

SMUGGLING, STATE-BUILDING, AND POLITICAL
ECONOMY IN COASTAL CHINA, 1927-1949

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Abstract

This study looks at Nationalist China's war on smuggling from 1927 to 1949 to explore the transformation of state authority and the larger socioeconomic impact of state-building. The recovery of tariff autonomy in the late 1920s empowered the Nationalist government to raise duties on foreign goods for the first time in nine decades. Higher tariffs and stricter controls on trade provided the new state critical revenues to meet an array of urgent domestic needs and foreign threats, but they also created a full-blown smuggling epidemic by making smuggling a very profitable enterprise. To meet this challenge to its authority, the state fought back with an extensive campaign to stamp out smuggling, created new definitions of legal trade, and asserted its prerogative to police borders.

This study argues that the suppression of smuggling was more than a law enforcement issue: it was integral to broader state efforts to extract fiscal resources, broadcast central authority, and delineate new boundaries of legality. Merchants and other smugglers, meanwhile, did not passively accept growing state strictures but adopted a range of responses, from compliance to evasion, that helped shape the contours of an emerging legal regime. How the state asserted its prerogative to tax, regulate, and police trade—and how mercantile circles responded to this expansion of state power—are questions at the core this study.

Using diverse sources such as customs records, legal cases, government correspondences, and popular press reports from ports along coastal China, this study

chronicles both the campaign to fight smuggling from the top, as well as the range of reactions to official efforts from the bottom. In addition to issues in Chinese studies, I also engage with wider research in legal and economic history in examining the creation and enforcement of new legal categories as well as strategies merchants employed in response to changing business environments.

Dedication

for my mother and father,
who sacrificed everything.

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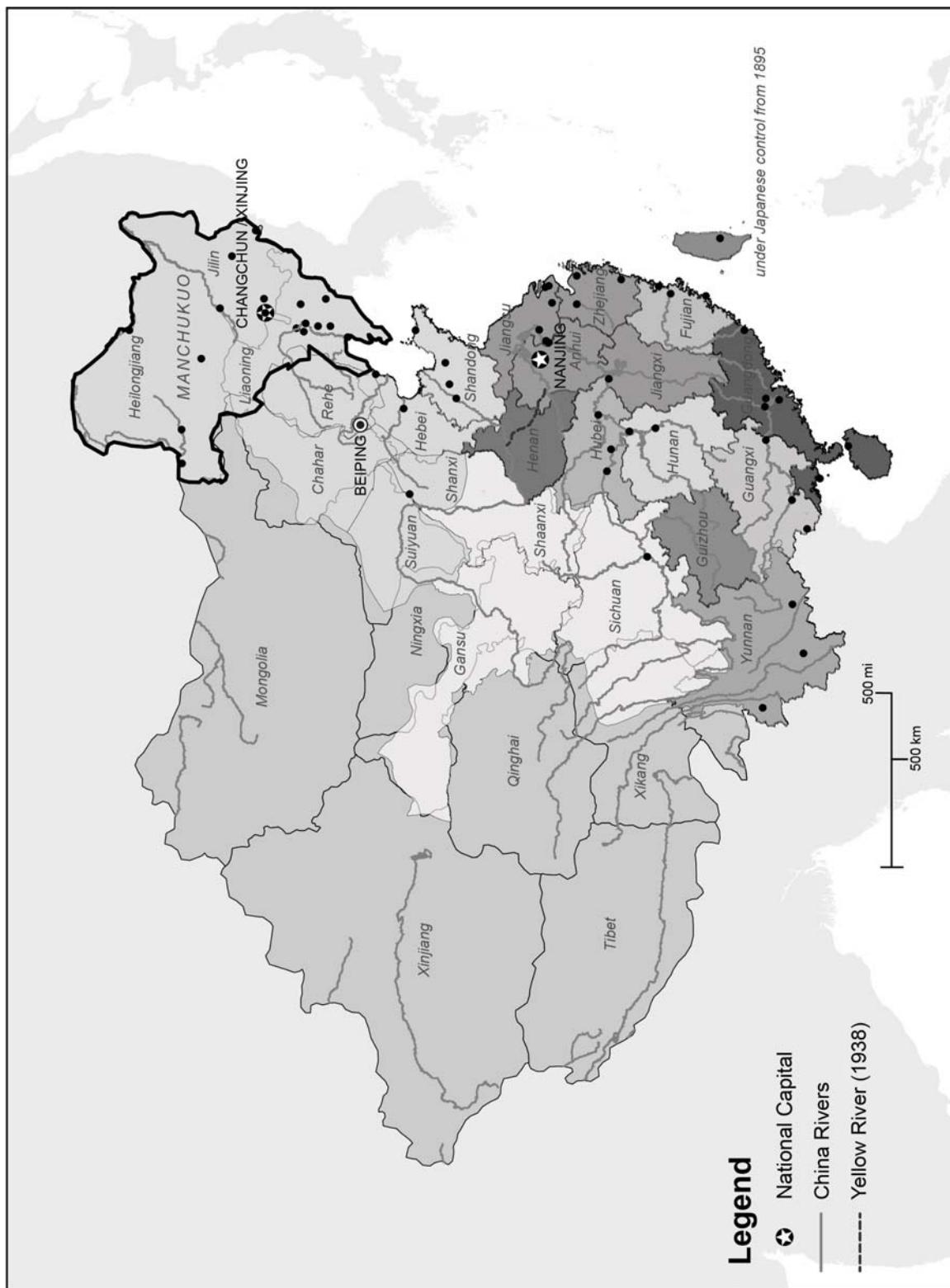
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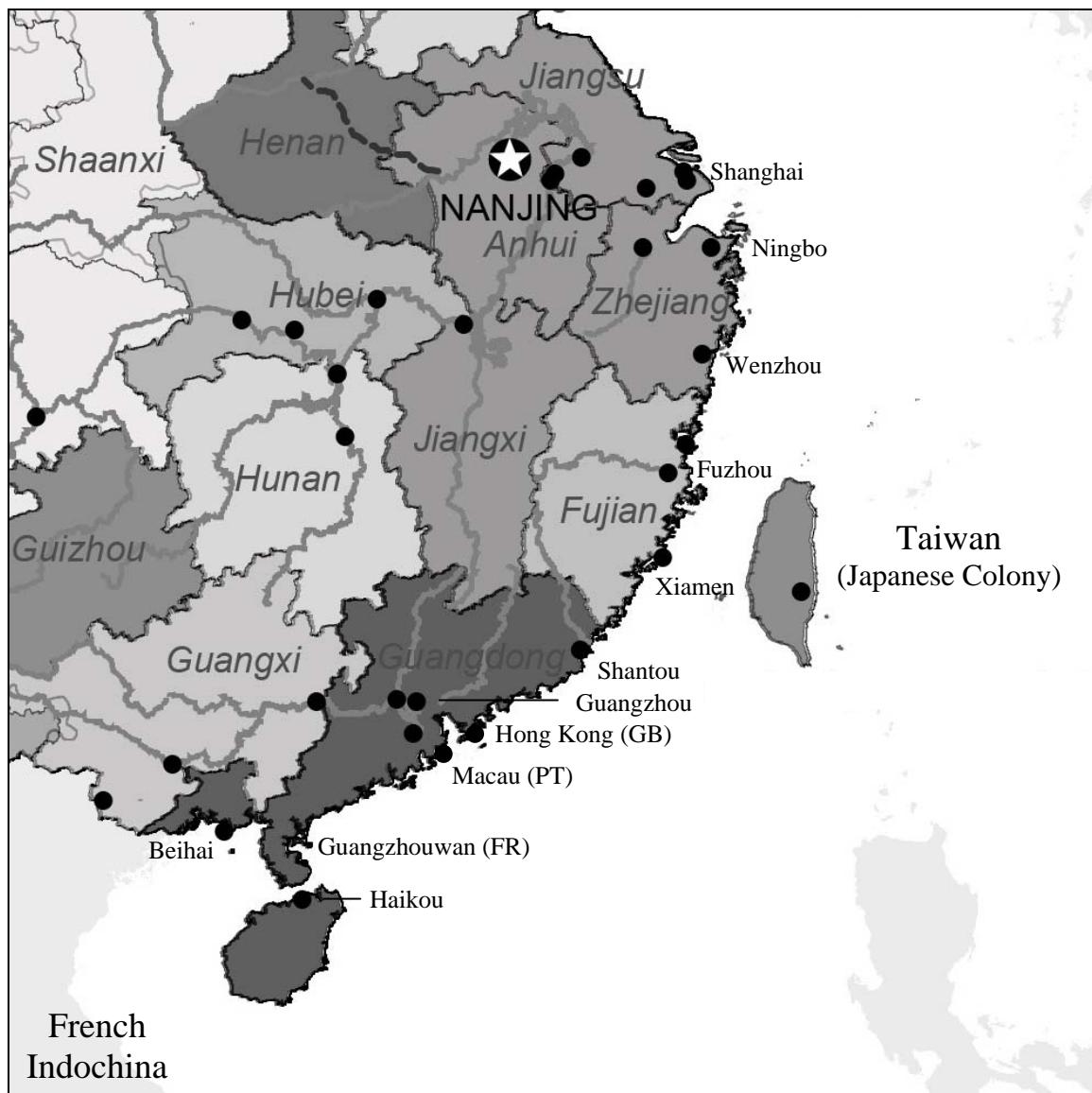
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SOURCE: "The Semantics of Smuggling in Republican China—the Nationalist State and its Policing of Trade, 1927-1945" by Felix Boecking. Map Credit: C. Scott Walker, Harvard College Library.



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Introduction

This dissertation chronicles the vicissitudes of central government power during a period in modern Chinese history notable for fragmented sovereignties and economic instability. It is a study that traces, on the one hand, the state's efforts to regulate, tax, and police trade, and, on the other, the conflicts these very efforts provoked. At the heart of this conflict was a transformation in state authority through the suppression of smuggling. Although a longtime nuisance to authorities, illegal trade became a direct threat to government finances and public order with the introduction of new fiscal policies in the early twentieth century. The Nationalists—after recovering China's tariff autonomy in 1928—successively raised duties on foreign goods and asserted more control over trade. Higher tariff revenues provided the nascent regime critical financial resources to meet an array of urgent domestic and foreign challenges, while stricter regulations empowered the state to better control the movement of goods, people, and capital and mediate the changes wrought by global capitalism across its borders. The Nationalists intended these new measures to help them build a modern China, but they also inadvertently created a full-blown smuggling epidemic by raising the incentives for everyone to evade duties and circumvent regulations. In response, the state embarked on an aggressive expansion of its administrative, technical, and legal infrastructure—a process that was without precedence in Chinese history.

My study uses China's war on smuggling during Nationalist rule (1927-49) to examine the transformation of state authority and the larger socioeconomic impact of

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state-building. Specifically, I argue that the suppression of smuggling was integral to state efforts to extract fiscal resources, broadcast central authority, and delineate new boundaries of legality. The direction of this process was neither linear nor inexorable. For every two steps forward the state took in fighting smuggling and extending its authority, it took one step backwards in combatting new challenges, partly from exogenous economic changes, partly from reactions to its policies.

The path of state-building thus zigged and zagged, as it did not simply unfold unidirectionally. Merchants and other smugglers did not passively accept growing state strictures but adopted a range of responses—from compliance, to evasion, to outright resistance—that helped shape the contours of an emerging legal regime. How the state asserted its prerogative to tax, regulate, and police trade—and how mercantile circles responded to this expansion of state power—are questions at the core of my research.

As the first comprehensive study to explore the link between smuggling and state-building in China, this project uses newly-available sources to highlight an important but overlooked dynamic in the emergence of the modern Chinese state. By examining the contested meanings and multiple uses of law and the ways merchants adapted to changing business environments, it will also engage with wider scholarship in legal and economic history.

The Issues

State-Building in Modern China

The war on smuggling was a product of two countervailing political trends stretching back to the mid-nineteenth century. The first was the steady devolution of fiscal authority from the center to the localities. A series of “unequal treaties” beginning

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with the Treaty of Nanjing (1842) forced the Qing court to maintain tariffs on foreign goods at a flat 5% rate. Meanwhile, a weakening geopolitical position and severe domestic unrest forced the court to outsource many important revenue collection responsibilities to tax farmers, inadvertently strengthening provincial and local leaders who were permitted to collect and retain taxes on domestic trade.¹ The inability of the central government to raise sufficient revenues persisted into the early years of the Republic after 1912, when imperial rule came to an end. As historian R. Bin Wong notes, the late imperial Chinese state had been unitary, but “the collapse of the dynasty brought a halt to central control over finances and personnel decisions.”² Recovery of tariff autonomy in 1928 gave the Nationalist regime—who by then assumed the mantle of China’s central government—the resources to reverse this trend and build a strong, unified state.³

At the same time that fiscal authority progressively fragmented, officials embarked on successive attempts, however faltering, to refashion the state to meet foreign and domestic challenges. Qing officials and their Republican successors directed resources and attention to, among other things, creating a modern army along Western lines, promoting strategic industries, and developing economically vital locales.⁴ State-building efforts accelerated under Nationalist rule, as the regime adopted a range of policies to centralize authority, eliminate domestic rivals, assert China’s sovereignty on the international stage, and realize its vision of a unified modern China. To Prasenjit

¹ The most notable was the *lijin*, or the transit tax. As Luo 1936 and Mann 1986 note, though the Qing court exercised control over where *lijin* could be directed between provinces, for the most part it permitted local officials to retain a substantial proportion for local military projects. Local officials also frequently underreported *lijin* collection, further depriving the central state of much-needed funds.

² Wong 1997: 169.

³ Japan was the last holdout in consenting to China’s recovery of tariff autonomy in 1930.

⁴ See, for example: Wright 1957, Feuerwerker 1958, Chan 1977, and Pomeranz 1995.

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Duara, these developments—“the impulse toward bureaucratization and rationalization, the drive to increase revenues for both military and civilian purposes, the often violent resistance of local communities to this process of intrusion and extraction, and the effort by the state to form alliances with new elites to consolidate power”—resembled the process of state-building that scholars such as Charles Tilly had identified in the case of early modern Europe.⁵

Stated in these terms, the war on smuggling contributed to almost every criterion of Duara’s description. The regulation, taxation, and policing of trade constrained the freedom of the general populace while considerably enlarging the state’s functions and deepening its presence in everyday life. The suppression of smuggling thus accords with Frederic Wakeman’s observation that increasing coercion and “the rise of the modern police state” were the defining characteristics of state and society relations in China during the 150 years from the late imperial era through the Republican and Communist eras.⁶ A major contention of this study is that the war on smuggling provides another important avenue into understanding the state-building process in modern China. If Charles Tilly is correct in positing that endeavors such as taxation and conscription were “difficult, costly, and often unwanted by large parts of the population [but] essential to the creation of strong states,” the same can certainly be said of efforts to curb smuggling, which restricted free and unfettered trade.⁷

Moreover, the war on smuggling was also a culmination of changing notions of state-economy relations. Wen-hsin Yeh identifies the “material turn” that unfolded in China over the one hundred years after the First Opium War (1839-42), where issues of

⁵ Duara 1998: 2.

⁶ Wakeman 1991.

⁷ Tilly 1975: 6.

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economy came to occupy a central concern in governance and everyday life. This was a marked shift from the past, when longtime dominant Confucian precepts advocated a limited role for the state and emphasized the importance of social relations over commercial activities. Indeed, while both the Ming and early Qing dynasties levied many taxes and operated monopolies on several commodities, neither significantly interfered with market freedom. Nor did they strictly enforce existing regulations on commerce, often preferring to delegate such responsibilities to mercantile groups and other local elites. An important tenet of post-Opium War statecraft, by contrast, held that regulating commerce was simply another avenue for the empire (and later nation) to resist foreign imperialism as part of a broader “war of commerce” (*shangzhan*). By the late Qing and early Republic, the state assumed a greater role in the economy, as the pursuit of development and the defense of China fused into a single goal. By the 1920s and 1930s, the Nationalist government sought to exercise even more pervasive and intrusive control over the economy. As Yeh notes: “The state...assumed new functions, expanded its power, and established an increasing presence in the everyday lives of the people.”⁸

This dissertation builds on Yeh’s insights by looking at the formulation and implementation of trade regulations that accompanied the discursive shift in state-economy relations. In chronicling the war on smuggling, this study explores how the Nationalists—their coffers funded by sizeable and dependable tariff revenues—created and enforced a new legal infrastructure that helped translate a stronger role for the state in commerce from ideal into a reality. As tariff revenues became increasingly critical and

⁸ Yeh 2007: 31. For the “material turn,” see: 9-13. For “war of commerce” rhetoric, see 17-27. For the state’s new role in the economy, see: 30-1, 49-50.

