the keys but it was further discovered that as in Peking, several million Tls had been placed in the Dutch treasury and again funds were transferred daily according to the needs of the DAB.⁴⁹ Many papers were missing from all the branches and Van Blokland was blamed for having organized to have them removed from the buildings.⁵⁰

In spite of continuing protests and apparent obstruction from the Dutch authorities, their attempts to sabotage Chinese and Allied actions against the Bank were unsuccessful. However, there were other issues which hindered the process, as some of the staffing appointments proved to be unsatisfactory, yet the Allies were powerless to intervene. G. Passeri, the Italian liquidator, took up his duties on 21 August 1917, together with Sung Han-chang of the Bank of China, but a year later it was reported that very little progress appeared to have been made with the liquidation. In January 1918,

⁴⁶ Moazzin, 'From Globalisation to Liquidation', p.60.

⁴⁷ Nagao Ariga, Paul Fauchille, *La Chine et La Grande Guerre Européenne au Point de Vue du Droit Internationale D'après les Documents Officiels du Gouvernement Chinois* (Paris: A Pedone, 1920), p.243.

⁴⁸ TNA, FO 228/2842, 508/18, Minutes, Deutsche Asiatische Bank.

⁴⁹ TNA, FO 228/2842, 508/18, Enclosure in letter from S.E. Lucas to Jordan, 19 December 1918.

⁵⁰ NCH, 15 September 1917, p.580.

Passeri had apparently failed to respond to numerous requests by Sir Everard Fraser to provide an interim progress report. It appeared that Passeri's attendance at the bank was sporadic, often only appearing at the request of the German staff to sign letters. His non-appearance, it was claimed was due to delaying tactics employed by Chinese officials, fearful of German reprisals and as yet uncertain of an Allied victory.⁵¹

Strong German influence initially continued at the DAB in Shanghai as German nationals were retained to help with the liquidation at the request of Passeri. Heinz Figge, the Manager of the Bank and a highly respected ex-Shanghai Municipal Council representative, his five German colleagues who were heads of five departments of the Bank and the Chinese Comprador and all his staff were retained on full salaries. Figge continued to live in his spacious apartment at the top of the Bank, which was provided as one of the benefits of the job, with all its lighting, heating and water bills paid. The German staff remained in possession of the keys to the safes, signed all the letters addressed to the Liquidation Bureau and continued to work at the Bank.⁵²

Playing on Chinese alleged sensitivity to German threats and propaganda which it was said made them nervous of their dealings with the Bank's assets,⁵³ Figge is said to have informed them that the bank would claim a 50,000 Tls. per day indemnity for loss of profits caused by the illegal seizure of a private concern.⁵⁴ The liquidators were accused of being too lenient with certain German organisations, for example, considerable debts owing to the Bank were allowed to remain outstanding. The Dutch Consulate, the German Post Office, the German Club and the German Consulate all owed large sums to the Bank which if drawn down would have forced the closure and sale of their properties.⁵⁵

⁵¹ TNA, FO 228/2842, 55/19/89, Enclosure outlining events surrounding Passeri's dismissal in letter Lucas to Jordan, 29 December 1918.

⁵² NCH, 26 October 1918, p.217.

⁵³ TNA, FO 228/2842, 508/15, Minutes, Taking over the DAB, 22 January 1918.

⁵⁴ TNA, FO 228/2842, 804/18, Letter W.P. Ker, Consul General at Tientsin to Jordan, 29 January 1918.

⁵⁵ NCH, 14 December 1918, pp.641-642.

Passeri had negotiated a lucrative deal for his services as one of liquidators of the bank under which he received 4 per cent of the assets remaining in the Shanghai branch of the Bank and funds liquidated from the assets. At the time it was taken over the Bank's assets amounted to approximately twenty-six million Tls, which was of considerable benefit to Passeri.⁵⁶ Passeri also continued to receive his regular salary from the Bank of China. His comfortable existence, however, was curtailed abruptly, when he was informed in August 1918 by the head office of the Bank of China in Peking, that his contract with the bank would not be renewed, as his employer considered it was not in its best interest to continue paying his salary of \$2,850 per month when he was working elsewhere. On receipt of the notice, it was reported in the *North China Herald*, that Passeri conducted a propaganda campaign to justify his position regarding the delay in winding up the DAB's affairs by alleging that his Chinese colleague had pro-German leanings and had obstructed the liquidation process. He managed to have an article printed in *The North China Herald* on 25 October 1918 titled "German Bank Scandal" and, apparently, he even gained support for his position from G.E. Morrison, the former *Times* correspondent. Both were special advisers to the Chinese government, so they would have been colleagues.⁵⁷

As gossip spread about the lack of progress with the liquidation and concerns about Passeri's management of the process, it was suggested by the Allies to the Chinese authorities that there should be some intervention. The Allies tried to take control by suggesting a British banker should intervene but the Chinese authorities chose S.E. Lucas, an employee of the Bank of China, who was the liquidator of the DAB in Tientsin. He was sent to investigate the liquidation proceedings with a view to taking over from Passeri.⁵⁸ Faced with constant obstruction from Passeri, who refused to hand over the keys

⁵⁶ *NCH*, 26 October 1918, p.217.

⁵⁷ TNA, FO 228/2842, 55/19/89, Enclosure in letter from Lucas to Jordan, 29 December 1918.

⁵⁸ TNA, FO 228/2842, 5158/18, Letter Jordan to Shanghai Consulate, 16 November 1918.

to the safes until forced to by a court order, or to assist in any way, Lucas was eventually recalled to Tientsin.

With the liquidation in a state of flux, letters from the British Chamber of Commerce and the China Association urged Fraser to press the Chinese authorities to speed up the process. Further representations were made at a high level, as Jordan intervened in November 1918, suggesting that the Chinese authorities were favouring German interests and urging them now the war was over, to complete the liquidation process with some urgency, to prevent the resumption of German business. The British authorities further stressed that, with the liquidation process having been so mishandled, an efficient and effective liquidation could only be carried out by someone who was not affiliated with the Chinese government. The Allies were eventually able to take control of the process from the Chinese Authorities and in December 1918, Fraser asked Stephens from the Hongkong Bank to liquidate the DAB, jointly, in name at any rate, with the Chinese liquidator. Stephens took over the liquidation, although the Chinese liquidator resigned in December and was not replaced. Stephens was particularly insistent that the DAB should be harshly dealt with because his son had been killed in action. In January 1919, three months later, Stephens was able to show that the liquidation, in terms of assets and securities in China was well on the way to completion, showing that there may have been some irregularity with the way the bank was being liquidated as it was taking so long.⁵⁹ The Allies were only able to take control of situations concerning actions against German nationals, when after a certain time period very little progress had been made, which then enabled them to pressurize the Chinese authorities to allow Allied intervention, as this example of the liquidation process of the DAB shows.

The controversy over the liquidation process continued because after his dismissal, Passeri sued the Bureau of Liquidation for a large sum which he felt he was due in commission and loss of

⁵⁹ Moazzin, 'From Globalisation to Liquidation', p.64.

earnings. Judgment was given in his favour by the Italian assessor in the Mixed Court in Shanghai for the sum of nearly 200,000 Tls which was lodged in the Court pending appeal. By January 1919 the case remained unresolved with the Chinese government challenging the decision and the Italian assessor facing widespread criticism for perceived undue leniency and a lack of impartiality in his judgment of the case and, it was thought, for damaging the reputation of foreign justice in the eyes of the Chinese community.⁶⁰ The foreign powers in China were always fiercely protective of their reputation in China, endeavouring to maintain the highest standards in administrative processes under their control as a way of demonstrating a degree of moral superiority, which was a vital component of justifying their continuing presence in China. Passeri's handling of the liquidation process and his subsequent response to his dismissal would have caused concern in Foreign Office circles about the negative impact it might have on the Chinese authorities and Chinese opinion.

Although the DAB was eventually closed down, the German staff made considerable efforts to limit the negative effects of a possible liquidation. British officials could take no action against the bank until China declared war against Germany, which gave the staff plenty of time to remove the bank's assets. Surplus funds were disposed of, documents of importance were relocated and anything that might show the inner workings of the bank was hidden. Funds were transferred through America and neutral countries and many of the papers, books etc. were absent when the liquidation process was started.⁶¹ As an illustration an intercepted letter revealed how J. Kullman, manager of the Canton branch had transferred important and confidential documents to a place of safety where they could easily be retrieved after the war. The sum of \$100,000 had been entrusted to accounts in Basel and Berlin on behalf of the bank and Kullman had transferred \$10,000 to his own account and \$8,000 to

⁶⁰ *NCH*, 21 December 1918, p.737.

⁶¹ *TNA*, FO 228/2842, 5347/19/134, Report on the work of the liquidation Bureau of the DAB, Shanghai 1 January to 31 March 1919, by A.G. Stephens.

his accountant to keep funds away from the liquidators.⁶² It seemed that all attempts were made by the DAB to retain the status quo of the bank for as long as possible, so that it could be maintained until the war was over and thus facilitate an early resumption of business.

The complications surrounding the closure of the bank demonstrate the difficulties Britain faced with its economic campaign. Although Britain appeared to acquire greater legitimacy to put actions into place, which would target German business operations once China was a co-belligerent, Britain had to leave the actual means of carrying them through to the Chinese authorities. The task of liquidating the DAB was complex, even for those with some experience of such procedures, but the difficulties were greatly increased by the perceived failures of the Chinese authorities in charge of the Central Bureau of Liquidation. Britain's lack of agency in controlling who was appointed to carry out the liquidation process or to intervene once things appeared in their eyes to be not proceeding in the way they had hoped, was very much in evidence. It was only when it became clear through press reports and rumour that there were administrative problems and delays with the liquidation, that Britain was able to intervene and persuade Chinese officials to allow a person of their choice to carry out the liquidation process along what they considered to be more effective lines.

In order to further target German interests and remove the German presence completely, Britain actively campaigned to have the entire German community removed from China. In the next section, by exploring the repatriation process in some detail, I will show how Britain's ability to drive the policy through was compromised in many ways and although it was finally successfully carried out, Britain's reputation and prestige were severely damaged in the longer-term.

⁶² TNA, FO 228/2842, 4200/18/28, Enclosure with letter from Major General commanding the China Command to Jordan 7 June 1918.

Repatriation

Britain was the driving force behind the repatriation scheme, hoping that it would be the final 'knock out' blow to German interests in China and bring its economic war to a successful conclusion. Repatriation was the preferred choice for Britain, as internment, would effectively allow German and Austrian nationals to remain in China, under the protection of the Dutch Consular authorities, which would enable them to maintain their Chinese contacts.⁶³ British authorities were also sceptical of Chinese ability to implement an effective internment policy due to a chronic shortage of funds and the lack of an effective administrative infrastructure to police it. Jordan advised that the Chinese government barely controlled half of the country and that in the other half, Britain would have to rely on a radical and highly critical party to execute any of the measures.⁶⁴

The main reason given why British officials wanted a repatriation policy to be introduced was because German interests were still flourishing, and German influence continued to be strong. Many of the German young men were sent as reservists to defend Qingdao and the survivors were taken as prisoners of war to Japan but there were approximately 3,000 German nationals still remaining, of which 1,724 were women and children and the rest German men, who were beyond fighting age. Many German teachers continued to be employed at the German College, which, although expelled from the French Concession in Shanghai in March 1917, was moved to Woosung at the mouth of the Huangpu river. The College changed its name to Tung Chi Medical and Engineering College and was a large centre of learning, with three departments: engineering, 'industrial' and languages.⁶⁵ There were fifty or so German teachers and approximately six hundred students. It was always viewed with great suspicion by the Allies and was considered to be one of the main organisations which actively promoted German influence and propaganda.⁶⁶ Concerned at the significant German presence that

⁶³ SOAS/CHAS/02/24. Memo: Hongkong Telegram from F. Anderson, 26 November 1917, p.12.

⁶⁴ Jones, 'Britain's Search for Chinese Cooperation', p.237.

⁶⁵ NCH, 2 November 1918, p.247.

⁶⁶ NCH, 26 June 1918, p.735.

still remained in China, Britain, with support from the Allies, went to significant lengths to ensure the repatriation policy was carried through as a demand for the repatriation or internment of enemy nationals was included in the note to the Chinese government on 8 September 1917.

Under Jordan's direction it was decided to deport all German nationals remaining in China to Australia; Japan was initially considered as a possible destination, because it was a perceived Ally of Britain, but rejected because of Japan's leniency with German nationals still living there, who British officials believed were allowed, with minimal restriction to carry on their trading operations, much as before the war. It was rumoured that the reasons for this leniency were because firstly Japan was hedging its bets as it could not accept that a country like Germany, with such military capability, could be defeated in the war; and secondly that Japan had struck a bargain, under which, freedom of German action in Japan was granted in return for immunity of Japanese shipping from German submarines attacks, as Japan lost very few ships during the war compared to the Allies.⁶⁷

The Chinese authorities, for their part, had little appetite for such an initiative, due to concern about German threats of reprisals against the hundred or so Chinese nationals still living in Germany and possible revenge after the war. They were also sensitive to having different demands put on them to the rest of the Allies, as they knew full well that no internment policy for German nationals existed in Japan or America.⁶⁸ They eventually succumbed, however, after considerable pressure from the Allies, by securing assurances that they would have Allied support at the Peace Conference and guarantees in the event of any German reprisals. In January 1918, Chinese officials agreed that German nationals could be deported to Australia on the condition that they would only fund the cost of bringing enemy nationals to the coast and that all other costs would be covered by the Allies.⁶⁹

⁶⁷ Lo Hui-Min, *The Correspondence of G.E. Morrison*, Vol.2, 1912-1920, p.549.

⁶⁸ Chi, *China Diplomacy, 1914-1918*, p.134.

⁶⁹ Jones, 'Britain's Search for Chinese Cooperation', p.237.