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smuggling increasingly menacing, the state would insert itself into the economy in unprecedented ways, employing more controls, more surveillance, and more coercion that Wakeman identified as the overall trend percolating in China since the late imperial era. More expansive state intervention, in turn, generated more widespread social friction that Tilly described in the case of state-building in early modern Europe.

Political Authority and its Challengers

This dissertation also examines how the Nationalists' increasing centralization of authority over trade created great apprehension—if not outright resistance—from a range of economic and political actors. Not surprisingly, a major source of this discontent emanated from the provincial and local governments that had benefited from the devolution of central power since the mid-nineteenth century. By the late 1920s, some of these governments were under the control of warlords openly hostile to the Nationalist regime; others were more collaborative in their disposition or at least less vehement in their hostility. All, however, were ambivalent about surrendering any degree of independence. This general antipathy stemmed from the adverse impact of tariff uniformity and trade regulations on both sides of provincial and local authorities' financial ledger. On the revenue side, the encroachment of central authority into their own spheres of influence threatened the tax and anti-smuggling bureaus that local authorities themselves administered and on which they relied for their funding. On the expenditure side, the same local governments were expected to cooperate with the central state and assume the responsibility for prosecuting suspected smugglers through the legal system. Fighting smuggling, in other words, represented an unfunded mandate imposed by the central state on local governments.

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But beyond financial considerations was the issue of political authority. Who had the power to define this “crime”? As the British historian of crime J. A. Sharpe observes, “the word crime is a general blanket term rather than a precise analytical or descriptive category.” In practice, defining any given behavior as “criminal” ultimately “varies according to different circumstances or social conventions, and there is a constantly moving frontier of what is, and what is not, acceptable conduct in any given society.”⁹

Smuggling shares crime’s general definitional elasticity, but the boundaries of that definition were dependent less on prevailing standards of morality and more on political calculations. Indeed, smuggling as a category of crime is entirely a function of governmental decision to tax, regulate, or prohibit a given commodity; no fixed ontology of smuggling exists.¹⁰

Multiple and competing sovereignties across China exacerbated the problems associated with smuggling’s arbitrary nature and changing definition over time. Goods that could be lawfully imported into one locale might not enjoy similar legal status when imported into another. Duties paid to one agency might not be enough to legitimate the imported commodity if duties were not also paid to another agency. To *whom* duties were paid was in some cases just as important as *whether* duties were paid at all in defining “smuggling.” Imperialism and extraterritoriality further complicated this picture: foreign concessions, colonies, and consular protection for imperial subjects all impeded the Nationalists’ attempts to regulate trade within China’s continental and maritime borders.

⁹ Sharpe 1998: 5. For more on the criminalization of existent forms of social behavior as a window into prevailing ideologies of the state, see especially Hay, et al 1975 and Thompson 1975.

¹⁰ Tagliacozzo 2005.

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In sum, the expansion of central authority over trade not only challenged provincial and local governments' prerogative to tax and spend. It also redefined their jurisdictions and responsibilities to their detriment. To borrow the metaphor employed by Charles Tilly, the central state behaved almost like a "protection racket," subordinating or "muscling out" its competitors at the provincial and local level.¹¹ This dissertation will also investigate the dynamics of the conflict between ambivalent localities and an increasingly assertive center.

Smuggling in World History

Scholars have recently turned their attention to smuggling as a subject of historical inquiry, showing illicit commerce's central role in both undermining and reifying state authority. Their approach and interpretative thrust fall into two groups, each situated on one side of the early modern-modern divide. Historians of the early modern Atlantic world, in particular, have built on previous work that viewed smuggling as "a neglected aspect...of commercial development."¹² In reconstructing the contours and dynamics of the region's "informal" economy, this wave of research has been able to tease out the inter-imperial connections that lubricated, or even made possible, the circulation of goods, people, and ideas. Such illicit commerce, according to the historian Bernard Bailyn, bound markets in the Atlantic world together, despite official mercantilist policies designed to keep them apart.¹³ In examining its dynamics, scholars have also embedded smuggling into a broader analysis of culture, legal practice, and

¹¹ Tilly 1985.

¹² Ramsay 1952: 131-2.

¹³ Bailyn 2005.

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economic life in the Atlantic world.¹⁴ Historians looking at smuggling in late imperial China, for their part, have discovered similar connections linking the Ming and Qing empires to the wider global economy, despite various court prohibitions on maritime trade.¹⁵ Smuggling was not simply *an* aspect of commerce—it *was* commerce writ large.

More broadly, researchers looking at smuggling in the pre-modern world have emphasized connections, calling attention to the fragility of state authority and implicitly warning scholars against anachronistically projecting the Westphalian model of the nation-state backwards in time. (Putting aside, of course, the question of whether such a model exists in practice.) As Lauren Benton reminds us: “[S]overeignty is often more myth than reality, more a story that polities tell about their own power than a definite quality they possess. Most boundaries are porous and many are contested, and states cannot consistently enforce laws to regulate activities across and within borders.”¹⁶

Meanwhile, historians of the modern world (particularly European and white settler colonies) have explored smuggling’s complicated and contradictory relationship with the emergence of the modern state.¹⁷ These scholars have shown, on the one hand, how activities like smuggling did indeed undermine borders and state authority, once again highlighting the stark contrast between state power in representation and state power in practice. Yet these same scholars have shown, on the other hand, how smuggling also helped reify borders and state authority. States and their agents invested considerable efforts to map boundaries, enforce regulations, and suppress cross-border

¹⁴ For examples, see Grahn 1997, Karras 2010, Klooster 2009, Rupert 2012, Smith 2006, and Truxes 2008. Generally, the pivot of illicit traffic in the Atlantic World was the Caribbean.

¹⁵ Viraphol 1977 and Murray 1987 are the classic works in this field. More recent scholarship includes Antony 2010 and Van Dyke 2012.

¹⁶ Benton 2010: 279.

¹⁷ For examples, see Andreas 2013, Chang 2012, Cohen 2010, Schayegh 2011, and Tagliacozzo 2005.

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illicit activities—even as tighter global economic connections made such endeavors task more difficult. Indeed, the historian Kornel Chang writes: “Connections and transformations wrought by a globalizing world kindled a countermovement to solidify national borders.”¹⁸ Although he was referring to the movement of people and capital between Asia, Canada, and the United States, Chang’s description applies in other contexts as well. As the historian Christopher Bayly reminds us: “By the late nineteenth century, most regimes throughout the world were attempting to control closely defined territories by means of uniform administrative, legal, and educational structures. They wished to mark out with maps and surveys the extent of their resources and tax and utilize them in a coherent way.”¹⁹ Unlike their early modern predecessors, modern states were able to employ new technologies in transport, communication, and warfare to project their authority across vast distances within shorter times. States have long possessed “despotic power” (the capacity to make autonomous decisions), but it was these technologies that helped enhance their “infrastructural power” (the capacity to penetrate and influence society and implement decisions) and bring stronger regulatory authority to the margins.²⁰

Indeed, even while full and uncontested state control within well-defined territorial boundaries remained elusive (and perhaps an impossible ideal to realize), official efforts at coercion through policing, regulation, and new technologies ultimately made these hallmarks of territorialized sovereignty less myth and more real. Suppressing smuggling thus satisfied several aspirations of the modern state Bayly identified—it helped better control borders, introduce greater uniformity in regulations, and protect

¹⁸ Chang 2012: 3.

¹⁹ Bayly 2004: 247.

²⁰ Mann 1984. I found this reference from Andreas 2011.

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critical revenues. Furthermore, in employing various techniques of control and surveillance, the suppression of smuggling was but one of many projects initiated in the colonies (“laboratories of modernity”) and eventually imported into the metropole.²¹ From the perspective of this research, smuggling was therefore not simply a marginal illicit economic activity but an important phenomenon in accounting for the emergence of the modern state.²²

In looking at smuggling and its suppression in coastal China, this study incorporates—and builds on—both approaches. It explores how smuggling connected coastal China with far-flung economies despite ever-changing regulations and levels of enforcement. Merchants, consumers, and other smugglers continually found creative ways to defy state strictures and evade taxation to trade for profit or survival. Such activities certainly made a mockery of Nationalist pretensions as China’s undisputed central government and sole arbiter of legality. Yet this study also shows how, in coastal China as elsewhere in the nineteenth and twentieth century world, suppressing illicit maritime activities contributed significantly to modern states’ ability to assert sovereignty and extend control over society, economy, and territory. The Nationalists accelerated many state-building initiatives of their predecessors, while doing so under semi-colonial constraints and an unfavorable geopolitical environment. Whether Nationalist policies succeeded or failed in eradicating smuggling is less important to this study than their significance for our understanding of modern state-building and their multifaceted impact on society and economy.

²¹ Stoler and Cooper 1997. Both, however, remind scholars to consider the constraints within which European imperialist projects labored.

²² Although focusing on eighteenth century Great Britain, Winslow 1975 looks at the violent suppression of smuggling by the authorities and the virulent resistance by smugglers as an outgrowth of class conflict in the transformation of traditional agricultural society by a nascent capitalist economy.

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Legal and Economic History

A key contention of this study is that smuggling is an unintended consequence of state regulations, which accords with the findings of scholars who have studied the range of licit and illicit responses to state rule-making. As the economist Lee Benham notes: “The motivation for introducing new regulation is generally to influence behavior[.] However, regulation often influences behavior in ways that differ from their initially stated rationale.”²³ The Nationalists certainly did not intend to create a smuggling problem when they introduced new regulations to tax and regulate trade, but new policies nonetheless stimulated creative, sometimes violent, responses. Judging from the historical record, this resistance to the state’s intrusion into the realm of trade proved to be both widespread and intense. As this study will show, the dynamics of smuggling and its suppression other scholars have identified in different contexts apply equally well to China during this period. The range of goods smuggled was virtually unlimited, from contraband like arms and narcotics, to high-value commodities like precious metals, to everyday products like sugar and kerosene oil. The actual quantity of goods, their specific nature, their modes of transit, and their geographical points of entry and exit varied over time in response not only to the raw forces of supply and demand but also to the complex mix of trade regulations and law enforcement. Commodities like narcotics remained a popularly-trafficked good irrespective of political and economic circumstances. Others like sugar and rayon were trafficked in response to rising tariffs imposed after recovery of tariff autonomy.

The identities of the “smugglers” themselves were just as elastic. This amorphous, state-defined category might include anyone from professional criminals, to

²³ Benham 2005: 591.

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itinerant peasants, to corrupt officials, to unassuming travelers. Most prominent within this group, not surprisingly, were merchants, whose operations shaded into different degrees of legality depending upon context. Eric Tagliacozzo, referencing James Scott, rightly noted that mobility and profit gave maritime merchants both the means and the motivation to practice “everyday resistance” against state strictures through smuggling.²⁴ Moreover, state-building through extending control over previously unregulated realms or grafting an administrative infrastructure onto an already-existent economy naturally provoked resistance. As Tagliacozzo observes in the case of Southeast Asia, “some of these traders were merely continuing age-old commodity lines that only now were designated as contrabanding by area governments. Others saw the new imposition of borders and rigid controls as an opportunity to make money from the changing political and economic circumstances.”²⁵ Like their counterparts elsewhere, merchants in China generally resisted state interference into ongoing operations and were loath to surrender a portion of their profit to pay taxes or duties.

Indeed, the interplay between smuggling and its suppression offers scholars another vehicle to interrogate the problematic categories of criminality and thereby avoid unconsciously appropriating state-centered discourse that treats violations of state strictures and unauthorized movement across borders as *ipso facto* illicit. As anthropologists Josiah Heyman and Alan Smart note, “illegal practices” should not be viewed “as a category of abnormal behaviors...but rather as an option, a resource, that diverse groups use at varied times.”²⁶ Taking this logic further, Willem van Schendel and Itty Abraham have urged researchers of illicit practices to “discard the assumption that

²⁴ Tagliacozzo 2005 and Scott 1985.

²⁵ Tagliacozzo 2005: 8.

²⁶ Heyman and Smart 1999: 13.

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there is a clear line between illicitness and the laws of states.” In addition, they note, so-called “transnational criminal activities” like smuggling are “*forms of social practice* that intersect two or more *regulatory spaces* and violate at least one normative or legal rule.”²⁷

The concept of “social practices” crisscrossing “regulatory spaces” is very helpful to our analysis of smuggling. There was no shortage of individuals, communities, and organizations willfully flouting the prerogative of the central government to regulate and tax trade. But as this dissertation will also illustrate, new efforts by the state to collect new taxes and enforce restrictions on movement also criminalized existent patterns of commerce and other behaviors. To borrow van Schendel and Abraham’s terminology, the regulation and policing of trade effectively represented attempts by the central state to expand and enforce new regulatory spaces. In some instances, they encroached upon the regulatory spaces of local governments and thus created conflicts over jurisdictions. In other instances, they criminalized existing practices that would now be labeled “smuggling.”²⁸ As this dissertation shows, in addition to creating new categories of legal practices, the Nationalists’ delineation of new regulatory spaces and enforcement of boundaries serve as an example of state efforts exacerbating—or even creating—the very crime that was the target of such efforts.²⁹

Repeated interactions with authorities, however, also provided an imperative for merchants to reach some sort of accommodation with regulators, secure protection for

²⁷ Schendel and Abraham 2005: 7, 15. Emphasis original.

²⁸ Bettina Bruns and Judith Miggelbrink (2012: 11): “In theory smuggling and small-scale trade differ in accordance to their legal status... Legality respectively illegality thereby is not a natural feature of a person or a thing but the result of an external labeling process through which the attribute of being legal or illegal is applied.”

²⁹ See for example Tagliacozzo 2005 and Scott 2009. See also, in particular, the “classics” in the English social histories of crime: Thompson 1975 and Hay, et al. 1975.

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their businesses, or at least minimize disruptions. While the incentives to evade state control and taxation were great, it must also be recognized that smuggling did not produce uniform benefits for all. Some certainly profited from circumventing tariff walls or exploiting arbitrage opportunities created by legal sanction. Others without access to illicit trade networks or the inclination to tap them, however, were undercut by what they perceived to be illegal or unfair competition. Still others probably found themselves moving between profiteer and victim. To continue with Tilly’s analogy, merchants “shopped” for protection among a multitude of competing sovereignties in exchange for taxes as “payment.” The Nationalist regime, with its control of the national organs of the state (including, most importantly, the Customs), ended up competing with other authorities to compel the compliance of merchants with its tariff regime.

An examination of this balance between resistance and accommodation in overall state-merchant relations speaks to existing debates in Chinese economic history. A popular subject among scholars looking at China’s relatively lackluster development prior to 1949 is the supposed “anti-business” bias of Chinese authorities.³⁰ Until recently, it was widely accepted that tight political controls eventually contributed to economic failures and the defeat of the Nationalists in 1949.³¹ An examination into state-building efforts in the realm of trade, informed by new sources, offers a fresh opportunity to revisit this important issue. Recent scholarship has made significant headway by reconsidering the degree to which merchants could profit and even prosper under nominally adverse political conditions.³² This study will further that effort,

³⁰ Lai 2003 offers an overview of this debate.

³¹ For a sample of this scholarship, see Eastman 1974, Coble 1980, Rawski 1989, and Bergère 1989.

³² Sheehan 2003 illustrates the strategies of bankers in maintaining continuity of operations in the face of constant regime changes during the Republican period. Zelin 2005 and Brokaw 2007 show how

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complementing the top-down perspective on state-building to consider the many bottom-up responses of merchants to the regulation and policing of trade.