The Allies, having eventually secured Chinese consent, had to re-examine the proposal after a request from the Belgian government which was concerned about German threats of severe reprisals against Belgian citizens in areas of Belgium which were under German domination.⁷⁰ The Allies had been trying to come to an agreement with Germany about the exchange of interned civilian prisoners in Belgium but Germany made it plain that a successful agreement depended on a satisfactory outcome for German subjects in China.⁷¹ The proposal ran into further difficulties, because, after a meeting of the Allied Supreme War Council on 3 June 1918, it was decided that the ships that had been allocated for the deportation scheme in China, due to take place on 22 June 1918, should be diverted to evacuate stranded Czechoslovak troops in Siberia, to France.⁷² Jordan, in the final throes of implementing the scheme with the Chinese authorities, was bitterly disappointed and felt that the incident reflected badly on Allied prestige in the eyes of the Chinese and was a propaganda coup for Germany.⁷³

Further plans to intern between 150–200 undesirable enemy subjects, including women and children in a temple on the outskirts of Peking, were considered by the Chinese authorities but proceeded at such a slow pace that they eventually fell through.⁷⁴ Gradually it became clear that the Chinese government would do nothing against German nationals in China unless severely pressurized. China had been remarkably resistant to Allied pressure and shown a singular tolerance of German nationals indicating that German influence was still strong in spite of China's declaration of war. Within a few days of signing the Armistice on 11 November, German traders were circulating a pamphlet to Chinese merchants stating that they would soon be able to resume business and encouraging them

⁷⁰ Guoqi, *China and the Great War*, p.196.

⁷¹ La Fargue, *China and the World War*, p.154-155; Jones, 'Britain's Search for Chinese Cooperation', p.242.

⁷² TNA/CAB/23/42, Imperial War Cabinet 1918, Minutes of Meetings, 30-48, 13 Aug-13 Dec 1918, 35(6).

⁷³ TNA, FO 350/16, Langley to Jordan 25 July 1918.

⁷⁴ Chi, *China Diplomacy*, p.135.

to cancel any contracts they had with British firms.⁷⁵ Foreign Office irritation at China's ineffective performance was nothing compared to the wrath of the British commercial community, which saw the British Chamber of Commerce and the China Association actively pushing for the repatriation policy to be carried through.

Against this backdrop and with the threat of renewed German competition, it was decided at a meeting of the Allied ministers to inform the Chinese authorities of their disappointment with China as a co-belligerent and a long note, listing Chinese failings, including the lack of progress with the repatriation policy was delivered on 2 November 1918. The Chinese authorities responded positively, agreeing to cooperate with Allied demands because now that the Armistice had been signed, removing the threat of German reprisals, Chinese officials did not want to jeopardise their chance of playing an active role at the Paris Peace Conference.

The Chinese authorities decided in December 1918 to implement a repatriation policy, which was effectively a deportation scheme disguised by another name. They formed the Bureau for the Repatriation of Enemy Subjects to handle the process, which was housed in the old Russian Consulate, adjoining the Bureau for Foreign Affairs in Shanghai. General Lu Yung hsiang, Military Commissioner of Sungkiang and Shanghai was appointed director, although Admiral Tsai Tung-kan effectively controlled most of the work with the assistance of Alan Hilton Johnson, Deputy Superintendent of the Shanghai Municipal Police.⁷⁶ The functions of the Bureau were to take charge of and administer the property and affairs of enemy subjects leaving China.

The practicalities of implementing the policy highlighted further limitations of British agency. It was expected that approximately 3,000 German nationals still remaining would be sent out of the country, which raised the problematic question of how to select them.⁷⁷ Some British officials took the

⁷⁵ SOAS/CHAS/02/24, General Committee Circulars Vol. XV1, No 245- 260, Letter W. Robertson, Hon. Secretary of the China Association, Tientsin to Jordan 27 December 1918, p.12.

⁷⁶ NCH, 1 February 1919, p.256; see also NCH, 15 November 1919, p.413.

⁷⁷ NCH, 1 February 1919, p.256.

view that, owing to the numbers involved, only those who had been actively working against British interests should be deported; others wanted a much tougher approach to be taken which would see the entire German community being removed. They believed that taking a tough line would have the benefit of making it much more difficult for German traders to re-establish themselves after the war as their influence and trading links would be severely disrupted and effectively removed.⁷⁸ There were difficulties coming to a decision, because of the differing views among the Allies about which exemptions should be allowed. This difficulty was further compounded by the efforts made by a number of German nationals to try and evade the deportation scheme.

With the rupture in diplomatic relations in March 1917, German nationals had been ordered to register in the foreign concessions, but it appeared that many had not registered, including many whose argument for exemption to allow them to stay would not be considered on any grounds.⁷⁹ There were quite a number of German nationals who fitted into this category, including Figge, the ex-Shanghai Municipal committee member, who was previously a bastion of the Shanghai community.

It was agreed amongst the Allies that certain people should be exempted from repatriation, which included people over sixty years of age, widows and wives of those interned in Japan and employees of the CMCS, who had over twenty years in the service or exceeded fifty years of age. All German doctors and dentists were also given exemptions, although this was questioned by some of the Allies, as it was felt many had been actively engaged in anti-Allied propaganda during the war and in spreading German ideas and culture amongst the Chinese.⁸⁰ Exemptions were granted due to ill-health, but as many claims were submitted through the recommendation of a German doctor, it was considered an unreliable system. To make the assessment more dependable and acceptable in the

⁷⁸ SOAS, CHAS/02/24, General Committee Circulars Vol. XVI, No. 245-260, Memo from F. Anderson re: Visit to the Foreign Office, 31 December 1918, p.13.

⁷⁹ TNA, FO/228/2821, 2275/19/11, Letter from Tientsin to Jordan, 1 February 1919.

⁸⁰ NCH, 1 February 1919, p.257.

eyes of British consular authorities, an Allied panel in Shanghai was formed and three British doctors and a Chinese military physician to General Lu were appointed to make the assessments.⁸¹

Many of the exemptions were taken out of Britain's hands as Chinese officials insisted that the teachers from the German College at Woosung should be given exemptions, because the German teachers claimed that their Chinese students would not be able to complete their studies in another language. Missionary teachers, however, were not exempted which led to complains of inconsistencies in the scheme. The Dutch authorities, still actively championing German interests, insisted that eighteen German subjects were required to remain in Shanghai to look after German interests, even though Tsai was sure that only two were required. The Italian Consulate gave certain Austrian nationals protection in the Italian concession in Tientsin and German nationals were also taking refuge in the Japanese Concession.⁸²

Some of the Chinese commercial community, many with strong business ties with German traders, especially with those in the interior, could see little point in the repatriation policy now the war was over and took steps to help maintain the German commercial presence. Although, when China declared war German nationals had to leave Chinese territory, they were still allowed to take up residence in the International Settlement in Shanghai, pending any decisions made by the Allies and the Chinese authorities about their potential internment or repatriation, which enabled German traders to retain their trading relationships with their Chinese customers.⁸³ Chinese businessmen were reluctant to lose touch with enemy firms and the Chinese Chamber of Commerce, through its association with General Lu at the Bureau of Repatriation, presented Jordan with a list of enemy residents for exemption in an effort to maintain links with the leading men in the principal enemy

⁸¹ *NCH*, 1 March 1919, p.553.

⁸² TNA, FO 228/2821,2429/19/46, Telegram from Tientsin to Jordan 24 February 1919.

⁸³ Kathryn Meyer, 'Splitting Apart, the Shanghai Treaty Port in Transition 1914-1921', p.158.

concerns, such as, Carlowitz & Co., Melchers & Co., the Hamburg Amerika Line etc. on the pretext that these firms would not have time to wind up their business affairs before the repatriation date.⁸⁴

There were varying reactions within the German community to the repatriation policy. Some German nationals were perfectly happy to be repatriated, viewing it as a commercial opportunity to renew their trading contacts in Germany. They considered it to be a sort of subsidised home leave, as their fares home were paid by the Chinese government.⁸⁵ Others saw it as an opportunity to alter their circumstances as in the case of a request for repatriation by a German woman with nine children, ranging from six to twenty-two. When it was discovered that she was Chinese, had never been out of Amoy, spoke no German and there was no sign of her husband Mr. Bruhn, her request was refused.⁸⁶ There were complaints about the safety of the voyage as a number were concerned that the ships might be sunk in the China Sea, or the possibility that they might be discharged at Marseilles, and then maltreated on the train journey back home through France, as a reprisal for German treatment of Belgian and French nationals during the war. As a safety measure, the Dutch Consul insisted that a Chinese delegation should be placed on the ships for the journey back to Germany. There were complaints that the two P&O ships selected were unfit for the journey, even though they must have met a certain standard as they had been used to transport Allied women out to China. Two German women petitioned for American or Japanese ships, if neutral ships were not available, and insisted that if Allied ships were chosen, they would refuse to embark.

Once the decision had been made about who was to be selected to leave, there were conflicting views about the implementation policy as shown by Allied intervention during the planning of the scheme. Much to the irritation of the British authorities, the American representative on the joint Allied Repatriation Committee, appeared to be taking control of the arrangements by denouncing any

⁸⁴ TNA, FO 228/2821, 2409/19/42, Letter Fraser to Jordan 20 February 1919.

⁸⁵ King, *The Hongkong Bank between the Wars and the Bank Interned, 1919-1945*, Vol. III, p.12.

⁸⁶ NCH, 22 February 1919, p.476.

policy that separated husbands from wives or families, as uncivilized, which would not be tolerated by the American government.⁸⁷ There was further intervention when American naval staff, under instructions from their Legation, joined up with Dutch consular staff to inspect the boats requisitioned for the journey back to Germany, to assess them for their suitability.⁸⁸ This intervention was not welcomed by the British authorities, who were basically controlling the scheme through Tsai, the Chinese coordinator, and resented any inferred challenge to their management of the process.

Rumours abounded about the parlous state of the policy, which was allegedly being manipulated by the Chinese authorities to extract as much as they could from German nationals. It appeared that exemptions were available to anyone who could pay the price. British officials blamed General Lu, who they considered to be corrupt and responsible for some of the more unusual exemptions. The authorities in charge of the scheme were concerned that repatriation was only confined to those who did not have the means or the influence to stay behind.⁸⁹ Admiral Tsai was under pressure from the Allies, who wanted to see that the repatriation policy was carried out effectively. From the other side, Tsai was under pressure from Lu, as although Tsai was responsible for the daily routine business of the repatriation office, it was alleged that he was reluctant, either through lack of experience or inability, to take sole charge of the scheme. It appeared that he faced constant interference from Lu, who had ultimate control of the scheme, and it was reported, insisted on all matters, however trifling, being referred back to him, resulting in considerable delay.

In the treaty port of Wuchang, the alleged pro-German preferences of Woo Tsung yen, the Commissioner for Foreign Affairs, who controlled the local repatriation bureau, were well known to British consular officials. His office was said to be a centre for 'underhand' dealing regarding sequestration and exemptions. Any information requested by British consular officials about the

⁸⁷ TNA, FO 228/2821, 1534/19, Confidential Note, 25 February 1919.

⁸⁸ TNA, FO 228/2821, U.S. Vice Consul, Memo, 27 February 1919.

⁸⁹ TNA, FO 228/2821, 2293/19/18, Telegram from Shanghai to Jordan 21 Feb 1919.

repatriation process had to be obtained from him at personal interviews in his office, as he apparently failed to answer letters and reportedly, he was reluctant to hand over any information about exemptions or sequestration of German property. He had, for example, given Carlowitz and Co. permission to sell some of its valuable equipment privately, rather than through the sequestration process, and was making no secret of the fact that the Germans would be coming back to China soon.⁹⁰

It was further rumoured that the repatriation policy lacked the support of many Allied colleagues, although Fraser insisted that these reports were spread by German nationals in their efforts to evade repatriation. In spite of the many controversies and disagreements surrounding the scheme, Britain was still determined to see the repatriation policy carried through. Finally, in March 1919 approximately 1800 men, women and children were repatriated on three ships. A further ship sailed from Shanghai on 3 April with another 382 German nationals picking up a further forty-five from South and South West China at Hong Kong. Approximately 900 enemy subjects remained in China of whom all but 150 were exempted from repatriation. Many of the remaining 150 had deliberately missed the last ship but delays in locating another ship and China's refusal to resume the repatriation policy after disappointment at the outcome of the Paris Peace Conference, meant that not all German nationals were removed.⁹¹

Britain pursued the repatriation policy to ensure that the German community was removed from Shanghai and China as a whole. The greater impetus for the policy was fueled by the British anti-German fervour which had taken hold as the war progressed. Although ostensibly, an Allied initiative, it was Britain which took the lead in the repatriation scheme, but British officials were constantly undermined by Allies with some, such as America looking for opportunities to assert its dominance over the scheme under the guise of promoting the humanitarian aspects of the policy. Others such as

⁹⁰ TNA, FO 228/2821/2259, 19/10, Enclosures with letter E.C. Wilton, British Consul, Hankow to Jordan, 18 February 1919.

⁹¹ TNA/405/229, Annual Report for China, 1919, Repatriation of Enemy Subjects, p.29.

the Dutch authorities continued to protect German interests, whilst Italy and Japan gave protection to certain German nationals if they chose. The Chinese authorities had little appetite for the policy, using delaying tactics to prevent having to carry it through and were allegedly susceptible to bribes from German nationals hoping to evade the repatriation policy. It was only once the Chinese authorities realized that their plan to be part of the peace process might be in jeopardy that they offered greater support to the Allies. The process of repatriation highlights the limits of British power as the policy faced obstruction on many levels before it could eventually be carried through.

Conclusion

China's declaration of war against Germany seemed to provide a long-awaited opportunity for British officials and their commercial community to try and ensure that all German interests were dismantled in China. Britain's economic warfare policies had worked up to a point but with China as a co-belligerent, the chance to administer a final deathblow to German commercial activity, seemed guaranteed. The process however raised a number of issues which highlighted the limits of Britain's power in China. China's agreement to join the Allies against Germany was in the hope of a revision of the unequal treaties which had undermined its sovereignty for so long. China also wanted to play a full part at the peace process at the end of the war and to receive assurances that Japan would no longer retain control of Shandong after hostilities had ceased. The 'new China' elements of the Chinese authorities could see the benefits of using international law as a restraining influence over the ambitions of the international community as the Allies had to respect Chinese sovereignty and accept Chinese handling of the measures imposed against German interests. However, China's declaration of war propelled it into the maelstrom of the diplomatic wranglings of the foreign powers, where, to achieve its ambition of playing a more significant role in the international community, it had to satisfy Allied demands by developing effective measures to remove German influence and business interests.