The Chinese Maritime Customs Service: An Overview

The Maritime Customs in History

At the center of China’s war on smuggling and the expansion of central governmental powers was the Chinese Maritime Customs Service.³³ Its organization and overall history have been covered by many scholars,³⁴ but a few key milestones in the agency’s evolution and important facts about its operations relevant to our discussion are worth summarizing here. The agency was founded in 1854 by a triumvirate of British, American, and French consuls to collect duties on maritime trade in Shanghai as stipulated by the terms of the Treaty of Nanjing when Chinese officials were unable to do so during the chaos of the Taiping Rebellion (1851-64). Originally created to assess duties on international maritime trade in a handful of treaty ports, the Customs and its responsibilities and geographical reach expanded steadily in subsequent decades. By 1930, the agency had a presence in almost fifty ports throughout China, monitoring, regulating, and taxing both international and domestic trade and interacting daily not just with shippers and merchants but also with travelers, peasants, and government officials. Its functions were far-ranging and its presence far-reaching: it is perhaps no exaggeration

“traditional” networks or kinship ties—faulted by past scholarship as inimical to creating a “modern” economy—were crucial in accounting for business success. Cochran 2006 explores the ways in which Chinese medicine businesses successfully evaded international and domestic political barriers through peace and war during the first half of the twentieth century.

³³ Until the end of the Qing dynasty in 1912, the agency was officially known in English as the “Imperial Chinese Maritime Customs.” At the risk of anachronism but for the sake of simplicity, I will use the name “Chinese Maritime Customs Service” throughout my discussion when referring to the agency.

³⁴ For a classic account of the Customs’ origins, see Fairbank 1953. For a comprehensive account in Chinese see Chen 2002.

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to state that the Customs was deeply embedded in the everyday lives of millions of Chinese.

The agency itself was headed by an Inspector General (*Zong shuiwu si*) based in Beijing until 1929, when the Customs' Inspectorate General Office was relocated to Shanghai. Each station or customs district was headed by a commissioner (*shuiwu si*) who was appointed by the Inspector General and reported directly to him. The post of Inspector General was held exclusively by non-Chinese (almost all of whom were Britons) during the entire period of the Customs' existence.³⁵ A handful of Chinese began serving as commissioners from the late 1920s. Chinese members made up the majority of the outdoor staff and an increasing proportion of the indoor staff as the Nationalist regime pressed to "Sinicize" the agency.³⁶

Although foreign-staffed at senior levels, the Customs operated as a bureaucratic arm of successive Chinese governments on a largely uninterrupted basis from 1854 to 1949.³⁷ During the Qing dynasty, it reported to the Zongli Yamen (the Qing court's foreign affairs ministry) and then to the Ministry of Foreign Affairs after 1901. It later reported to the newly-created Revenue Bureau (*Shuiwu chu*), as part of a government reorganization in 1906, and to the Beiyang government, the Beijing-based republican

³⁵ The British government in the late nineteenth century obtained an understanding with its Chinese counterpart that the post of inspector general would be held by a Briton as long as Great Britain predominated Chinese foreign trade. The only official non-British inspector general was American Lester Knox Little, who served from 1943 to 1950, when he tendered his resignation to the Nationalist government in Taiwan. Kishimoto Horiuchi, a longtime senior Customs official, served as inspector general from 1941 to 1945 under the Japanese-sponsored Wang Jingwei regime. His tenure, however, was retroactively invalidated at the Pacific War's conclusion.

³⁶ The Nationalist government obtained an understanding with the Customs that no non-Chinese—unless they possessed specific technical skills—would be recruited into the agency.

³⁷ An important exception would be the period from 1941-45, when the outbreak of the Pacific War removed any implicit Western protection the Customs might have enjoyed against Japanese aggression. During this period, two competing agencies claiming to be the legitimate Customs emerged: one under the Japanese-sponsored Wang Jingwei government in Shanghai, the other under the "Free China" Chiang Kai-shek government in Chongqing. For further details, see Bickers 2008.

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successor to the Qing dynasty, until 1928. When the Nationalists defeated the Beiyang government and declared themselves as China's new legitimate central government, their Ministry of Finance (*Caizheng bu*) placed the Customs under the jurisdiction of the Guan-wu Shu (Office of Customs Affairs). (See Figure I-1.) Despite reporting to successive central-level regimes, it should be noted that the Customs maintained its institutional integrity during the almost one hundred-year span of its existence. No other Chinese governmental institution or agency operating during the same period can make a similar claim of longevity or continuity of operations.

The Maritime Customs in State-Building

It is difficult to overstate the importance of tariff revenues to the central government's fiscal health and state-building ambitions. Customs duties were the only reliable source of income that remained under the control of the central government from the late nineteenth century to the dawn of the Nanjing Decade. They became even more important as provincial and local governments stopped remitting revenues from the land tax and the salt gabelle after 1912. The unequal treaties constrained the state from setting tariffs on foreign goods, but what duties it did receive were still sizeable. The Qing court, in fact, came to depend on customs revenues to provide a counterweight to provincial governors and governor-generals who were building an independent fiscal base through transit taxes after the Taiping Rebellion (1851-64). During the final decade of the nineteenth century, customs duties were estimated to make up roughly a quarter of the Qing court's revenue and ranked second only to land taxes in size.³⁸ Customs duties were also used to collateralize China's indemnities from the First Sino-Japanese War

³⁸ Land taxes totaled roughly 25 million taels; customs duties came in at just under 22 million taels. See Feuerwerker (1980: 63) for more specific data.

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(1894-95) and the Boxer Uprising (1900-01), as well as a host of bonds floated on domestic and international capital markets by the Beiyang and Nationalist governments.³⁹ So crucial was the Customs to the Nationalist regime's financial health that the duties it collected represented 30% to 60% of annual government revenue from 1928 to 1937.⁴⁰ In sum, customs revenues were critical in enabling the central government to expand its military, fund its administration, borrow from capital markets, and invest in other trappings of a modern state. Tariff autonomy promised to expand the pool of financial resources. Viewed in this light, smuggling represented more than just a threat to revenues; it represented an existential threat to the central government.

Due to its importance to China's ability to pay down its obligations abroad, the Customs enjoyed implicit (and sometimes explicit) backing by foreign creditors and their respective governments and armies. In combination with the prominent role of non-Chinese officials on its senior staff, this reliance compromised the agency as fully "Chinese" in the eyes of many even as it became more integrated within the Chinese central state. The Customs' problematic status, however, did have one important benefit. While its day-to-day policing operations might have met with resistance on the ground, foreign backing mostly—if not always—insulated the agency from the most serious interference or direct challenges by various warlords.⁴¹ Indeed, since its *de facto* authority was limited to the Lower Yangzi region, the Nationalist regime found it useful to exploit the Customs' special status in order to extend its authority into regions of

³⁹ One of the earliest Customs revenue-backed loans the Chinese government secured was for 180 thousand taels in 1867 to help fund Governor-General Zuo Zongtang's campaign to quell the Nian Rebellion.

⁴⁰ See Feuerwerker (1983a: 106-7) and especially Young (1971: 73, 433-5) for more specific data.

⁴¹ One notable exception would be northern warlord Yan Xishan's seizure of the Tianjin Customs House in 1930. Japan was the only major foreign country who challenged the institutional integrity of the Customs by helping its client-state Manchukuo seize several northeast frontier stations in 1932 and expelling British and American nationals from the Customs under the Wang Jingwei regime in the wake of the Pacific War in 1941.

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China controlled by other regimes and weaken the fiscal base of their domestic rivals. Many domestic rivals challenging Nanjing and were all too aware of how the suppression of smuggling helped the central government to broadcast its authority and reach. To harness the Customs' organization and reach to realize its state-building agenda, the Nationalists introduced reforms from 1928 that further subordinated the agency as an organ of the central state while encouraging the promotion of Chinese nationals to more senior positions. Starting in 1930, the Nationalists authorized the Customs to police China's entire coastline, assume control of various provincial and local-level tax bureaus, defend the country's maritime border, and effect seizures and arrests.

Some scholars have pointed to tighter political control on the Customs, growing nationalism in China, diminishing foreign influence, and greater constraints on the agency's independence as signs of its "gradual decline" along with the treaty port system.⁴² I would argue, however, that this notion of the Customs as an institution in decline is accurate only if viewed through the prism of high diplomacy and high politics. Flip this perspective, and we get a radically different picture of an institution becoming an increasingly intrusive presence in China's society and economy during the Nanjing Decade. Steamship passengers became subject to ever more invasive searches. Whole villages became literal battlegrounds in interdiction operations. Merchants came under greater surveillance and suffered more restrictions on their activities. Local governments found their authority challenged by an increasingly assertive central government. It was no coincidence that this projection of central-level authority into society and economy occurred as the Customs enlarged its jurisdictional reach and expanded its responsibilities as part of the war on smuggling during the 1930s.

⁴² See Brunero 2006 in particular for a fuller explication of this viewpoint.

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The Maritime Customs in Historiography

Given its status as the most high-profile foreign-operated institution within the Chinese bureaucracy, the important role it played in modern Chinese history, and its extensive library of publications, the Customs has attracted the attention of many scholars both inside and outside mainland China. Scholars have made—and continue to make—extensive use of the trade data from Customs reports to reconstruct the pre-1949 economy.⁴³ But it was in the realm of diplomatic history that the Customs long occupied center stage. John K. Fairbank, who played a leading role in institutionalizing Chinese studies in the United States after the Second World War, devoted much of his career to examining the career of Inspector General Robert Hart and, more generally, Sino-foreign relations through the Customs. To Fairbank, the development of modern China was a joint Sino-foreign “synarchy,” with the Maritime Customs as its fullest and most concrete manifestation.

Fairbank’s interpretation, made within the framework of modernization theory, came under challenge by a new cohort of scholars in the 1960s and 1970s who took a less sanguine view of imperialism’s impact on China. Joseph Esherick, the most vocal critic from this camp, took issue with Fairbank’s claim that Customs “assisted China’s modernization within the framework of the treaty system” by arguing that that very system subjected China and her people to the deleterious impact of imperialism.⁴⁴ Paul Cohen’s influential call for more “China-centered” history, combined with greater access

⁴³ Such works are too numerous to mention here, but for a sampling of this scholarship, see: Hsiao 1974, Rowe 1984, and Hamashita 1989. Lyons 2003 provides an overview of the range and potential usage (as well as the limitations) of published Customs data.

⁴⁴ Esherick 1973: 9.

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to mainland Chinese archives starting from the late 1970s, further encouraged scholars to move away from examining treaty port institutions such as the Customs.⁴⁵

Around the same time that the Customs as a subject of research was losing favor with scholars in the West, it enjoyed a revival with scholars in mainland China. With the support of Chen Shiqi (who played as foundational a role in Customs-related research in China as Fairbank did in the United States), the Chinese Maritime Customs Services Studies Association (Zhongguo haiguan xuehui) was established in 1985 at Xiamen University and research on the Customs in mainland China subsequently flourished.⁴⁶ Like Fairbank, mainland Chinese scholars did not deny the Customs' importance to modern Chinese history and recognized the contributions of its officials (particularly Robert Hart). Yet the general thrust of their research accorded with assertions made by scholars like Esherick: as a foreign-staffed agency in charge of Chinese affairs, the Customs was, *ipso facto*, an imperialist institution that violated China's sovereign right to determine its own affairs.

Recent research on the Maritime Customs has moved away from traditional diplomatic issues. As Chihyun Chang notes, scholars in mainland China has adopted a "socioeconomic approach" pioneered by their counterparts in Taiwan starting from the 1970s that utilizes the Customs' vast trove of trade statistics to examine regional economic development.⁴⁷ Their subject of concern has been less political and more economic. Meanwhile in the West, the Maritime Customs still has yet to attract the same level of interest it once enjoyed during the days of Fairbank (if ever). Nonetheless, a new

⁴⁵ Cohen 1996 [1984]. For an excellent overview of the Customs in Western historiography and the series of events and personalities that helped shape scholarship on the Customs, see Bickers 2006.

⁴⁶ For overviews of Customs research in China since the nineteen eighties, see Dai 2007 and Jia 2007.

⁴⁷ Chang 2013: 8-10. Chang notes that the socioeconomic research in Taiwan starting from the 1970s was itself a revival of research undertaken by scholars in China during the 1930s.

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generation of scholars is making use of the agency’s rich archives to ask new questions. Hans van de Ven and Robert Bickers, for instance, has sought to place the Maritime Customs into a global history of empire, viewing the agency as an extension of Europe’s (particularly Great Britain’s) “informal empires” in the East Asia. This study builds on this research agenda by making extensive use of the Maritime Customs’ extensive archives. It also expands the scope of prior studies on smuggling in China by drawing from legal materials and popular press reports to consider the wider social responses to official state-building efforts.⁴⁸

The Setting

The geographical setting of this study is coastal China, roughly defined as the mainland Chinese seaboard stretching from the southern border with Vietnam in the Gulf of Tonkin all the way to the northern border with Korea in the Bohai Sea. Despite extensive centuries-long commercial intercourse with East and Southeast Asia, Maritime China, according to Fairbank, had been a primarily “minor tradition” in Chinese history and “remained a subordinate and even marginal appendage of Continental China.”⁴⁹ With notable exceptions during the nearly first two hundred years of its existence, for example, the Qing dynasty primarily concerned itself with the empire’s western and northern continental frontier, rather than its eastern and southern maritime frontier.⁵⁰ This focus reversed itself from the mid-nineteenth century onward, when conflict with the West (and later Japan) forced the Qing and its Republican successors to dedicate resources to defend against encroachments to China’s sovereignty. By the twentieth

⁴⁸ Chinese scholars have produced a few studies on smuggling in modern China. For examples, see Lian 2005 and Sun 2006.

⁴⁹ Fairbank 1983: 16.

⁵⁰ The exception, of course, was the Qing’s war against Ming loyalist Zheng Chenggong from the mid-1640s to the early 1660s.

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century, the many ports dotting coastal China had emerged as centers of industry, commerce, and modernity. They were, however, also the sites of semi-colonialism where Chinese sovereignty was most compromised, as foreign powers were able to secure extraterritorial privileges and concessions that protected their citizens and subjects from domestic Chinese laws through the many “unequal treaties.”

This study considers coastal China as a whole in its inquiry on Nationalist state-building efforts and smuggling. For the Nationalists, taking control of China’s most economically-important areas and asserting their prerogative as the country’s unrivaled central government began at the water’s edge. Moreover, the ports themselves were nodes of a larger coastal economy intimately connected by an extensive transportation network of steamships, junks, and railroads. Trade flowed freely between—and in-between—these nodes, traversing formal administrative boundaries. Since smuggling often followed these commercial currents, the state aimed its policies at the entire region to adequately monitor and police movement. Finally, as it sought to police trade within China, the Nationalists also worked to reverse the semi-colonial constraints inherited from their predecessors, thereby threatening extraterritorial privileges and foreign concessions. Again, such efforts were most contested along the coast, where the Nationalist state struggled to extend sovereign authority within demarcated boundaries. By contrast, merchants, consumers, and smugglers profited from the ambiguities between territory and control, seeking refuge in foreign concessions or invoking extraterritorial privileges. Thus, despite variations in topography, economy, and degree of foreign influence, the region shared important similarities in the opportunities and challenges they presented to state and smuggler alike.

The Sources

The disproportionate attention paid to high politics, diplomacy, and national sovereignty by many of the aforementioned studies was a function not just of prevailing research agendas but, more importantly, of available source materials. From the end of the Second World War to the late 1990s, Western scholars had limited access to the core records of the Customs or station-level materials. Primary source materials, wide-ranging as they were, were confined to published reports, annual and decennial trade reports, personal papers of a few prominent Customs officials (especially Robert Hart and Frederick Maze), and Customs-sponsored publications.⁵¹ Often used in conjunction with such materials were overseas diplomatic archives, particularly those from Great Britain and the United States.

During the same five decades from the end of the Second World War, scholars in the PRC also had limited access to core Customs records. The ten-volume *Imperialism and the Chinese Maritime Customs* (Diguo zhuyi yu Zhongguo haiguan)—a collection of inspectorate documents translated for publication starting in the 1950s—provided the only major source of Customs materials that was widely available for reference. The Customs archives achieved wider use after the translation of decennial reports for a few ports began appearing sporadically from the late 1980s.⁵² Translations of select materials from the Customs archives itself also began appearing from the early 1990s.⁵³ Finally, a

⁵¹ The most important of which was the seven-volume *Documents Illustrative of the Origin, Development and Activities of the Chinese Customs Service* (1936-40). As Bickers 2006 notes, such agency-sponsored publications were produced with motives other than a desire to simply make public Customs records.

⁵² See, for example: *Collection of Historical Materials on the Shantou Customs* (Chao haiguan shiliao huibian) and *The Socioeconomic Situation of the Modern Port of Guangzhou: Collection of the Guangzhou Customs Reports* (Jindai Guangzhou kou an jingji shehui gaikuang: Yue haiguan baogao huiji).