Rivalry amongst the powers had always been pervasive but intensified during the war, as it provided many opportunities to strengthen their respective positions and influence over China affairs. This was all too apparent when discussions commenced about removing the German presence, as British officials reluctantly had to allow it to be a collaborative process, particularly as Japan and America's influence had become much more significant over Chinese affairs. British officials faced continual challenges from other Allied powers, Chinese government officials and the Chinese business community, when they tried to force through harsh measures against Germany. Protecting and promoting their particular interests, those resistant to Britain's policies were unwilling to allow Britain to dominate or to have their needs compromised by what they saw to be Britain's self-interested policies.

China, racked by division and civil war, lacked the expertise or the infrastructure to formulate effective policies against German nationals which would meet with Allied approval. With many Chinese government officials still under German influence and fearful of German reprisals there was a reluctance in some government circles to introduce punishing measures against German nationals. However, the war provided opportunities for the Chinese authorities to use the situation for financial gain through their control over the allocation of the interned enemy vessels and through the repatriation of German nationals, who were allegedly exploited by those in charge. The Chinese community in general had no personal enthusiasm for the scheme and Chinese businesses were loath to sever their lucrative business links with the German business community which encouraged them to devise ways to maintain these links until after the war had ended. Britain was determined to remove the German presence, fearful of a post-war German trade offensive, which, despite all the difficulties involved, provided motivation to force through tough and arguably disproportionately harsh measures against German nationals and their business interests. Lack of support for these measures amongst the Chinese, combined with the Allies failure to recognize Chinese ambitions at the Paris Peace Conference, heralded a new era in post-war China, where Chinese nationalism took hold and China,

conscious of the ability it had shown to take independent action during the war, was no longer prepared to submit so easily to the tutelage of the foreign powers in China.

Conclusion

This thesis has explored the impact and wider implications of Britain's economic warfare policies during the First World War in a remote area of Britain's empire, demonstrating the difficulties of waging an economic war on a global scale. It fills a gap in the literature about economic warfare, as little has been written about its impact beyond the European sphere. It has shown how and why economic warfare spread to China, outlining the difficulties with implementing legislation in an area where Britain only had informal control. A number of questions were asked at the outset such as, whether the trading with the enemy legislation was fit for purpose, how was implementation affected by Britain's informal control, how did it impact on the local British business community and other neutral powers, what opportunities did the war provide for Britain to alter and improve its trading position, how did the situation alter once China declared war against Germany and how successful was its economic campaign overall. In the foregoing chapters I have addressed these key questions, revealing the complexities of waging an economic war in China against a third power, Germany, and have widened the context by including some reference to the situation in South America which was similar in many ways. This conclusion draws together the strands of my research, reinforcing my argument about the limits of economic warfare and exploring its wider implications.

Shanghai has been the main focus of this thesis as it provides an interesting case study to examine the impact of economic warfare. The unique status of Shanghai with its complex web of intersecting influences and power structures, proved to be a particularly challenging

environment for the implementation of British economic warfare policies. Adding to existing literature on Shanghai such as Isabella Jackson, *Shaping Modern Shanghai* (2018) and Marie Claire Bergère, *Shanghai's Gateway to Modernity* (2009), this thesis has examined a short period of the city's history during the First World War, during which significant changes took place in the International Settlement as a result of the wartime situation. Although, before the war, Britain dominated all the institutions that regulated life in the Settlement, the foreign presence generally relied on respect for each nation's identity and national interests. Britain, driven by an unrealistic sense of its own power, legitimized the forceful ejection of a commercial rival and most of its trading network from neutral territory where it only had informal control. This purge of German business affairs disrupted the status quo, antagonizing neutral powers and the Chinese community, infringing on their business interests and fuelling suspicion that Britain's longer-term objectives were to increase its share of the China trade at their expense. British actions contributed to shift in the balance of power in the Settlement, which saw America and Japan having greater influence over Settlement affairs and the Chinese community campaigning to have their interests more actively promoted and represented.

The opening chapter showed how an inefficient bureaucracy and weaknesses in the draughting of the relevant legislation restricted Britain's ability to wage an effective economic campaign in China. No amount of planning could have prepared British officials for the multiple difficulties which ensued when implementing TWTE legislation in the far reaches of its empire. Officials in London struggled to form a consistent policy as ad hoc committees were hastily assembled to implement policies in the early stages of the war. Internal

squabbling about war strategy and divisions about the level of state interference in economic affairs of the business community, contributed further to preventing successful implementation. The question of commercial domicile, which effectively negated the TWTE legislation in China was one of the many difficulties which had to be resolved as the war progressed. Conducted against a background of Chinese neutrality, Fraser chafed at the limits of his power, which had to rely on cajolery and coercion to get anything done.¹ Neutral powers could legitimately transport German goods and assist German trade until the TWTE legislation was tightened in June 1915. Japan paid little regard to the regulations, choosing instead to capitalize on the opportunities the war provided to expand its trading operations in China. As has been shown, implementing the legislation revealed the complexities of Britain's trading relationships and more importantly showed how closely entwined British and German trade had become, exposing the scope and scale of foreign business collaboration and the difficulties of removing German links.

Britain's economic war had a significant impact on the business affairs of the British trading community. The closely emmeshed business ties that had grown up over time in line with the cosmopolitan principles of the Settlement proved complicated to dismantle when having to comply with Britain's TWTE legislation. As shown in chapter two, it came as a profound shock to discover a substantial proportion of British trade was distributed through German agents. There were many joint ventures such as the Anglo-German Brewery, which had been a successful joint operation, employing the skills and expertise of British and German nationals. Many Anglo/German joint business ventures were linked together by

¹ Bickers, *Getting Stuck in for Shanghai*, p.314.

British legal structures and constituted with both British and German directors on their boards. The depth and breadth of connections of some large business concerns, particularly the Hongkong Bank, set up specifically to serve the needs of a multinational business community, made unravelling historic German ties a virtual impossibility. Much of the Manchester trade in cotton goods was distributed by German agencies in China. At a time when the British government was pushing businesses to capture German trade, many were compromised by the loss of staff enlisting for the war effort, increased expenses such as war insurance and a lack of shipping to transport their goods. Long-term loyalties and vested interests provided opportunities for evasion of the legislation and German traders used every loophole available to make sure their business concerns continued to operate. Neutral powers could legitimately transport German goods and assist German trade until the TWTE legislation was tightened in June 1915. Japan paid little regard to the regulations, choosing instead to capitalize on the opportunities the war provided to expand its trading operations in China.