⁵³ See, for instance, the multi-volume *Confidential Archives of China's Imperial Maritime Customs: Correspondence between Robert Hart and James Duncan Campbell, 1874–1907* (Zhongguo haiguan midang: Hede, Jin Denggan handian huibian, 1874-1907) as well as the economy (*jingji*) and finance

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170-volume set of all annual and decennial trade reports was reprinted in 2000, making Customs statistics more widely available. Generally speaking, however, the bulk of the core Customs records—correspondence, unpublished reports, and the like—remained unavailable until the 1990s.

This study shifts the focus away from the high-level politics and diplomacy that have dominated prior scholarship and towards the quotidian ways in which the institution operated within society and economy. To do so, it will make extensive use of newly-available materials from the core Customs inspectorate archives and a host of local stations. The 55,000 files of the inspectorate general at the Second Historical Archives in Nanjing and the tens of thousands more distributed throughout mainland China and Taiwan contain materials more representative of the Customs' day-to-day operations at both the inspectorate and station level. These materials include routine administrative documents, unpublished reports, confidential memos, correspondence, and petitions from all segments of Chinese society. The correspondence of important figures within the organization (e.g. Robert Hart, Frederick Maze) and without the organization (e.g. H. H. Kung [Kong Xiangxi], T. V. Soong [Song Ziwen]) is certainly represented in these files. But one is just as likely to find a merchant's protest against an unjustified seizure, an officer's patrol report, a village organization's petition for tariff relief, a commissioner's musings about local conditions, or a magistrate's response to greater law enforcement cooperation.

In addition to central-level records from the Inspectorate, I use materials such as monthly smuggling reports and confidential correspondence from dozens of stations

(jinrong) volumes from the *Compilation of Historical Archival Materials from the Republican Period* (Minguo shi dang'an ziliaoj huibian).

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along the Chinese seaboard stretching from Hainan Island in the south to the Manchurian border in the north. These regular reports chart the development of smuggling and the adoption and execution of anti-smuggling policies over time. Moreover, their wide geographical coverage reveals both regional variations and similarities in the implementation and impact of state policies. Individually insignificant but collectively important, these documents paint a detailed, day-to-day picture of a Chinese society and economy that high-level political or diplomatic archives simply cannot show.

To trace the impact of smuggling and anti-smuggling efforts, I complement official sources with an array of other perspectives, both state and non-state. Court cases, for example, capture the social realities of the war on smuggling neglected by other sources, thereby reflecting the larger world in which they were embedded. According to legal historians Edward Muir and Guido Ruggiero: "[W]hen a crime is prosecuted, it intersects with legal and bureaucratic structures that are frequently highly articulated and complex. That interaction can be most revealing about the interrelationship between law, institutional structures and procedures, and social values."⁵⁴ I use court testimonies, petitions, and judgments to show not only ways in which smuggling was defined and understood but also how the practice of law differed from its formal representation. Business records likewise shed light on local merchants' daily operations, dealings with governmental organs, and responses to state-building efforts. Government intelligence and economic reports—particularly those from wartime—offer fascinating details on smuggling activities and networks. The reports also implicitly reveal the mindset of officials regarding the subjects on which they focused their attention and resources.

⁵⁴ Muir and Ruggiero 1994: 227.

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Rounding out this study's source base are non-official materials such as newspapers, periodicals, and travelers' accounts. As the smuggling problem became more pervasive, its coverage correspondingly became more widespread in the media, from newspaper reports, to editorial commentaries, to political cartoons. Their content offers alternative viewpoints to governmental accounts and invaluable insights into prevailing social attitudes not reflected in official and legal archives. To mirror the extensive geographical coverage of official sources and to gauge prevailing public attitudes, I consult a number of newspapers published in different ports.

Structure and Goals of Study

This study is divided into five chapters. The first three chapters look at the expansion of state power during the Nanjing Decade. Chapter 1 looks at both the smuggling epidemic and the change in the Customs' mission the recovery of tariff autonomy created. It focuses on the new economic incentives underpinning smuggling in the wake of tariff autonomy, the expanding scope of the agency's responsibilities, and the frictions generated by more intimate and intrusive interactions with society. Chapter 2 turns to the legal context of smuggling and its suppression. This chapter shows how the promulgation and enforcement of new laws regulating trade were not only instrumental in fighting smuggling but also in projecting central state authority and claims of sovereignty. Chapter 3 examines three manifestations of smuggling from the bottom-up. In particular, it considers the many responses of merchants to increased regulation and policing of trade and illustrates how they adapted to changing economic conditions through a mix of strategies to ranged from accommodation, to evasion, to resistance.

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The last two chapters continue the story forward into the Second Sino-Japanese War and its aftermath. Chapter 4 focuses on how the Nationalists' wartime economic blockades were constructed, defined, and defied. As authority became more fractured during the war, would-be smugglers were better able to exploit the confusions over shifting battle lines, ever-changing regulations, and the strained coercive powers of the state to regulate trade. Chapter 5 focuses on the postwar years from mid-1945 to late 1949. Although the Nationalists emerged triumphant from the conflict, challenges to state authority and reconstruction remained formidable. The Maritime Customs, with its material assets seriously degraded by warfare and the discipline of its staff undermined by economic and political upheavals, struggled to adapt in the postwar order.

As each chapter makes clear, the fight over administrative jurisdictions and customs revenues did not simply play out in the corridors of power through political intrigues and diplomatic maneuvers. Behind the innocuous statistics in governmental reports and the technical policies adopted by Chinese leaders were a myriad of minor events that nonetheless held real and serious consequences for those who experienced them: high-speed chases on the seas, open warfare in villages, seizures of cargo from businesses, and invasive searches of homes and warehouses. A major goal of this study is to link the trends and policy decisions made at the macro-level with this kind of human drama at the micro-level to capture both the quantifiable and unquantifiable dynamics of state-building on the ground. For while the details delineated in this study are specific to the case of modern China, their implications transcend time and geography.

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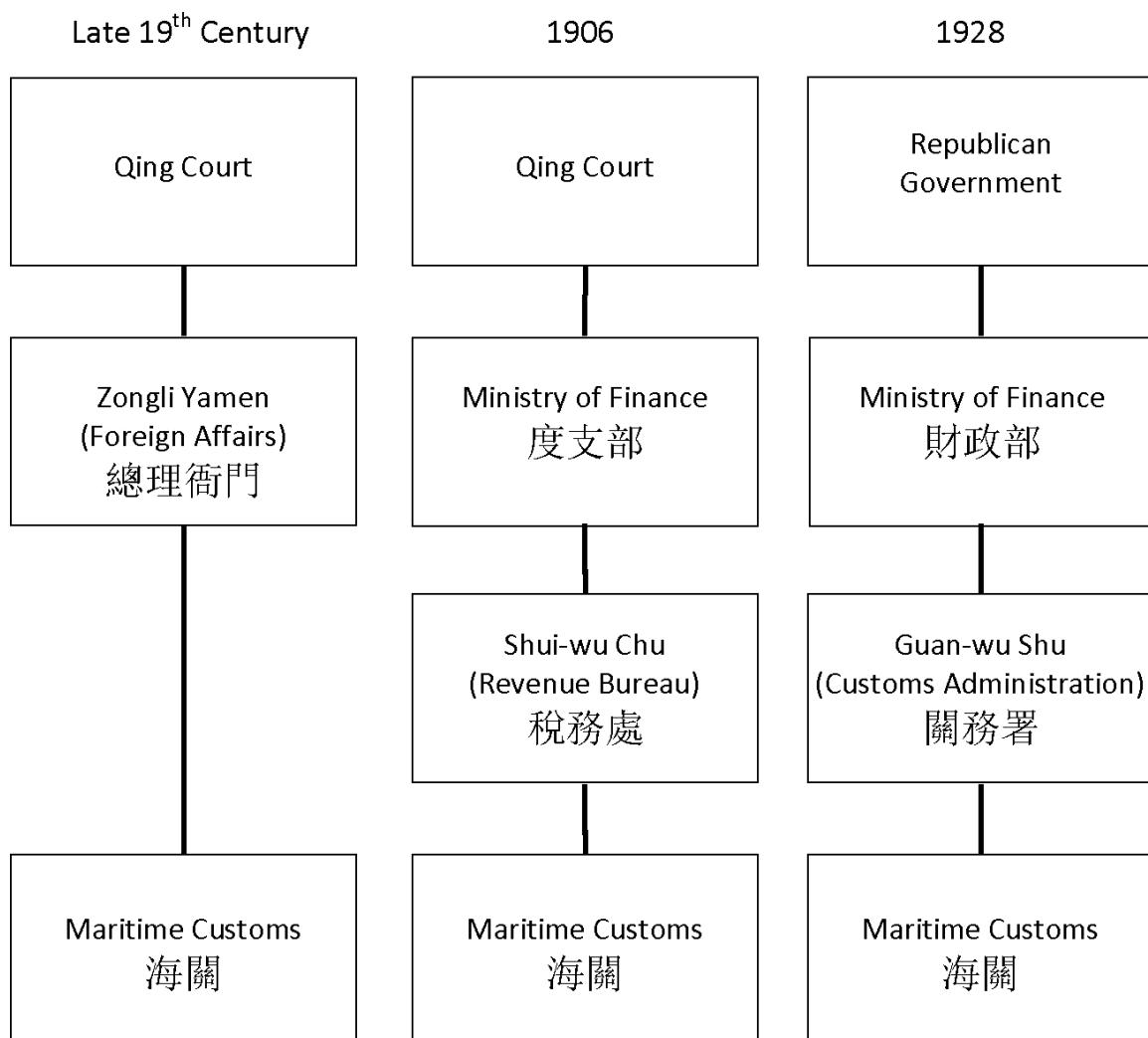


Figure I-1
Organization of Chinese Maritime Customs Service

Despite administrative shuffles, the Chinese Maritime Customs Service operated as a bureaucratic arm of successive central-level Chinese governments on a largely uninterrupted basis during its existence from 1854 to 1949.

ONE

Protecting the Sinews of Power

Tariffs, State-Building, and the War on Smuggling

Upon receipt of credible intelligence in late September 1934, a search party of fourteen Customs agents sailed for a remote island off the coast of Fujian. Their destination was a small, unremarkable village that reportedly served as a smuggling node between China and the Japanese colony of Taiwan. On arrival, the agents found the village quiet with large warehouses under lock and key. When the few villagers present refused to cooperate, the search party broke into a few warehouses by force and quickly uncovered caches of smuggled sugar. Before another warehouse could be opened, however, other villagers returned and opened fire on the search party. A fierce firefight erupted, and several hours passed before both sides withdrew. (No one, fortunately, was killed.) The agents returned several times in the following days to negotiate a surrender of the illicit goods but found the villagers only willing to hand over a nominal amount. Exasperated by the villagers' recalcitrance, the search party finally burned to the ground the warehouses where traces of the smuggled goods could still be found.¹

From one perspective, this raid and the violence it wrought, while sensational, were far from uncommon. By the 1930s, the use of violence to compel compliance with trade regulations became a routinized feature of counter-smuggling operations and a common scene in many parts of coastal China. As the decade progressed and the agency

¹ GDPA 95-1-1053, Amoy SR Oct. 1934. While senior-level officials commended the search team for demonstrating courage under fire, they also expressed some disapproval for the burning of the warehouses.

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ramped up its preventive efforts, Customs stations up and down the coast submitted regular reports detailing the many raids and patrols on land and sea by their staff. Captured in countless petitions, press accounts, and official reports was the growing dissatisfaction of merchants, travelers, and local communities at the other end of these efforts, and the crescendo of discontent frequently erupted into outright violence.

Placed within the historical context of China's ongoing state-building efforts, however, the raid appears to be relatively remarkable. A mere five years earlier when the Customs' mission and jurisdictional reach were considerably more modest and circumscribed, an armed incursion into a remote village would not have occurred. The Customs then possessed neither the will, nor the sanction, nor the resources to broadcast its authority beyond the three dozen or so treaty ports dotting China's seaboard. Moreover, the nature of smuggling had changed. Rather than perennial and long-favored contrabands such as narcotics or weapons, the illicit goods trafficked by the villagers were common-place consumer products—cement, matches, and, most importantly, sugar.

What accounted for such changes? Why did Chinese villagers begin trafficking in otherwise innocuous consumer products? And why did the state begin to care about this illicit traffic enough to bring firepower to bear on it? This chapter will answer these questions by examining the significance and consequences of the recovery of China's tariff autonomy in the late 1920s, a historical watershed that inaugurated a series of policy changes leading to the upsurge in both smuggling and interdiction. It will also examine the evolving scope of the Customs' responsibilities as well as the successes, limits, and the increasing social frictions sparked by the intensification of preventive efforts.

Chapter One

Chinese Tariff Policy: The Geopolitical and Comparative Context

With the signing of the Treaty of Nanjing (1842) after the First Opium War (1839-42), the Qing Empire surrendered its prerogative to set tariffs on foreign goods and was forced to fix duties on goods imported into China at the low rate of 5%.² Beyond serving as a symbol of China's weakness, this arrangement also seriously limited revenues and constrained the fiscal policy options of both the Qing court and the Republican government.³ The Beiyang regime—China's nominal national government from 1912 to 1928—had been negotiating with foreign powers in a series of international conferences during the 1920s to restore China's tariff autonomy. After the Nationalists defeated the Beiyang regime and assumed the status as China's new national government, they concluded the negotiations, recovered the country's tariff autonomy in 1928, and subsequently raised duties.⁴ The resulting increase in revenues was remarkable. Total duties jumped from CN\$128 million in 1928 (the last full year before tariff revision) to CN\$385 in 1931—a threefold increase. The growth of import duties followed an even more pronounced trajectory, rising during the same period from CN\$72.4 million to CN\$314.7 million—an almost fourfold increase. (See Figure 1-1.)

Beyond meeting short-term fiscal needs, tariff autonomy also promised to help the new regime realize its long-term goals of protecting domestic industries, strengthening public finances, and building a unified, modern state. Realizing such goals was critical, for while the Nationalist regime was nominally China's central government after 1927, its *de facto* control was limited to the Lower Yangzi region around Shanghai. Tariff

² The tariffs agreed upon between China and foreign powers were *targeted* to yield 5%. The *effective* tariff rate, however, was often lower than 5% due to fluctuations in exchange rates. See Feuerwerker 1983a: 180.

³ As Cassel (2012: 163) notes, Qing officials viewed the recovery of tariff autonomy to be of greater importance than the reversal of extraterritorial concessions.

⁴ For more on the politics behind the recovery of tariff autonomy, see Wright 1938.

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revenues thus provided the Nationalists significant resources to subdue domestic rivals—the infamous “warlords—who viewed themselves as legitimate claimants to the status of China’s central government and thus chafed at Nanjing’s authority. Tariff revenues represented the largest and most dependable source of central government income, averaging roughly half of annual revenues throughout the 1930s.⁵ (See Figure 1-2.)

On the international stage, tariff autonomy provided equally important, and Customs revenues provided the Nationalists with the opportunity and means to regulate China’s economy and defend its borders. Policing trade within China also offered another avenue for the Nationalists to challenge the long-standing problem of extraterritoriality by insisting on the right of the Customs to enforce domestic laws in foreign concessions and deal with suspected smugglers even if they enjoyed extraterritorial rights.⁶ The Nationalists’ new policies and assertive displays of sovereignty provoked hostility from a number of foreign powers. Most hostile was Japan, which by the 1930s had supplanted Great Britain as China’s largest foreign investor and trading partner.⁷ Many of the commodities that saw the most punishing increases in tariffs—industrial equipment and raw materials—came primarily from Japan. Figure 1-3 below shows how Japan bore a disproportionate financial brunt from Chinese tariff autonomy compared to other major foreign powers.

Nor was the threat merely economic, for an ascendant Nationalist regime threatened Japanese geopolitical interests as well. While Japan’s civilian leadership took a comparatively accommodative position, its military leadership took a more hardline

⁵ For more details on the fiscal policies of the Nationalists during the 1930s, see: Young 1971, Feuerwerker 1983b, Kubo 2005, and Boecking 2011.

⁶ I examine the legal issues surrounding smuggling and prevention in subsequent chapters.

⁷ For an overview of Japan’s position in the Chinese economy in the six decades prior to the Second Sino-Japanese War, see Mizoguchi 1989: 10-30.