There were gains, however, as the assault on German interests provided the impetus for an in-depth review of Britain's trading operations as I have shown in chapter three. Initiatives such as the formation of the BCC drew British traders closer together and provided a useful channel for British government officials to filter information to their commercial communities abroad. It moved British traders from their reputedly more individualistic approach before the conflict, to forming a greater corporate national spirit, to work more

closely together to pool knowledge and trading expertise.² The strengthening of the Commercial Attaché service provided greater consular assistance to assist with promoting and expanding British trade. The new BCC proved to have the support of the local trading community, and the high level of attendance by British traders at the first post war Associated Chambers of Commerce of China Conference held in November 1919, of all chambers in China, reflected this new sense of national unity. Sir John Jordan's opening of the conference and the attendance at it by most of the consuls and commercial officers in China, reconfirmed government support for this new initiative.³

Although Britain tried to eliminate all vestiges of German power and interests, it was unable to destroy the roots of German success. Even though German trade was severely damaged during the war, it proved to be resilient to Britain's stringent TWTE legislation. As the study of German trading methods revealed, no legislation was capable of destroying the efficiency of the German commercial network, which had been secured not through underhand methods and government support, as suggested by British traders, but through hard work, a more systematic approach and closer collaboration between the German government and all aspects of German trade, such as distribution, manufacturing and finance.⁴ The much greater care that was taken to discover the needs of their customers, through better communication and competent language skills, as was shown, had successful results and established lasting relationships which were easy to re-kindle once the war was

² F. Ashton Gwatkin, 'British Interests in China, 18 November 1920' in Kenneth Bourne and D. Cameron Watt, eds., *British Documents on Foreign Affairs: Reports and Papers from the Confidential Print*, Part II, Series E, Asia 1914-1939, Anne Trotter, ed., China, January 1919 – December 1920, Vol., 23, p.362.

³ *NCH*, 8 November 1919, pp.332-334.

⁴ B.W.E. Alford, *Britain and the World Economy Since 1880* (Harlow: Longman Group Ltd, 1996), p.115.

over. German efficiency and expertise were highly regarded and British traders in Manchester, with historic German links, valued their German agents which had proved to be effective distributors of their goods. Many waited until the war was over to resume these lucrative business partnerships rather than take on British agents, who had been resistant to adopting more progressive sales techniques and had refused these agencies in the past.

Britain's assault against German interests was in some respects successful as I have shown in chapter four. When China declared war in 1917, it gave Britain, the long-awaited opportunity to achieve the main objectives of its economic war, to destroy the trading network of its main pre-war commercial rival. With China as a co-belligerent, Britain was able to engineer the closing of German businesses and the expulsion of the majority of the German community from China. This was the culmination of Britain's purge against German interests. In China, of 300 German firms in the country in 1913, only two remained in 1919. Approximately 2200 German nationals were deported from China and those remaining had their extraterritorial status removed. The total German investment in China in 1914 was US\$ 263.6 million but in 1921 less than \$40 million remained.⁵ The purge of the German presence was comprehensive, even extending to the removal of German memorials such as the tearing down of the Kettler memorial in Peking, a monument put up in memory of the murder of the German minister during the Boxer Uprising (1899-1901). In Shanghai, the Iltis memorial was pulled down in December 1918; this marked a German naval catastrophe in Chinese waters at the end of the nineteenth century and was strategically placed outside Jardine Matheson's main office on the bund in Shanghai.⁶ The impressive buildings of the DAB and the Club

⁵ Kirby, *Germany and Republican China*, p.23.

⁶ *NCH*, 7 December 1918, p.604.

Concordia, shining examples of German prestige and influence, were confiscated and sold. The remaining Germany community was politically and economically isolated, with German nationals being expelled from all Shanghai foreign clubs, the Shanghai Municipal Council, from Chinese state-owned enterprises and having their jobs in non-German enterprises terminated.

In South America Britain's assault against German interests was also moderately successful. Although the foreign and local communities were more closely integrated, making implementation of economic warfare measures, more complex than in China, once the statutory list was fully introduced British traders generally no longer traded with German nationals and firms. All the largest German firms and pro-German firms were placed on the list, depriving them of British goods, British markets, British shipping and British finance. There was, however, resentment from enemy firms, bitter at Britain's use of the war and its leading position to exert temporary supremacy over their business affairs. Despite Britain's advantageous position, enemy firms still remained powerful, finding new ways round the tighter legislation, often using willing intermediaries to continue trading.⁷ Many British manufacturers were reluctant to enter into the spirit of economic warfare because British traders in South America failed to create viable alternatives which met the economic needs and opportunities available. There were often divisions amongst the British communities which led to fracturing of the British voice locally, which worked against initiatives which were intended to help British traders.⁸

⁷ Philip A. Dehne, 'A Commercial War: Britain against Germany in South America, 1900-1925' (Syracuse University, New York, PhD Thesis, December 2000), 219

⁸ Dehne, 'A Commercial War', p.214.

Similar to China, Britain received very little support from America in its attack against German trade in South America as, from President Woodrow Wilson down, the US administration entertained similar strategic ambitions and saw opportunities to advance America's business interests at the expense of those of Europe.⁹ America believed the prime reason for the statutory list was to foster British trade and considered Britain to be its main commercial foe in South America, not Germany. America was strategically placed to play a larger role in the commerce of South America due to the lack of alternative suppliers during the conflict. US exporters took full advantage of the statutory list to consolidate profitable connections with the firms listed and were happy to capitalise on the urgent desire of German firms to continue trading, fully aware of the longer-term benefits of establishing close ties with these firms once the war was over.¹⁰

Britain's economic campaign in South America failed to destroy German business and did not create viable British alternatives that met the economic needs and opportunities available in the South American countries. Governments in South America refused to be victimized by British restrictions, and British actions contributed to fostering new political and social movements within South America, which campaigned for a reduction of foreign involvement in their economies after the war.¹¹

In the post-war trading environment in the face of increased competition from America and Japan and a post-war German trade revival, measures to strengthen British trade continued after the war. Britain was aware of the need to increase its presence both in the

⁹ Alan Knight, 'Latin America' in Judith M. Brown and WM, Roger Louis, eds., *The Oxford History of the British Empire, The Twentieth Century*, Vol IV (Oxford: Oxford University Press, 1999), p.624.

¹⁰ Dehne, 'A Commercial War', p.219.

¹¹ Knight, 'Latin America', p.625.

markets of competing industrial powers and in markets with potential for development.¹² To aid the process a review of the consular service took place in London in 1919, which led to the consular service being expanded from the pre-war level of 299 consular posts internationally to 404. Entry levels were raised, with consular officials having to take and pass the civil service exams and go through a selection committee to be appointed. Commercial Counsellors were to be selected from existing consular officers who showed a particular aptitude for commercial affairs.¹³ The aim was to improve standards to provide a service which was much more suited to the more competitive post-war trading environment, to bring it in line with the better staffed consulates of Britain's competitors. Employment terms and conditions had to be improved to attract good staff, as recruitment and retention had been a continuing problem prior to the war due to the poor salaries and limited career prospects.¹⁴

In China, the Associated Chambers of Commerce Conference lobbied for the appointment of additional Commercial Counsellors in Hankow, Tientsin and Canton, to complement the existing posts at Shanghai, Peking (North China) and Hong Kong (South China) due to there being twenty or so consulates for the existing Commercial Counsellors to support.¹⁵ It was never fulfilled, however, as although the war injected a greater impetus for strengthening government support for British traders, Britain's overstretched resources, strained even further by the financial demands of the war, always restricted the level of

¹² Dehne, 'A Commercial War', p.314.

¹³ The Commercial Diplomatic Service was created in 1918 to replace the Commercial Attaché Service.

¹⁴ A. Steel-Maitland, 'Reform and development of consular and commercial diplomatic service' in D. Cameron Watt, ed., *British Documents on Foreign Affairs*, Part II, Series K, Economic Affairs, Cultural Propaganda, and the Reform of the Foreign Office, 1910-1939, Volume 1, Economic Affairs, September 1910 - December 1933, p.32.

¹⁵ 'The Conference of Chambers: Commercial Vice-Consuls at Canton, Hankow and Tientsin', *British Chamber of Commerce Journal*, Vol. IV, 1919 (Shanghai: North China Herald), pp.292-293.

financial help available, constantly putting it at a disadvantage to the better resourced commercial services of its competitors Germany, Japan and America. America particularly expanded its service during the war, fully alert to the opportunities that the war provided to take over new markets which, under normal conditions, would have been difficult to break into. Ten of its newly appointed commercial attachés were allocated to South America which was considered a particularly promising area for development.¹⁶ Commercial matters were not highly regarded in British diplomatic circles and even as late as 1923 commercial attachés were excluded from embassy dinners.

In Britain, the initiative for closer collaboration between government and business following the German lead also continued. The newly created Federation of British Industries amalgamated with the British Manufacturers' Corporation, an organization of 300 British firms, formed for the expansion of export trade, in November 1918. It became an influential outside body which increasingly put forward the views of important sectors of the business community.¹⁷ The FBI developed into the largest and most powerful grouping of private business interests, being in direct contact with twenty thousand British manufacturers, covering every British industry. Included in its membership were two hundred trade associations with correspondents in Argentina and South China amongst other places. Its views increasingly influenced government policy about foreign trade.¹⁸

¹⁶ Avar Longley Bishop, 'Commercial Attachés and the Expansion of Foreign Trade', *American Economic Review*, 5:2 (1915), p.294.

¹⁷ P. Harvey Middleton, 'British Service for Trade Promotion and Information', *Proceedings of the Academy of Political Science in the City of New York*, 9:2 (1921), p.156.

¹⁸ P. Harvey Middleton, 'British Service for Trade Promotion and Information', pp.147-158.

In recognition of the need for a more coordinated approach to promote Britain's foreign trade, the Department of Overseas Trade (DOT) was formed. DOT was aimed at consolidating government support for foreign trade within one department, but inefficiencies persisted as arguments continued about the role of the new department, which was intended to link the Board of Trade and the Foreign Office more closely and prevent the duplications which had previously plagued both departments.¹⁹

In aftermath of Britain's economic war in China, the greater autonomy the Chinese authorities gained through their responsibility for administering the German concessions in Hankow and Tientsin, after its declaration of war, threw a spotlight on the concessions and privileges of the other foreign powers. Clawing back some control increased China's resolve to remove colonial institutions, extraterritoriality and foreign concessions which had undermined its sovereignty for so long. There was great enthusiasm amongst the young Chinese for Wilson's fourteen points and the ideals of Western democracy, Western liberal ideals and Western learning.²⁰ New groups of leaders, foreign-educated diplomats, intellectuals and bourgeoisie rose to the defence of their country and were unified in their agreement that China should modernize and be free of foreign control.²¹

Britain's pressure on the Chinese authorities to take actions against German nationals undermined the delicate balance of Anglo-Chinese relations. Britain's relentless cajoling of

¹⁹ Ephraim Maisel, 'The Formation of the Department of Overseas Trade, 1919-26', *Journal of Contemporary History*, 24:1 (1989), p.176-177.

²⁰ Margaret Macmillan, *Peacemakers, The Paris Peace Conference of 1919 and Its Attempt to End War* (London: John Murray, 2001), p.331.

²¹ Akira Iriye, *After Imperialism, the Search for a New Order in the Far East, 1921-1931* (Cambridge: Massachusetts: Harvard University Press, 1965), p.12; see also Erez Manela, *The Wilsonian Moment: Self-Determination and the International Origins of Anticolonial Nationalism* (Oxford: Oxford University Press 2007); also Erez Manela, 'Imagining Woodrow Wilson in Asia: Dreams of East-West Harmony and the Revolt against Empire in 1919', *American Historical Review*, 111:5 (2006), pp.1327-1351.

the Chinese authorities, stimulated by an all-pervading anti-German zeal, was driven by a lack of confidence in Chinese ability to carry out effective measures against the German community. The eventual expulsion of German nationals, achieved through promises of Chinese participation at the Paris Peace Conference, could only take place with approval and assistance from the Chinese authorities. It stretched Britain's extraterritorial rights to the limit and was deeply unpopular in Chinese business circles, as many had close business ties with the German business community. These actions undermined Britain's credibility, confirming Chinese suspicion that Britain's sole aim in China was to further its own commercial interests, not to assist China in its modernizing process.

These suspicions were reinforced after the war, as there was little recognition by Britain of the significant contribution China made to the war effort. It was with Chinese assistance that German businesses were closed down and German nationals expelled. The offer of military assistance on three occasions between 1914 and 1917 was rejected by the American and British governments for logistical and financial reasons as well as a lack of faith in the fighting potential of the Chinese army.²² China contributed further with its provision of the Chinese Labour Corps: 135,000 men were sent abroad, 3000 died from injuries sustained on the battlefield and 700 died in submarine attacks. Many Chinese nationals remained after the war to clear up the debris-strewn battlefields and to help with the removal and burial of dead bodies; a task which went against their cultural sensitivities as many believed that

²² Paul J Bailey, 'An army of workers': Chinese indentured labour in First World War France' in Santanu Das ed., *Race, Empire and First World War Writing* (Cambridge: Cambridge University Press 2011), p.39.

touching corpses brought bad luck.²³ A significant number of Chinese lost their lives but were not even mentioned on the memorial put up in Shanghai in honour of the dead in 1924.²⁴

China was bitterly disappointed by its treatment at the Paris Peace Conference, where its demands for sovereignty and self-determination were rejected. These legitimate claims were based on the principles of equality, justice and respect for sovereignty, key values promoted by the European International community, and an indication China felt of its readiness to join them on equal terms. There was further disappointment at the Allies' decision to honour Japanese claims to Shandong, which it justified by the agreements China had made with Japan in 1915 and 1918, and which the Chinese complained were made under duress.²⁵ The secret agreement made by the Allies with Japan in February 1917, in exchange for Japanese naval assistance in the Mediterranean, further endorsed Japanese claims to the Province. China was not a high priority in British government circles. David Lloyd George, British Prime Minister at the time of the Peace Conference, had never heard of the Twenty-one Demands and Balfour, Britain's foreign Secretary, was in sympathy with Japan and felt that China should not be given the right to something which she could never have claimed for itself.²⁶ China's refusal to sign the Versailles Peace Treaty signified a new era of self-determination in Chinese politics and sparked the nationalist May 4th movement, causing an upsurge of demonstrations and strikes throughout China. In solidarity, the merchant community formed a nationwide business association and announced a boycott of Japanese

²³ Guoqi, *China and the Great War*, Chapter 4.

²⁴ Robert Bickers, *Out of China, How the Chinese ended the Era of Western Domination* (United Kingdom: Allen Lane, 2017), p.5.

²⁵ TNA, FO 405/229, China Annual Report 1920, Relations with Japan, pp.22-25.