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approach, aggressively protecting the extraterritorial privileges of Japanese nationals and colonial subjects and actively supporting smuggling enterprises to fund puppet regimes in Manchuria and North China. Viewed in this light, the suppression of smuggling for the Nationalists was not only critical to state finances, exercise of sovereignty, and maintenance of law and order; it was also a crucial means of defending the regime's existence from persistent domestic and foreign challenges. The historian John Brewer, paraphrasing the Roman orator Cicero, credited eighteenth century Britain's "sinews of power"—its efficient system of taxation—for empowering the island with the financial resources to wage wars against numerous European rivals successively and effectively around the world. Applying Brewer's description, we might say that customs duties represented the Nationalists' own "sinews of power" and the fight against smuggling a defense of this valuable resource.

From one perspective, the Nationalists' heavy reliance on trade revenues was anomalous. By the 1930s, the central governments of many industrialized states primarily relied on other sources for their revenues. (See Figure 1-4.) For France, Germany, the United Kingdom, and the United States, customs duties made up less than one-fifth of central government revenues. The proportion was even lower in Japan. For Canada, duties made up a higher proportion of central state revenues—almost one-third—but it was still lower than China's. Many of these states had already enacted more extractive and dependable forms of taxation—such as excise and, especially, income tax—by the turn of the twentieth century.

From another perspective, however, the Nationalists' reliance on customs duties has some historical precedence. If we shift our temporal focus from the twentieth century

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to before, we see that customs duties made up roughly half of central government revenues in Canada, Germany, and the United States during the 45 years from 1870 to 1914 on the eve of World War I.⁸ (See Figure 1-5.) Although they made up a comparatively smaller proportion of central government revenues during the same period, customs duties in France and the United Kingdom were by no means inconsequential. The United Kingdom, in particular, was once very reliant on customs duties during the eighteenth century.⁹ The figures for Japan are comparatively low. Japan did not recover its own tariff autonomy from Western powers until 1911, forcing the government to rely on land and excise taxes. Similar data for China prior to 1927 are unavailable, but, as previously noted, scholars have estimated that customs duties made up roughly a quarter of central government revenues during the 1890s.¹⁰ What the data suggest is that with respect to tariffs and public finances, China during the 1930s was treading a path many other modern states travelled decades (maybe even centuries) before.

Other parallels abound beyond the numbers. As scholars have demonstrated in other contexts, states were no less hesitant to employ legal coercion or even violence against communities to compel compliance with trade regulations and protect lucrative customs revenues. In eighteenth century Great Britain, for instance, high tariffs encouraged smuggling across society, which in turn drove the state to intensify its policing. The island's peacetime standing force of 10,000-15,000 soldiers, ostensibly tasked to maintain public order and crush local insurrections, frequently found itself

⁸ The United States federal government was particularly dependent upon customs duties for its revenues. From 1792 to 1860, for instance, customs duties made up almost all of the federal government's income.

⁹ Brewer 1990.

¹⁰ See Introduction.

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enforcing fiscal laws—i.e. suppressing smuggling.¹¹ Too often, this domestic army clashed with smugglers, sparking pitched guerrilla wars, countless riots, and other “bloody conflicts.”¹² Despite exacerbating social tensions, however, Parliament maintained its enforcement of anti-smuggling policies, as dependable and sizeable tariff revenues helped underpin the “fiscal military state” that eventually made Great Britain a global power.

A similar scene unfolded in late nineteenth century United States, where strong protectionist sentiment among the government and public alike helped maintain duties high enough to make imported luxuries and necessities prohibitively expensive compared to their domestic substitutes. Smuggling during this era was thus also rife. As the political scientist Peter Andreas observes: “The combination of high tariff walls, rapidly expanding trade and transportation links to the outside world, and a flourishing consumer culture translated into extraordinary incentives and opportunities for tax-evasive smuggling in America’s Gilded Age.”¹³ To enforce regulations and counter the (occasional) violent resistance, the federal government staffed its nationwide network of customhouses with thousands of workers, including armed officers from the Secret Service and the Revenue Cutter Service (an antecedent of the Coast Guard). As historian Andrew Cohen notes, late nineteenth century United States “lacked a national system of labor standards, social insurance, and economic regulation, but the government did perform many functions, including regulating the entry of foreign goods into American markets.”¹⁴ Indeed, suppressing smuggling made the United States federal government a

¹¹ Brewer 1990: 51-2.

¹² Winslow 1975.

¹³ Andreas 2013: 190.

¹⁴ Cohen 2010.

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truly national government, as it marshaled and deployed resources across the country to enforce uniform tariffs and trade regulations.

In sum, the Nationalists' tariff and fiscal policies were not *sui generis*. They were, in fact, similar to policies pursued by other nations during their own formative years of state-building. The Nationalists' war on smuggling was historically unique in its circumstances but similar to the struggles waged by other governments prior to the 1930s. So too was the social response to higher duties and stricter trade regulations, as we shall see below.

Waging the War on Smuggling

The New Economics of Smuggling

The illicit movement of goods had been a chronic problem at ports throughout China since the nineteenth century.¹⁵ Starting in the late 1920s, however, the problem rapidly transformed—qualitatively and quantitatively. Financial incentives for smuggling were weak for many commodities as long as duties were at a low 5%. As one report noted, prior to tariff autonomy, smuggling was profitable mostly with respect to contrabands such as arms and narcotics.¹⁶ An article from the *Bank of China Monthly* echoed such sentiments, observing that in the past, “while the risks taken by smugglers were great, the gains were often insufficient to compensate for potential losses.”¹⁷ Of the many books and articles examining the Customs or the so-called “tariff problem” (*guanshui wenti*) prior to the 1930s, the focus invariably turned to issues pertaining to

¹⁵ In one year alone during the nineteenth century, for instance, fines were levied or confiscations effected on thousands of steamship passengers and crews, merchants and importers, and other would-be smugglers landing at wharves or misrepresenting their shipments. Data tabulated from 2,565 cases in the “Fines and Confiscations” section in *CG*, Jan.-Mar. 1885, Apr.-Jun. 1885, Jul.-Sept. 1885, Oct.-Dec. 1885.

¹⁶ IG Circular No. 4913, 4 Aug. 1934.

¹⁷ Cai 1936: 2.

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national sovereignty (e.g. tariff autonomy or the imbalance of foreigners and Chinese within the Customs' ranks).¹⁸ Little discussion, by contrast, was devoted to smuggling, suggesting that the problem then was minor enough to be outside the scope of popular consciousness.¹⁹

But as duties reached the double-digit and even triple-digit range, opportunities for profit proved increasingly alluring. Since duties were raised across the board, the range of commodities that could be profitably smuggled also expanded to include high-value industrial products and ordinary consumer goods. Not surprisingly, three of the most-frequently seized items—rayon, sugar, and kerosene—enjoyed strong consumer demand but had been slapped with prohibitive duties to protect fledgling domestic industries. (See Figure 1-6.) The price disparity for readily available, high-value consumer products created by the new tariffs radically changed the calculus of profit. As one official noted, the relative attractiveness of goods like narcotics paled in the years after tariff autonomy.²⁰ He concluded: “The incentive to smugglers to discard other forms of smuggling and engage in evading Customs duty is [now] very strong.”²¹ Another official issued an ominous warning: “[I]t is no longer possible to check the

¹⁸ See for instance: Beijing Yinhang Yuekan She 1923 and Ma 1925. Li 1936 has a small section devoted to the smuggling problem although it was published well after the recovery of tariff autonomy.

¹⁹ The major exception, of course, was the smuggling of narcotics, cases of which were always sensational. Also often mentioned was the smuggling of opium by foreign merchants that precipitated the Opium Wars of the mid-nineteenth century. See Chu 1916.

²⁰ The official estimated that a smuggler trafficking rayon, for instance, could clear a profit of 30% even if he loses his cargo to seizure one out of every three times. Variations of this risk-reward trade-off for other commodities were repeated in numerous reports.

²¹ SHAC, 679-1-20403, “General Considerations Concerning Smuggling and Preventive Work at Shanghai, 1924-1936,” Memorandum to Shanghai Commissioner, 1 May 1935. In Shanghai Dispatch No. 27344, 12 June 1935.

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tendency of this illicit trade to grow, and it shows every sign of swelling eventually to very serious proportions.”²²

In the wake of higher tariffs, officials across coastal China quickly began reporting a real and alarming upsurge in smuggling. At major urban ports, where smuggling onboard steamships and railroads had long been common, officials uncovered ever more sophisticated “hides” and misrepresentations of cargoes and openly confessed that their inspection posts were completely unprepared and understaffed.²³ Shanghai officials, who initially focused on steamships from Japan, Dalian, and Hong Kong, voiced concerns that northeast ports were emerging as transshipment centers of smuggled goods and “show[ed] signs of becoming dangerous because of their proximity to [Dalian] and consequent accessibility for small craft.”²⁴

Along maritime frontiers, foreign suppliers and domestic distributors were linked in elaborate networks by motorboats and junks. Motorboats—known colloquially as “snake boats” or “puff-puffs”—easily outran and outmaneuvered older Customs vessels. Junks, although slower by comparison, often evaded detection by hiding themselves within the sheer volume of commercial traffic plying the coast. In the Pearl River Delta, one commissioner complained that the Customs fleet’s pitiful size and obsolete weapons were “the laughing stock of the smuggling community.”²⁵ A successor would later add that while the various routes and methods of smuggling in the region had remained

²² SHAC 679-1-27750, “Inauguration of Preventive Service, 1929-1930,” Antung Dispatch No. 3011, 20 May 1929.

²³ For instance, a Guangzhou commissioner writing in 1929 admitted that present system of inspecting luggage and cargo “is out of date and leaves open too many avenues for substitution by dishonest merchants.” See GDPA 94-1-737, Canton Dispatch No. 13006, 9 Dec. 1929.

²⁴ SHAC 679-1-28139, “Smuggling Reports, Shanghai, 1934-1935,” Shanghai Dispatch No. 24739, 26 Dec. 1931.

²⁵ SHAC 679-1-3925, “Preventive Service: Formation of, 1929-1931,” Lappa Dispatch No. 6567, 29 Jan. 1930.

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essentially unchanged over forty years, all had become “more openly used now since the tariffs are higher.”²⁶

Land frontiers presented challenges of their own. The Customs monitored and patrolled wide expanses without the aid of ships, lighthouses, or weapons and often faced uncooperative (and even hostile) governments directly on the other side of various borders. On the Sino-Korean border, for instance, a commissioner sent alarming reports detailing the rapid increase in smuggling and warned ominously that “it is no longer possible to check the tendency of this illicit trade to grow, and it shows every sign of swelling eventually to very serious proportions.”²⁷ Matters were equally worrisome on the Hong Kong border in South China. One typical report read:

Piece goods, kerosene, sugar, etc., continue to be smuggled by night practically all along these frontiers. The carrying is done by women under the protection of armed villagers who do not hesitate to fire on our unarmed staff. The individual amounts smuggled are generally small, but in the aggregate the loss of revenue must be considerable... With an unarmed and insufficient staff, it is impossible to take energetic measures.²⁸

Merchants and guilds whose businesses were undercut or otherwise adversely affected by the influx of cheaper smuggled goods also voiced their complaints. The local guilds of Guangzhou and Tianjin, for instance, directly petitioned Customs officials to stem the illicit trade of sugar and even volunteered information (about means of transport, points of entry, and more.) that might prove useful to preventive efforts.²⁹ Aggrieved merchants also applied pressure on the Customs in less direct ways. Ginseng dealers in

²⁶ SHAC 679-1-28169, “Smuggling Reports, Lappa, 1931-1934,” Lappa Dispatch No. 6730, 12 Dec. 1931.

²⁷ SHAC 679-1-27750, “Inauguration of Preventive Service, 1929-1930,” Antung Dispatch No. 3011, 20 May 1929.

²⁸ GDPA 95-1-235, Kowloon Dispatch No. 9813, 13 Dec. 1930.

²⁹ GDPA 95-1-635, Letter from Guangzhou Sugar Guild to Kowloon Customs, 22 Apr. 1932. Letter from Tianjin Chamber of Commerce to Tianjin Customs, 7 Jan. 1932 in *Tianjin Shanghui Dang'an Huibian*.

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Shanghai and Hong Kong, for example, managed a thriving trade importing the commodity from the United States for domestic consumption or re-exporting it to Overseas Chinese communities in Southeast Asia. They naturally viewed the upsurge in smuggling as a threat to their business and responded by petitioning senior Nationalist officials, who in turn forwarded their complaints to the Customs requesting action.³⁰ Even some foreign merchants viewed the smuggling epidemic with alarm. The American multinational Standard-Vacuum Oil (predecessor of today's ExxonMobil) and the British-Dutch concern Asiatic Petroleum (predecessor of today's Royal Dutch Shell) peppered the Customs with complaints about their product being undersold by smuggled Japanese kerosene; their Chinese agents offered detailed information on local market conditions.³¹ Indeed, with higher tariffs, the losses from duty evasion that were once ignored were no longer insignificant; they had emerged as very real threats not just to state finances but also to legitimate businesses and government prestige.

Institutional Reforms

To protect the most valuable source of state revenues in the face of mounting challenges, the Nationalists introduced a series of reforms starting in the late 1920s that restructured the Customs and redefined its mission to fight smuggling more actively and aggressively across a wider territory. The first set of reforms in 1928 was aimed at bringing the agency under tighter Nationalist control and supervision. Though still headed and staffed by foreigners at senior levels and continuing to enjoy a certain degree of independence from domestic political interference, the Customs was now placed under

³⁰ SHAC 679-1-20419, "General Considerations Concerning Smuggling and Preventive Work at Canton, 1913-1932," IG Dispatch to Canton No. 139466, 16 Feb. 1932.

³¹ GDPA 95-1-1053, Amoy SR, Mar. 1934. SHAC 679-1-20385, "General Considerations Concerning Smuggling and Preventive Work at Tientsin, 1931-1933," Tientsin Dispatch No. 9500, Appendix No. 1, 18 Jan. 1932.

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the jurisdiction of the Ministry of Finance's newly-created Guan-wu Shu (Customs Administration) and expected to more directly serve the interests of the central state. The Nationalists appointed Frederick Maze, nephew of Hart, as the new Inspector General, due in part to the cooperation he offered as Shanghai commissioner during the chaos of the Northern Expedition and the sympathies he professed to the Nationalists' cause. New staffing regulations—"based on principle[s] of equality"—called for greater equalization of pay among the staff, quick promotion of more Chinese nationals into senior ranks (especially the post of commissioner which heretofore had never been held by a Chinese national), and an end to the recruitment of foreign nationals into the agency "except under special circumstances."³²

Many critics were not satisfied. Economist C.Y.W. Meng, echoing a common sentiment at the time, called for greater acceleration in the Sinification of the agency.³³ Assessing the reforms decades later, the istorian Chen Shiqi criticized them as "incomplete" and pointed to Maze's continuing links to the British government as a sign of the agency's divided loyalties.³⁴ Foreign critics were no less unhappy. The treaty port press blasted Maze for the supposed subservience he demonstrated to the Nationalists. In a 1933 confidential report to the Foreign Ministry, the British Consul noted that while Maze was still successful "in preserving...the prestige and authority of the foreign element in the service and in maintaining its traditional efficiency," he admitted that Maze was now "first and last the servant of the Chinese Government." A more balanced view comes from Chang Fu-yun (Zhang Fuyun), the first director general of the Guan-wu Shu and an important official in both the Beiyang and Nationalist regimes. He would

³² IG Circular No. 3873, 14 Mar. 1929.

³³ Meng 1929.

³⁴ Chen 2002.

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later recall how the Customs under Maze—despite continuing to exercise a considerable degree of independence (“*imperium in imperio*”)—largely furthered the goals of the Nationalists: “Sir Frederick Maze had loyally cooperated with me and supported all my measures for the reform of the Customs service.”³⁵

Other reforms focused on redefining the geographical scope of interdiction operations. In her article examining the prosecution of domestic opium trafficking and consumption, Melissa Macauley notes that the Qing government’s interdiction efforts were often limited to specific “arenas of defined bureaucratic control” where formal state presence was at its heaviest. Arrests and detection usually occurred not along rivers, roads, and rural areas but rather in more frequently-patrolled and monitored urban areas and checkpoints such as city gates, wharves, and inns.³⁶ With some exceptions, this description also broadly applied to the Customs prior to the 1930s as the agency’s jurisdictional reach was limited to treaty ports and steamships. Hart himself, for instance, had been openly ambivalent on the proper role of the agency’s counter-smuggling efforts and opined that preventing smuggling, while certainly one of the Customs’ primary tasks, was a responsibility that should largely be shouldered by shipping companies and their agents and crew.³⁷

New directives sought to formally enlarge and clarify the agency’s jurisdictions and responsibilities. The Nationalists ordered the Customs to patrol not just the vicinity of treaty ports but the entire five thousand mile Chinese seaboard and the area twelve

³⁵ Chang 1987: 143.