²⁶ Guoqi, *China and the Great War*, p.259.

goods.²⁷ A common bond was formed with Germany as parallels were drawn between China's situation and that of Germany as victims of western imperialism.

In China it was not long before German trade was back and on a more equal footing, which was much more in tune with the post-war sentiment amongst the Chinese business community. The Sino-German Treaty agreed with China in May 1921 was the first equal treaty signed with a major power since the Opium Wars, re-establishing the German community and German trade. Germany renounced all special rights and privileges, it relinquished any claim to the Boxer indemnity and paid the Chinese government a large sum to cover the expense of interning German nationals during the war.²⁸ Many German traders kept a low profile in the interior waiting for the war to end, strengthening their knowledge of the Chinese language and establishing new trading connections.²⁹ The German Clubs and schools were re-opened and new cultural associations were organized, but the war-time rifts with the foreign community were slow to heal, particularly amongst the British and French communities. Many employees, expelled from their legitimate jobs in the CMCS, with their career prospects dashed, fell on hard times and were bitter at the way they had been so harshly treated, requesting compensation for their dismissal as loyal and long-term employees.³⁰ The German community never fully recovered from its treatment during the war

²⁷ Adam Tooze, *The Deluge, The Great War and the Remaking of Global Order* (England: Penguin Books, 2015), p.327.

²⁸ Kirby, *Germany and Republican China*, p.24.

²⁹ 'German competition in China', in *British Chamber of Commerce Journal*, Vol VIII, 1923, pp.234-235.

³⁰ Ladds, 'The Life and Career of us All': Germans and Britons in the Chinese Maritime Customs Service, 1854-1917, pp.48-49.

and became less active participants in settlement life, forming closer ties with the Chinese community.³¹

In China, a more progressive approach was required to take account of the fundamental changes which occurred during the war where the Chinese were no longer prepared to accept the unequal trading environment which favoured the foreign community. During the war the Chinese business community had benefited from world demand for raw materials, and the absence of foreign competition had helped Chinese businessmen to expand into manufacturing, foreign trade and banking, previously dominated by foreign concerns. The revival of foreign trade after the war threatened this business expansion and encouraged many Chinese businessmen to support nationalist campaigns for the removal of foreign privileges which they felt gave foreigners an unfair commercial advantage.³² The modern and progressively minded Chinese who owned the new mills and factories, utilised the boycott strategy to resolve any difference of opinion between the British and Chinese authorities, as they fiercely protected and promoted their home industries.³³ British traders had to acknowledge that Chinese businessmen had benefited from the disrupted wartime trading conditions and were much more prepared to resist British intervention into their trading affairs.

³¹ Françoise Kreissler, 'In search of identity: The German community in Shanghai, 1933-1945), in Robert Bickers and Christian Henriot, eds., *New Frontiers, Imperialism's new communities in East Asia, 1842-1953* (Manchester: Manchester University Press, 2000), p.213.

³² Yuen Nui Thomas, 'The Foreign Office and the Business Lobby, British Official and Commercial Attitudes to Treaty Revision in China 1925-1930', (PhD Thesis, London School of Economics, 1981), p.45.

³³ H.H. Fox, 'Memo on effect of Boycott Movement on Japanese Trade with China' in Ann Trotter, ed., *British Documents on Foreign Affairs, Part II, Series E, Asia, 1914-1939, Vol 25, China, June 1921 – October 1921*, pp.125-127.

Jordan was only too well aware of the new spirit which had taken hold in China and advocated a more enlightened policy in Asia based on his wide experience and deep knowledge of Chinese affairs. He recommended building a relationship in which all foreign concessions would be internationalized and neutralized and spheres of influence abolished. This would make terms such as 'open door' and protecting China's integrity realities rather than the meaningless expression they so often were at the time.³⁴ Jordan's pleas went unheeded as Britain's continuing relationship with Japan influenced British policy and Government officials in London stressed the importance of defending Britain's established position in China, which meant retaining spheres of interest and extraterritorial privileges. These policies were supported by the business community who felt that any abrogation of special privileges enjoyed by the foreign trading community would have a negative impact on their trading affairs.³⁵

After the war, Britain's formal and informal institutions remained intact. It still continued to exert a significant influence in Chinese affairs, retaining its longstanding network of trading connections but Britain's own position in China was altered irrevocably. Commercial jealousy had fuelled the commercial war against Germany but Britain's relative decline was a continuing process which had begun in the late nineteenth century, when Britain was highly vulnerable to the forces of international competition, a situation which could not be reversed by the destruction of the commercial network of an important commercial rival.³⁶ Britain had to accept that its position in the East Asian international

³⁴ Tooze, *The Deluge*, p.322.

³⁵ Redford, *Manchester Merchants and Foreign Trade*, Vol.II, 1850-1939, p.229.

³⁶ Alford, *Britain and the World Economy since 1880*, p.121-122.

commercial community was dramatically weakened as Japan and America emerged as victors in the competitive post World War trading environment. Whereas Britain monopolized 70 percent of trade at the end of the nineteenth century, by 1920 this had been reduced to 38 percent. In Shanghai alone 100 new American firms, including several banks and shipping companies, started business in 1919.

Much as Britain justified its continuing tutelage of the young Chinese Republic on account of the ongoing divisions with the Chinese authorities and their lack of experience, Britain's presence was increasingly challenged by resistance to its privileges and influence over Chinese affairs. The European image of cultured civilization had been tarnished by the blood and mud on the western front, and the pre-war mechanisms of control were no longer effective as China splintered into a patchwork of semi-autonomous territories where no government authority could be held accountable for any local incident.³⁷ Attacks on foreigners became more commonplace as respect for them diminished, and their particular consular authorities were less able to protect them. The emergent nationalist movements, which took hold of many educated Chinese, increasingly questioned the western presence and saw them actively campaigning for self-determination as part of a broader revolt against imperialism in China.³⁸

This thesis has provided a wide-ranging study of the impact of economic warfare on the periphery of Britain's empire. Adding to existing literature about informal empire and the history of Shanghai, this short period of China's history reveals the limits of conducting

³⁷ Jürgen Osterhammel, 'China', in Judith Brown and Wm Roger Louis, eds., *The Oxford History of the British Empire, Twentieth Century* (Oxford: Oxford University Press, 1999), p.647.

³⁸ Roberta Allbert Dayer, *Bankers and Diplomats in China 1917-1925* (London: Frank Cass & Co Ltd., 1981), p.63.

economic warfare in a globalized economy. It shows how what started out as moderate policies of economic warfare developed in an all-out campaign to destroy a commercial rival. Breaching the sovereignty of a neutral nation and impinging on the rights of businessmen, Britain's self-interested actions proved to be ultimately unsuccessful in the long-term, not only did they fail to destroy German trade, they damaged Britain's position permanently and inadvertently enabled Germany to negotiate a more equal trading position in China, which was more in tune with the post war environment. Foreign competition continued unabated but there seemed no end to Britain's imperial ambition as it became responsible for even more territory after the post-war settlement, just at a time when more progressive policies needed to be introduced to equip British trade for the more competitive post war global trading environment, and which took greater account of the voices of the indigenous people living in its vast empire.

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