³⁶ Macauley 2009: 5-14.

³⁷ IG Circular No. 157, 2 Aug. 1881.

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miles off the coast.³⁸ To plug existing holes in the Customs' coastal cordon, the Nationalists also ordered local tax stations (e.g. lijin barriers) and native Customs stations to be abolished or placed under the management of the maritime Customs.³⁹ Such measures not only fulfilled long-standing promises by the Nationalists and their predecessors to realize greater uniformity in taxation and promote the development of a unified national economy, they also held the beneficial promise of depriving the rival warlords and regimes of their fiscal resources.

The Customs, however, was initially inadequately prepared to assume this expanded mandate. Prior to the 1930s, many Customs search teams were poorly equipped to actively fight smuggling—let alone meet armed resistance—since they were only expected to operate within the confines of treaty ports or on board steamers. This problem, while widespread, was especially acute in southeast China, where the agency had concentrated the bulk of its preventive efforts since the mid-nineteenth century. As early as 1913, the Inspectorate was warned that preventive efforts in the Pearl River Delta—essentially unchanged since the late nineteenth century—were already obsolete.⁴⁰ Such views were echoed in a 1917 dispatch from the Kowloon commissioner, who openly confessed that the resources to fight smuggling within his district were utterly inadequate as the frontier guards along the Sino-Hong Kong frontier had been unarmed and practically defenseless for quite some time.⁴¹ No less than twenty-eight attacks on stations had been reported from 1912 to 1928 as the public security situation in China

³⁸ IG Circular No. 4241, 5 June 1931. Until the announcement, the Customs had confined its preventive operations within three miles off the coast. As the decision was made unilaterally, other foreign powers frequently challenged the Nationalists' new territorial claim.

³⁹ IG Circular No. 4158, 30 Dec. 1930.

⁴⁰ GDPA 94-1-704, Canton Dispatch No. 9187, 3 Nov. 1914.

⁴¹ GDPA 95-1-219, Kowloon Dispatch No. 8151, 6 Sept. 1917.

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deteriorated, and, reflecting the overall impotence of the Customs, officials moved to reduce staff at the stations to avoid being targets for banditry.⁴² What assets were available also had to be shared among different ports. Customs houses from Hainan to Xiamen, for example, had to repeatedly “nag” the Kowloon commissioner for use of vessels based in the Pearl River Delta to patrol their own regions, so great their need in the wake of tariff autonomy.⁴³ While Hong Kong had long been a major source of illicit traffic, by the late 1920s, the colony was joined by other locales—particularly Manchuria in the north and Taiwan in the south—as major suppliers of smuggled goods to China.

To remedy such problems and adequately equip the agency for its new mission, the Nationalists authorized the Customs to invest considerable financial resources into expanding and modernizing its assets. Starting in 1931, a multiyear construction program was initiated to expand the fleet from seven obsolete pre-World War I steamers (four of which dated from the late nineteenth century) to eighty-six vessels of various size, speed, and maneuverability by 1937.⁴⁴ A scheme to divide the Chinese coast into different “spheres of action” was promulgated.⁴⁵ Ships were outfitted with radio sets and communications between vessels and Customs offices were improved when a network consisting of six wireless stations off the coast stretching from Zhifu in the north to Hainan Island in the south was inaugurated in 1934.⁴⁶ To ensure that the Customs could

⁴² GDPA 95-1-1103, Memo, Undated.

⁴³ Kiungchow Confidential SO to Kowloon, 16 Aug. 1932. In SHAC 679-1-28161, “Smuggling Reports, Kowloon, 1931-1932,” Kowloon SR, July 1932. GDPA 95-1-74, Amoy Confidential SO to Kowloon, 21 Mar. 1932.

⁴⁴ Wright 1938: 661-2.

⁴⁵ IG Circular No. 4742, 11 Nov. 1933.

⁴⁶ IG Circular No. 4906, 16 July 1934. Ships were outfitted with radios as early as 1930. See GDPA 95-1-235, Kowloon Dispatch No. 9706, 24 Apr. 1930.

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defend itself against armed smuggling, patrol teams were formed and weapons and ammunition upgraded and standardized.⁴⁷

Reflecting the greater priority the Customs now placed on fighting smuggling, the agency inaugurated a dedicated Preventive Department in mid-1931 after almost two years of investigations and research. The department primarily coordinated anti-smuggling operations and quickly recognized the value in collecting and disseminating actionable intelligence. Commissioners began providing monthly updates on smuggling activities and ongoing preventive operations in their districts and were instructed (repeatedly) to standardize both the form and content of their reports to facilitate analysis and distribution of pertinent information.⁴⁸ The department in turn regularly collected and the latest intelligence on “ingenious methods of smuggling” (complete with detailed descriptions and illustrations) along with names of well-known smuggling vessels and firms in a series of confidential notes to commissioners so that they “might be forewarned and take appropriate counter-measures.”⁴⁹ An intelligence service was also created to actively recruit and retain agents on an ongoing basis to supplement the long-standing practice of acting on ad hoc (and sometimes unreliable) information from informants.⁵⁰

⁴⁷ Ships were outfitted with light machine guns (Lewis guns). Officers were issued Mauser pistols while patrol teams were equipped with bayonets and a mix of older Winchester rifles and newer Lee-Enfield rifles. A circular was first issued in 1929 calling for an update of all existing armaments at individual ports. Commissioners also had to be instructed (on several occasions) to properly train their staff in the use of the new weapons.

⁴⁸ See, for instance, the directive in SHAC 679-1-4135, “Preventive Secretary’s Printed Note, 1932-1949,” PN No. 1, 26 Dec. 1932.

⁴⁹ SHAC 679-1-4135, “Preventive Secretary’s Printed Note, 1932-1949,” PN No. 1, 15 Mar. 1932.

⁵⁰ The Intelligence Service (IS) was inaugurated in mid-1932. Starting from three ports (Shanghai, Shantou, and Kowloon), the IS would eventually operate in no less than eleven ports by late 1936. Such a premium was placed on secrecy that no official announcement regarding the IS was made and commissioners were ordered to personally draft all IS-related correspondences and avoid communicating by telegram unless absolutely necessary. GDPA 95-1-2183, IS Dispatch No. 1, 10 June 1932.

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New Geographies of Coercion

Land and Maritime Frontiers

The new reforms strengthened preventive efforts and extended the reach of the Customs on paper and in practice, although their implementation did not occur overnight. Some areas were slow to upgrade their preventive capabilities. In Tianjin, for instance, complaints were voiced as late as 1935 that preventive work in the area had been “handicapped” as the office lacked fast sea-worthy vessels properly equipped with radio to actively pursue high-speed “puff-puffs” year round.⁵¹ Other Customs districts, however, did report notable improvements in their fight against smuggling and assumed new responsibilities across a wider field.

The Shanghai Customs, like other offices stationed at major coastal cities, had long concentrated much of its attention and efforts at policing the city’s sizeable steamship traffic and had been comparatively less focused on areas beyond the wharves. As one officer reported after an inspection trip in late 1932, Shanghai was by far the largest port in China, yet it exercised no control over coastal traffic in the area “in spite of the fact that the [Yangzi Delta] with all its channels and small islands afford[ed] ideal conditions for the clandestine landing of foreign goods.”⁵² To remedy the situation, vessels were dispatched on a regular basis to monitor, patrol, and collect critical intelligence along the coast of Zhejiang province and the many islands off the Yangzi Delta. The introduction of newer sea-going vessels starting from 1934 further extended

⁵¹ SHAC 679-1-20387, “General Considerations Concerning Smuggling and Preventive Work at Tientsin, 1934-1936,” Tientsin Dispatch No. 10372, 6 June 1935.

⁵² SHAC 679-1-28138, “Smuggling Reports, Shanghai, 1931-1933,” Shanghai SR, Nov. 1932, Appendix No. 2.

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the Customs' reach and vision and more stations were erected to create a wider and more expansive cordon in the region.

Aggressive preventive efforts were likewise adopted at the mouth of Pearl River Delta, despite ongoing tensions with the colonial governments of Hong Kong and Macao as well as the separatist Guangdong regime of Chen Jitang. The Kowloon Customs, which had bemoaned its inability to stem the rising tide of smuggling, quickly ramped up its preventive measures on land and sea when given the resources and sanction. Posts along the Hong Kong border, which had steadily fallen in strength and were poorly equipped or even unarmed in the years prior to recovery of tariff autonomy, were manned by newly-formed, trained, and armed patrol teams starting in mid-1932. Night patrols were also instituted to combat smugglers taking advantage of the darkness to transport their goods. New radios were distributed to vessels around the same time and proved critical to coordinating operations and summoning reinforcements in a number of cases.⁵³ One promising sign of initial success was an increase in receipts at frontier stations where new guards were posted: the commissioner reported a 70% increase in duties collected at these locales between first and last six months of 1932.⁵⁴ Such gains paralleled a startling growth in fines and confiscations nationwide, which registered year-over-year increases of approximately 74% and 123% in 1932 and the first quarter of 1933, respectively.⁵⁵

Perhaps the greatest departure from pre-tariff autonomy practice was the increasing use of raids. The limited mandate to monitor trade at treaty ports and the

⁵³ As one commissioner reported regarding the seizures his patrol vessels made: "the success of our operations was due very largely to wireless." See GDPA 95-1-236, Kowloon Dispatch No. 9848, 16 Feb. 1931.

⁵⁴ SHAC 679-1-28161, "Smuggling Reports, Kowloon, 1931-1932," Kowloon SR, Dec. 1932, 4.

⁵⁵ 1932 figures from SHAC 679-1-4135, "Preventive Secretary's Printed Note, 1932-1949," PN No. 10, 30 Aug. 1933, 11. 1933 figures and growth rate calculated from PN (various).

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general aversion of senior officials to aggressively fight smuggling beyond their jurisdictions meant that armed raids in rural areas had been very rare. Even when they did occur, they were not supported by an ambivalent leadership. Hart, for instance, expressed strong disapproval of an 1867 raid in a village near Guangzhou suspected of housing opium and opined “that the expedition ought not to have been undertaken.” He further instructed “that such enterprises be refrained from for the future” and reminded his officials that interdiction efforts by the Customs were to remain focused on monitoring steamship traffic near treaty ports.⁵⁶

Almost three-quarters of a century later, however, official attitudes changed dramatically. In early 1930, a trial search and seizure operation off the southeast Chinese coast—conducted by the Customs with the cooperation of the Chinese navy and local troops—yielded a large assortment of sundries confiscated from homes and warehouses and also led to the capture of smuggling motorboats and junks. Its success was received with great favor by officials at the highest echelons in both Customs and the Ministry of Finance. The latter, moreover, commended the Customs officers in charge and asked the Inspector General to plan for similar operations in the near future.⁵⁷ Thereafter, the Customs assumed a more aggressive posture in combatting smuggling. Small groups of search parties, armed and equipped with maneuverable vessels and incentivized with rewards, fanned out to seize commonly-smuggled products from stores, warehouses, temples, and even homes in villages across the region. Such raids, which were initially infrequent enough to merit in-depth individual descriptions in monthly smuggling reports,

⁵⁶ IG Dispatch No. 14 to Guangzhou, 29 Apr. 1867. In *Documents Illustrative of the Origin, Development, and Activities of the Chinese Customs Service*, Vol. 6, p. 17.

⁵⁷ IG Semi-Official Circular No. 67, 5 May 1930. The planned operation had received some publicity prior to its execution. See for instance: *Gongshang Ribao*, 15 Feb. 1930, 2:3.

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became so routine and common that they were reduced to tabular summaries by late 1934.⁵⁸

Ports and Steamships

In addition to expanding its operations *extensively*, the Customs also redoubled its efforts at combatting the problem more *intensively*. Efforts were directed at closing loopholes in import and export procedures that allowed merchants to evade duties. One such reform was the abolition of “drawbacks,” a practice that exempted merchants from paying import duties on goods they could not sell or planned to re-export. Drawbacks had long been exploited to evade duties outright.⁵⁹ The physical space of inspection at wharves and jetties at various ports was also expanded. Plans to redevelop port facilities and introduce more uniform examination procedures were promulgated, although implementation proceeded haltingly and unevenly across districts.

It was the steamship, however, that received the most attention. The trafficking of narcotics and the importation of undeclared goods onboard steamers—a form of duty evasion falling under the umbrella of “petty smuggling”—have been quite common since the mid-nineteenth century. Hart himself had been openly ambivalent on this ubiquitous practice. In 1881, he opined that preventing smuggling—while certainly one of the Customs’ primary tasks—was a responsibility that should largely be shouldered by shipping companies and their agents.⁶⁰ Moreover, he directed his officials to concentrate less attention and resources to combatting the nominally illegal but common practice of petty smuggling onboard steamers. In an 1890 circular, Hart again noted that with the increase in volume of seaborne traffic, particularly between southeast China and

⁵⁸ Compare, for instance, GDPA 95-1-1053, Amoy SR, Apr. 1934 and Dec. 1934.

⁵⁹ Wright 1938: 663-4.

⁶⁰ IG Circular No. 157, 2 Aug. 1881.

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Southeast Asia, more passengers were bound to carry items for personal use, gift, or even sale. Vigilance was still to be exercised, especially with respect to narcotics. But as he reminded his commissioners, "however considerable the articles thus carried may appear when 'lumped,' they are in point of fact nothing when compared with the cargoes on which Revenue depends, and were they even allowed to pass unquestioned and untaxed, Revenue would neither be diminished nor endangered."⁶¹ In other words, the inconvenience to both passengers and officials simply did not justify the meager duties that would have been recovered.

Such attitudes were no longer tenable in the post-tariff autonomy era, and policies in this domain underwent profound transformations as the scale of petty smuggling quickly multiplied. For the state, potential losses in tariff revenue from misrepresentation of cargoes and undeclared personal items could no longer be ignored. In particular, the petty smuggling carried out by steamship crew proved difficult to combat and eradicate. Crew members had long been notorious for their extensive practice of petty smuggling, as the mobility that was part of their profession and their intimate knowledge of and access to many parts of steamships provided them both the opportunity and means to move unmanifested goods port to port undetected. Concomitant with the increase in tariffs was the expansion in the range of goods that could be profitably smuggled: sugar, rayon piece goods, and other highly-taxed foreign products quickly joined the ranks of narcotics as favored items of illicit transport. The diversity and intricacy of methods of evasion, "hides" constructed to conceal illicit goods, and frauds conducted to deceive inspectors were limited only by imagination and ingenuity. From small crevices to whole rooms, virtually all unused space on a ship could be camouflaged or otherwise redesigned

⁶¹ IG Circular No. 488, 18 Feb. 1890.

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to hide goods and fool search parties. As inspection procedures were tightened at wharves, smugglers resorted to discharging their illicit cargoes overboard prior to docking, often leaving them in floating waterproof bags for later collection.

Not surprisingly, shipping companies themselves came under significant pressure to exercise greater oversight of their vessels, crews, and passengers. The Customs levied a steady stream of fines for the discoveries of hides and presentation of so-called “false manifests” (i.e. cargoes stated on manifests inconsistent with actual cargoes onboard) and occasionally threatened to withdraw various privileges that steamships had long enjoyed. The companies, which had long outsourced the recruitment and management of crew members to compradors or recruitment agencies, balked at shouldering the responsibility for monitoring the “large floating population of sailors on the China coast” and protested the ineffectiveness of fines that, while financially punitive, “neither enable[d] [them] to punish the offenders nor to prevent a repetition of the offense.”⁶²

Nonetheless, to reduce their financial liability in the meantime, many shipping companies adopted various measures of their own to clamp down on smuggling. Metal grills, for instance, were installed in ships, wharves, and warehouses to restrict access and prevent “hides.” Internal controls and monitoring were strengthened; companies established preventive departments of their own to search vessels for undeclared goods prior to embarking for Chinese ports. Unable to convince the Customs or the Chinese government to relax fines or introduce harsher measures to deter their crews from smuggling, the companies enlisted the help of more sympathetic audiences. At their

⁶² Letter from shipping companies to Shanghai General Chamber of Commerce forwarded to Inspectorate General of Customs, 25 Sept. 1931 in IG Circular No. 4343, 23 Oct. 1931. The shipping companies include the British China Navigation Co. (Butterfield and Swire) and Indo-China Steam Navigation Co. (Jardine Matheson); the Japanese Dairen Kisen Kaisha and Nisshin Kisen Kaisha; and the China Merchants Steam Navigation Co.

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behest, the colonial government in Hong Kong (the major steamship hub) amended an ordinance to prohibit the import and export of unmanifested cargo to further discourage would-be-smuggling at the point of origin.⁶³ Monthly updates detailing seizures were regularly forwarded to Customs officials “as evidence of the practical steps...taken by [managers] to suppress smuggling from their port by [the companies’] steamers.”⁶⁴ Crew members or passengers caught smuggling in Hong Kong were either dismissed or tried by local courts and given the option to pay a fine or serve time in prison.⁶⁵ The success of these endeavors was real. Yet steamship smuggling remained a vexing problem well into the 1930s as the arbitrage opportunities created by higher tariffs proved too great to be curbed by preventive measures alone.⁶⁶

Invasive Searches

Petty smuggling by passengers presented its own set of problems. One particular group that attracted considerable attention were “runners”—diverse and often overlapping categories of impoverished individuals making a precarious living moving a range of goods through the porous borders between China, Hong Kong, and the Japanese-controlled territories of Taiwan, Korea, and Manchukuo. While many of these runners

⁶³ GDPA 95-1-239, Kowloon Dispatch No. 10256, 3 June 1933. SHAC 679-1-28159, “Smuggling Reports, Canton, 1932-1935,” Canton SR, May 1932. The ordinance in question is the Hong Kong Importation and Exportation Amendment Ordinance of 1932.

⁶⁴ Letter from Indo-China Steam Navigation Co. to Shanghai Commissioner, 12 May 1933 in SHAC 679-1-28138, “Smuggling Reports, Shanghai, 1931-1933,” Shanghai SR, May 1933.

⁶⁵ See, for instance, Letter from Indo-China Steam Navigation Co. to Kowloon Commissioner, 7 Aug. 1933 in SHAC 679-1-28162, “Smuggling Reports, Kowloon, 1933,” Kowloon SR, July 1933. A steamship guard (White Russian) was caught with undeclared piece goods in his cabin and subsequently dismissed. (His wife had recently opened a dressmaking shop in Shanghai.) Three passengers (Chinese) caught smuggling sugar were arrested and tried in Hong Kong. While the defendants were given the option to pay a fine of HK\$100 in lieu of six months of prison time, none had the financial resources to do so. The number of cases grew so quickly that at one point the Kowloon magistrate refused to hear any further cases and requested that they be sent to the harbor master in the future. See *Hongkong Telegraph*, 23 Oct. 1933, 17.

⁶⁶ Reports by the Customs suggest that the level of fines for false manifests remained fairly constant throughout the 1930s. The data provided, however, was incomplete and did not include fines from “hides.”

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were Chinese nationals, the most visible in the public records and popular press were “vagrants” (*langren*) and itinerant peddlers (*shuike*). The former was Japanese nationals from Taiwan and Korea; the latter were small-time merchants whose smuggling had been a longtime nuisance to Customs officials since the turn of the century but grew to alarming proportions starting from the late 1920s.⁶⁷ Whereas smuggling by junks or “puff-puffs” plying the Chinese coast accommodated higher volumes of goods, smuggling by steamships was conducted on a much smaller scale individually but was in some ways more difficult to combat given the almost infinite means to hide goods from detection.

Mirroring the national trend, runners, vagrants, and peddlers shifted from smuggling contraband goods, which were comparatively difficult to procure and dangerous to transport, to smuggling ordinary consumer goods, which were widely available, highly demanded, and extremely profitable. Foreign runners were no less ferocious or determined than their Chinese counterparts in harassing, resisting, or even beating Customs inspectors, but the scale of their activities and the extraterritorial privileges they enjoyed made them popular and sensational subjects in archival records and popular press reports. A report from Xiamen highlights the scale of the problem and the difficulties authorities faced in combatting it:

The difficulties we have experienced with the runners from Formosa have been of long standing. On almost every Monday when a Japanese steamer arrives from Keelung, hundreds of Formosan runners are found on board, each carrying from one to ten pieces of the so-called ‘luggage’ which contains nothing but ‘pidgin’ cargo... Indeed, it is a stupendous task for about ten officers to deal with a mob of, say, 300 unruly and desperate runners who do not hesitate to obstruct or intimidate the officers, and

⁶⁷ One 1913 dispatch, for instance, describes the opium smuggling operations by Taiwanese onboard Japanese steamships from Hong Kong, Singapore, or British India stopping in Taiwan before sailing to Shantou or Xiamen. See GDPA 94-1-704, Canton Dispatch No. 9103, 19 Aug. 1913.

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sometimes resort to violence. Many an unhappy incident is on record, and it is almost hopeless to obtain any redress.⁶⁸

One such “unhappy incident” was sensational enough to be reported by the *Shen Bao* in Shanghai. A group of Taiwanese peddlers surrounded and beat (with baseball bats) twelve Customs officers (ten lightly, two seriously) when the latter sought to seize an undeclared package of fountain pens from the former during a search of the ship.⁶⁹

A number of runners were women. Female smuggling was not a new phenomenon,⁷⁰ but it attracted significant public attention as it became more widespread and visible. In some ways, this was a common phenomenon that transcended time and place. In his example of smuggling in Gilded Age America, for instance, Andrew Wender Cohen found a “surprising number of women engaged in smuggling, exploiting assumptions about their natural innocence, not to mention taboos forbidding the inspection of the female body.”⁷¹ Such an observation was no less applicable to the situation in 1930s China, where social conventions by then changed enough for women to move outside of the household yet continued to afford them some protections in smuggling not normally available to their male counterparts.⁷² Women’s role as mothers, for instance, could be exploited. Reports began surfacing that some babies carried by female passengers were not actually babies at all but sugar carried in bags made up in the shape of children to fool the undiscerning inspector: “Artificial limbs were attached to the

⁶⁸ GDPA 95-1-1053, Amoy SR, Dec. 1934.

⁶⁹ SB, 29 Aug. 1936, 10. The incident was also reported in a report from the Xiamen Customs with far less details, perhaps reflecting the routine nature of the incident. See GDPA 95-1-1055, Amoy SR, Aug. 1936.

⁷⁰ Female smuggling was enough of a novelty during the late nineteenth century that the newspaper *Shen Bao* devoted an entire article describing a relatively minor incident involving an old woman caught smuggling opium (which were strapped to her thighs) onboard a steamship to Guangzhou. See SB, 29 Dec. 1879, 2.

⁷¹ Cohen 2010: 374.

⁷² Both male smugglers and the Customs were quick to realize this. One Xiamen commissioner, for instance, reported that male petty runners, “seeing little chance to circumvent the Customs, [began using] women to smuggle goods on their person or in their luggage.” GDPA 95-1-1053, Amoy SR, Apr. 1934.

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body, and the head was formed by a small bag of sugar inside a coconut shell covered by a woolen cap complete with tassel.”⁷³ Feigning pregnancy was another favored ruse. One case involved a traveler employing this tactic caught with bundles of watches tied across her stomach: “Suspicion was aroused by the woman's movements which seemed to be unduly active.”⁷⁴ Unexpectedly fierce resistance put up by women runners repeatedly challenged prevailing notions of feminine weakness. As another report noted: “They are specially difficult persons to deal with as they fight, scratch and tear the uniforms of our Officers and when goods have been taken from them have frequently come wailing round the Custom House causing disturbance.”⁷⁵

One accusation frequently levied against the Customs was that women passengers and travelers were too often subjected to searches by male Customs officers, be they Chinese or foreign.⁷⁶ Such charges were frequently denied, but whatever their veracity, necessity alone impelled officials to employ female searchers, although the pace of hiring was generally slow.⁷⁷ The Kowloon Customs had employed female searchers at some posts on the Hong Kong-Shenzhen border and at various railway stations well before the 1930s.⁷⁸ The Customs at Xiamen and Shantou, which served as major transit points for Overseas Chinese emigrants, were comparatively slower at employing a female searcher. The former, after having to repeatedly borrow female searchers from the local authorities,

⁷³ SHAC 679-1-4135, “Preventive Secretary's Printed Note, 1932-1949,” PN No. 27, 7 July 1936.

⁷⁴ SHAC 679-1-4135, “Preventive Secretary's Printed Note, 1932-1949,” PN No. 17, 22 Oct. 1934.

⁷⁵ GDPA 101-1-630, Swatow SR, Feb. 1935.

⁷⁶ See, for instance, complaints from villagers along the Hong Kong-Shenzhen border in GDPA 95-1-2127, Memo from Chief Tidesurveyor to Commissioner, 15 July 1935.

⁷⁷ It should also be noted that the Preventive Law of 1934 formally required the use of female searchers. Article 2: “Search of females shall be made by Customs female searchers.”

⁷⁸ One report from 1916, for instance, mentions that a female searcher was employed among the staff at the Kowloon Railway Station. See GDPA 95-1-216, Kowloon Dispatch No. 7890, 1 Feb. 1916.

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reported hiring a female searcher of its own on a provisional basis in mid-1935.⁷⁹ The latter added a female searcher on its staff (also provisionally) in early 1934 to search female passengers and their quarters and lavatories on steamships. So effective was this particular female searcher that the seizure rewards she racked up quickly exceeded her wage and attracting, jealousy from male staff members.⁸⁰

The explosion of petty smuggling and the very visible and seemingly casual manner in which it was practiced scandalized the public and stoked fears of lawlessness and a breakdown of social order. The political cartoon “Smuggling in Shantou” (*Zou si zai Shantou*) from *Shidai Manhua* (“Modern Sketch”) accurately, if exaggeratedly, captures the logistics of steamship smuggling from the female runner carrying sugar that ends up being consumed by upper class Chinese in their tea. (See Figure 1-7.) The cartoon reflects popular sentiments in its portrayal of “vagrants” and “dirty poor women” who hid and transported sugar and implicitly criticizes a host of characters: Taiwanese and Chinese petty smugglers who worked side-by-side in the illicit pursuit of profit; ineffectual and indifferent Customs officials who seemed more interested in putting up a show of authority than actually combating smuggling; and effete upper-class Chinese who were not only sadly clueless to the ongoing hubbub and plight of fellow poorer passengers onboard but were also the primary consumers of foreign sugar. In the cartoon, illicit behavior transcended all lines of identity—national, class, and gender.

Greater zeal on the part of Customs officials in interdiction efforts frequently led to conflict. Some high-profile incidents, in fact, greatly inflamed public opinion and

⁷⁹ GDPA 95-1-1054, Amoy SR, Apr. 1935.

⁸⁰ GDPA 101-1-108, Swatow Dispatch No. 7699, 13 Oct. 1937. The female searcher’s name appeared on every seizure report, and the rewards she received during some quarters were more than thirty times her wage.

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underscored how combatting female runners generated significant negative publicity.

The Shantou newspaper *Xinghua Ribao* reported a tragic incident where the “beastlike ferocity” (*rulang sihu*)⁸¹ of Customs officials led to the death of a runner. When a steamer from Hong Kong docked at Shantou on August 8, 1935, one Mrs. Zhang (née Chen), was about to board a small craft that pulled alongside the ship. The small craft was to take her to another dock, where could unload her goods to avoid paying the stipulated duties at the Customs house. But when she suddenly saw some Customs officers boarding the steamer, she ran away and jumped to the craft below. The force of her landing, unfortunately, rocked the small boat and threw Mrs. Zhang and a few others into the water. Several months pregnant and weighed down by the heavy coat hiding her bags of sugar, she drowned. Her body went unrecovered.⁸²

Violence and tragedy from aggressive interdiction efforts occurred frequently enough to make sensational headlines. Yet far more common were conflicts between passengers and Customs authorities that centered on disputes over what goods should be subjected to inspection, duties, or even confiscation. Most vocal in their complaints against invasive searches and even assaults were Overseas Chinese organizations. These organizations were quite adroit at making their voices heard by forwarding the complaints of their members to various organs within the Nationalist government (e.g. the Ministry of Finance, the Overseas Chinese Affairs Commission, Chinese embassies, etc.) and airing the grievances of their members in the popular press in China and abroad. In one such protest, two members of the Nanyang Overseas Cooperative Association

⁸¹ Literally “like wolf and like tiger.” This was a common epithet levied at the behavior of Customs officials.

⁸² *Xinghua Ribao*, 10 Aug. 1935, 7. This incident was also alluded to in GDPA 95-1-1056, Swatow SR Feb. 1937.

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complained that Customs officials at Shantou had seized soap and silk piece goods they brought back from Southeast Asia as gifts for friends and family.⁸³ In addition to the heightened sense of Chinese nationalism during this era, socioeconomic sentiments might help explain the receptiveness of government officials and the public to such complaints, as some of the more vocal members of these organizations were well-educated or well-off Overseas Chinese.

Not surprisingly, the Customs possessed a fairly poor reputation, and invasive searches were frequently viewed in an unfavorable light. The popular press in China and abroad enumerated on the indignities suffered by returning emigrants at the hands of Customs officials, who reportedly practiced extortion and levied illegal fees.⁸⁴ Accusations of malfeasance and abuse did have some basis in fact. Low-level tidewaiters (officers who boarded and inspected incoming ships) were often the culprits. One low-level tidewaiter at Xiamen, for instance, was discovered to have embezzled funds by overcharging passengers various duties and fees, underreporting the amount collected and pocketing the difference.⁸⁵ A foreign tidewaiter was accused of assaulting a passenger during an argument and was admonished by a commissioner that “never in any circumstances [was he] to lay hands on a Chinese passenger[.]”⁸⁶ One former Customs employee, recalling his tenure at Shantou during the 1930s, admitted that searchers

⁸³ GDPA 101-1-667, IG to Swatow, 30 Apr. 1934. The Nanyang Overseas Chinese Cooperative Association (*Nanyang Huaqiao Huzhu She*) was actually named the Lingdong Overseas Chinese Cooperative Association (*Lingdong Huaqiao Huzhu She*).

⁸⁴ An editorial in the Kuala Lumpur newspaper *Yiqun Ribao* reported on the complaints of returning emigrants from the Straits Settlements regarding Customs entry procedures. The *Lingdong Republican News* (*Lingdong Minguo Ribao*) reported on two government officials travelling to Siam and Singapore who received numerous complaints from local Overseas Chinese communities on being “relentlessly fined” by the Shantou Customs when returning to China. See GDPA 101-1-107, Swatow Dispatch No. 7092, 9 Jan. 1933.

⁸⁵ SHAC 679-1-4135, “Preventive Secretary’s Printed Note, 1932-1949,” PN No. 12, 22 Nov. 1933.

⁸⁶ GDPA 101-1-95, Swatow Dispatch No. 7124, 30 Mar. 1933.

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“ferociously brandished their authority in front of passengers,” using threats as “methods of extortion.”⁸⁷

Customs officials for their part were naturally defensive and dismissive of such complaints, asserting that their officers were well-trained and could “nearly always” distinguish between runners and “bona fide passengers” and their luggage.⁸⁸ Yet whatever the claims, such episodes proved greatly damaging to the prestige of the Nationalist government, the nominal master of the Customs. Especially worrisome were complaints forwarded to local governments or warlord regimes, who viewed bashing the Customs as an expeditious way to simultaneously appease an influential lobby, channel nationalist sentiments, and embarrass their central-level rival in Nanjing. Merchants in southeast China and Singapore, for instance, complained of Customs “red tape” and abuses upon their return to Shantou not only to the popular press but also to the Guangdong separatist regime.⁸⁹ The problem became serious enough to warrant the Nationalist government sending an envoy to investigate the numerous reports of mistreatment in late 1935.⁹⁰ Yet complaints continued to be levied against the Customs well into the 1930s and beyond.

It is impossible in most cases to weigh the conflicting claims and ascertain whether smuggling or corruption actually did or did not occur. The line dividing a “bona fide passenger” from a “runner” was rarely as sharp as Customs officials claimed. An emigrant returning to his or her native place, bearing gifts for relatives and acquaintances, was as likely to be accused of smuggling as a runner disguising merchandise as personal

⁸⁷ Fu 1964: 145.

⁸⁸ GDPA 95-1-1055, Swatow SR, July 1936.

⁸⁹ Article from *Shanghai Times*, 17 Jan. 1934 in SHAC 679-1-32371, “Swatow Semi-Official Correspondence, 1933-34,” Swatow SO No. 620, 30 Jan. 1934.

⁹⁰ GDPA 101-1-154, IG Dispatch to Swatow No. 158299, 2 Sept. 1935.

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belongings to evade payment of duties. The point here is that the intrusive reach of the state into the personal belongings and private space of individual passengers engendered sharp social conflicts.

Conclusion

The recovery of Chinese tariff autonomy in 1928 proved to be an important watershed in the Nationalists' state-building program and the Customs' mission. Control over tariffs enabled the central state to not only protect nascent domestic industries from foreign competition but also provided much-needed financial resources to fund its administration and fend off rivals, both foreign and domestic. When higher tariffs in turn sparked a major outburst of illicit trading throughout China, both the Nationalists and the Customs implemented a series of reforms starting from the late 1920s to combat smuggling both expansively and intensively. Such efforts paid some handsome dividends initially but also created considerable discontent and social tensions over more coercive measures and invasive searches.

The consequences of escalating the war on smuggling could be represented in various ways. One tangible, if crude, measure of progress is the steady increase in the total value of fines and confiscations. From approximately CN\$2.6 million in 1930 shortly after the recovery of tariff autonomy, fines and confiscations rose a high of CN\$7.4 million in 1935—a roughly threefold increase.⁹¹ (See Figure 1-8.) As criminologists and historians of crime have warned, however, it is difficult to

⁹¹ Fines and confiscations rose threefold from CN\$2.6 million in 1930 to CN\$7.9 million in 1934 and CN\$7.4 million in 1935 before declining precipitously on the eve of the Second Sino-Japanese War (1937-45). Data tabulated from SHAC 679-1-4135, “Preventive Secretary’s Printed Note, 1932-1949,” PN (various). For 1930 and 1931 figures, see SHAC 679-1-27761, “Preventive Service: Development of, General Considerations re, etc., 1931-1938,” Letter from IG to Kuan-wu Shu, 3 Oct. 1935.

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disaggregate rising levels of illicit activities from intensification of enforcement.⁹²

Officials nonetheless viewed the increases in a self-congratulatory light. One senior Customs official, for instance, boasted that the rising levels of fines and confiscations demonstrated the agency's success and efficacy in preventive work.⁹³ The Ministry of Finance and other senior Nationalists officials also commended the agency for its efforts.⁹⁴

The significance of these figures, however, was more ambiguous and complicated than some contemporaries could admit. The “dark figure” of crime statistics—incidents unrecorded—is a major issue. Customs officials themselves frequently estimated that for every one case of smuggling uncovered, three or four other cases went undetected. At some points, estimates were made that only one in ten cases was actually detected.⁹⁵ So, historians need to assess preventive efforts in a very different light. Criminologists have also rightfully stressed the need to distinguish between “crime waves” and “enforcement waves” that make up such statistics.⁹⁶ It is important to keep in mind that while the data was driven in part by the Customs’ new mandate to fight smuggling more widely and aggressively, it is difficult—if not impossible—to disaggregate rising levels of smuggling from intensification of enforcement.

Moreover, these statistics obscured the widespread and serious conflicts created by ramped-up enforcement. The many examples cited in this chapter of routinized violence and social discontent represented a small sample of incidents across China, but

⁹² See Sharpe 1998: 5 and Karras 2010: 8.

⁹³ SHAC 679-1-4135, “Preventive Secretary’s Printed Note, 1932-1949,” PN 10, 30 Aug. 1933.

⁹⁴ IG Circular No. 4626, 13 May 1933 and No. 4693, 17 Aug. 1933.

⁹⁵ See, for example, SHAC 679-1-28163, “Smuggling Reports, Kowloon, 1934-1935,” Kowloon SR, Dec. 1934.

⁹⁶ For the relevant literature, see Sharpe 1998: 5.

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they serve as harbingers of intense conflicts to come. It should also be noted that while the technological solutions employed by the Customs provided a real boost to preventive efforts, the advantages they conferred proved ephemeral and were quickly dulled, matched, or even defeated by smugglers. Indeed, smugglers proved remarkably adaptable to new coercive measures by adopting various countermeasures of their own—some primitive, some sophisticated, but all ingenious. More importantly, many of the obstacles the Nationalists and the Customs would later encounter as they escalated the war on smuggling were not only technical or tactical in nature but also political and legal. Rival warlords, local authorities, and foreign powers would soon join merchants, local communities, and would-be smugglers in resisting tighter surveillance, control, and policing over trade.

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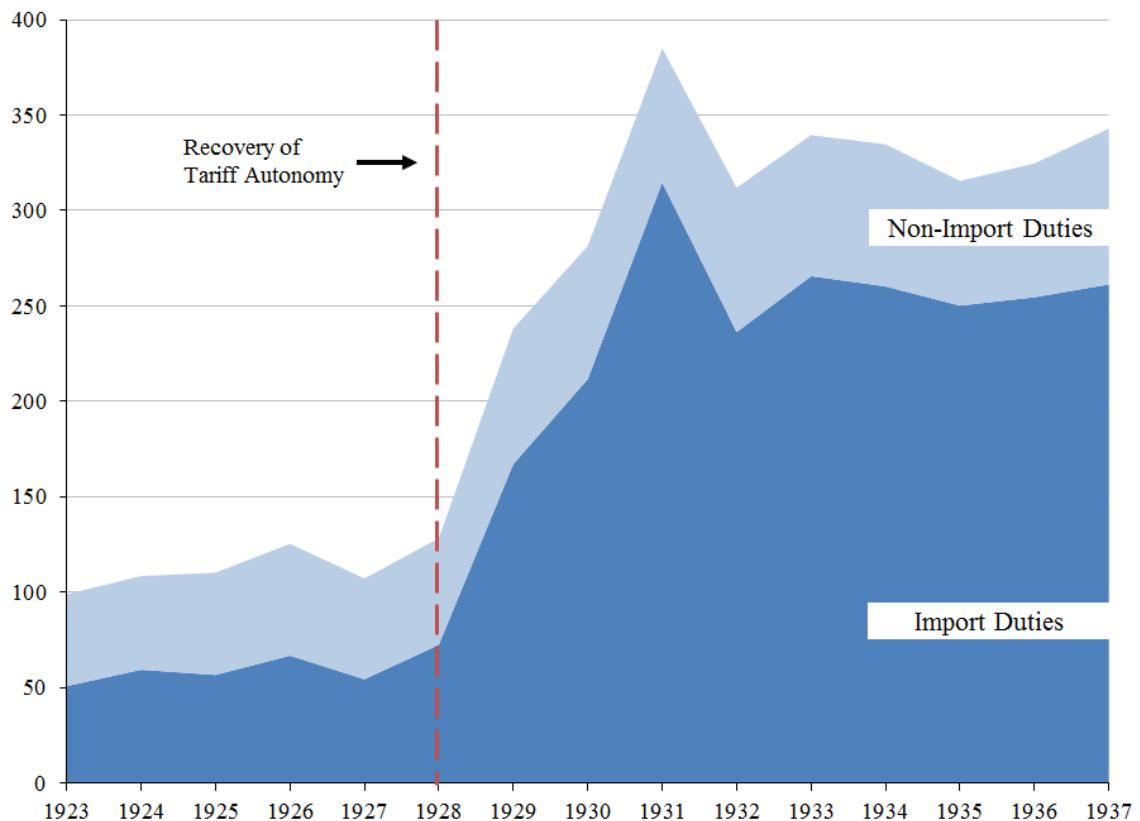


Figure 1-1
Total Customs Duties, 1923-37
(CN\$ millions)

SOURCE: *TC* (various).

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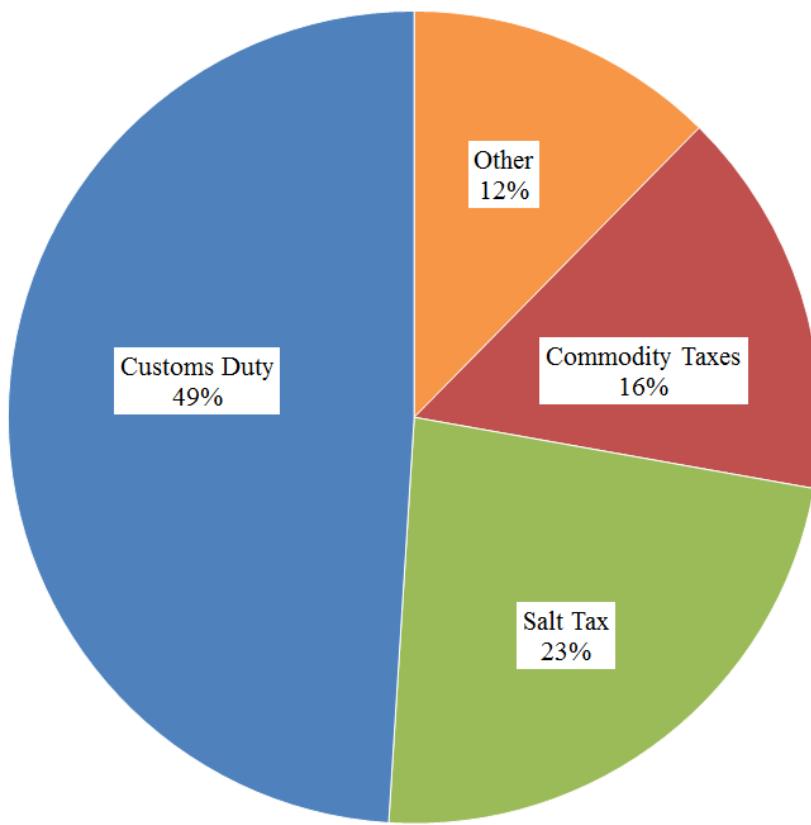


Figure 1-2
Nationalist Government Revenues by Source, 1928-37

Revenues reported by fiscal year from July 1st to June 30th the following year.

SOURCE: Young 1971.

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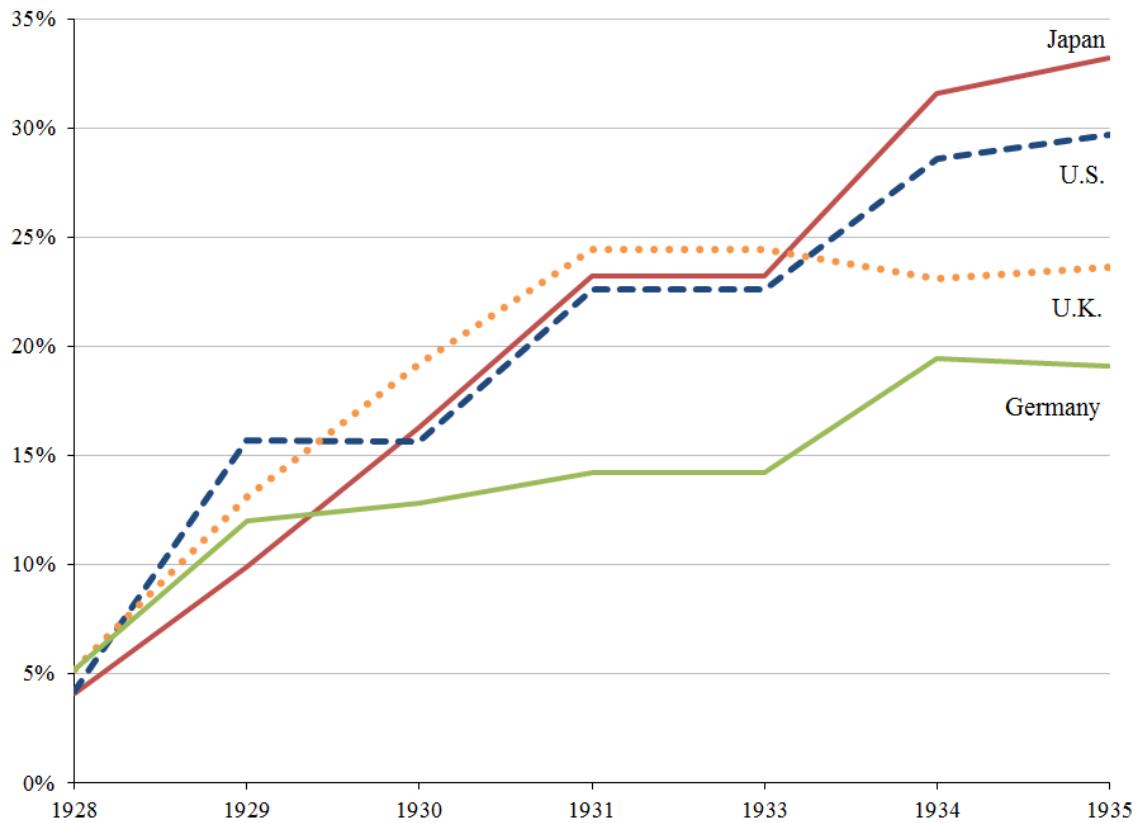


Figure 1-3
Average Chinese Tariff Levels, by Major Trading Partners

SOURCE: Cheng 1956: 65.

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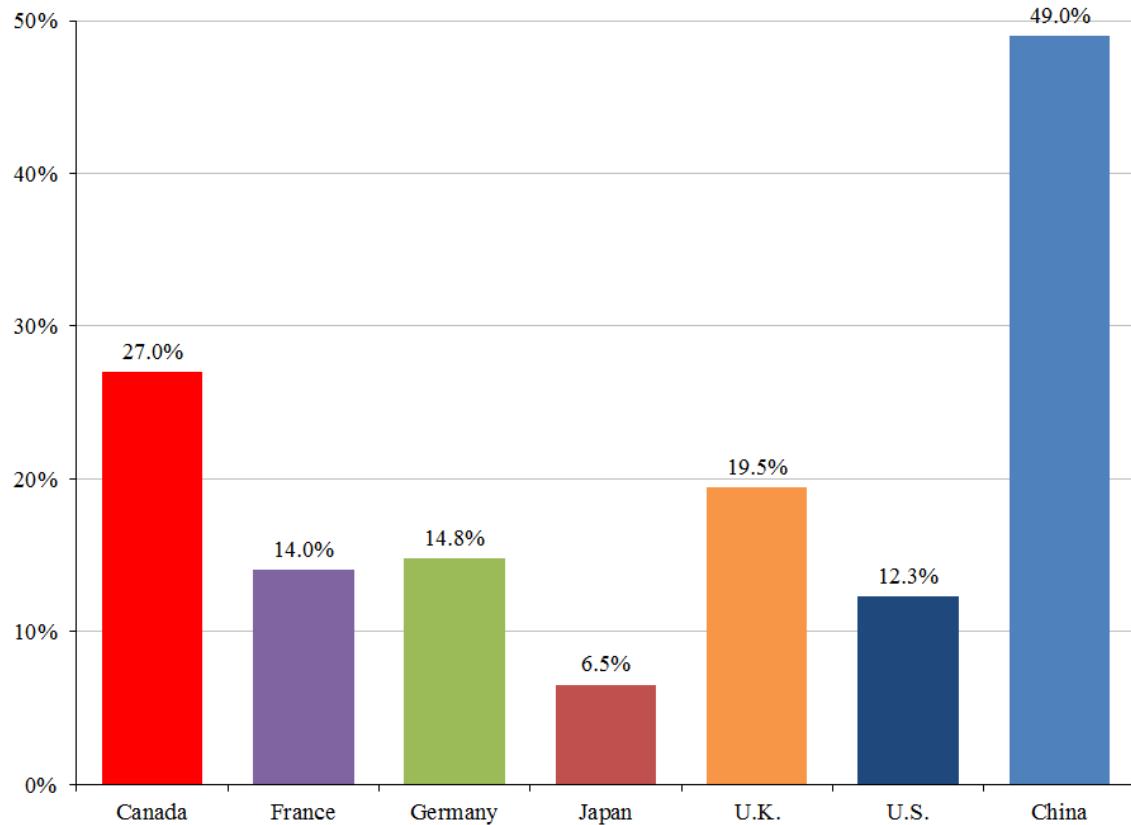


Figure 1-4

Tariff Revenues as Proportion of Central Government Revenues, 1928-37

SOURCE: Calculated from Mitchell 2003: 571-80; Nihon Ginkō Tōkeikyoku 1966: 130-7; U.S. Bureau of the Census 1975: 1106.

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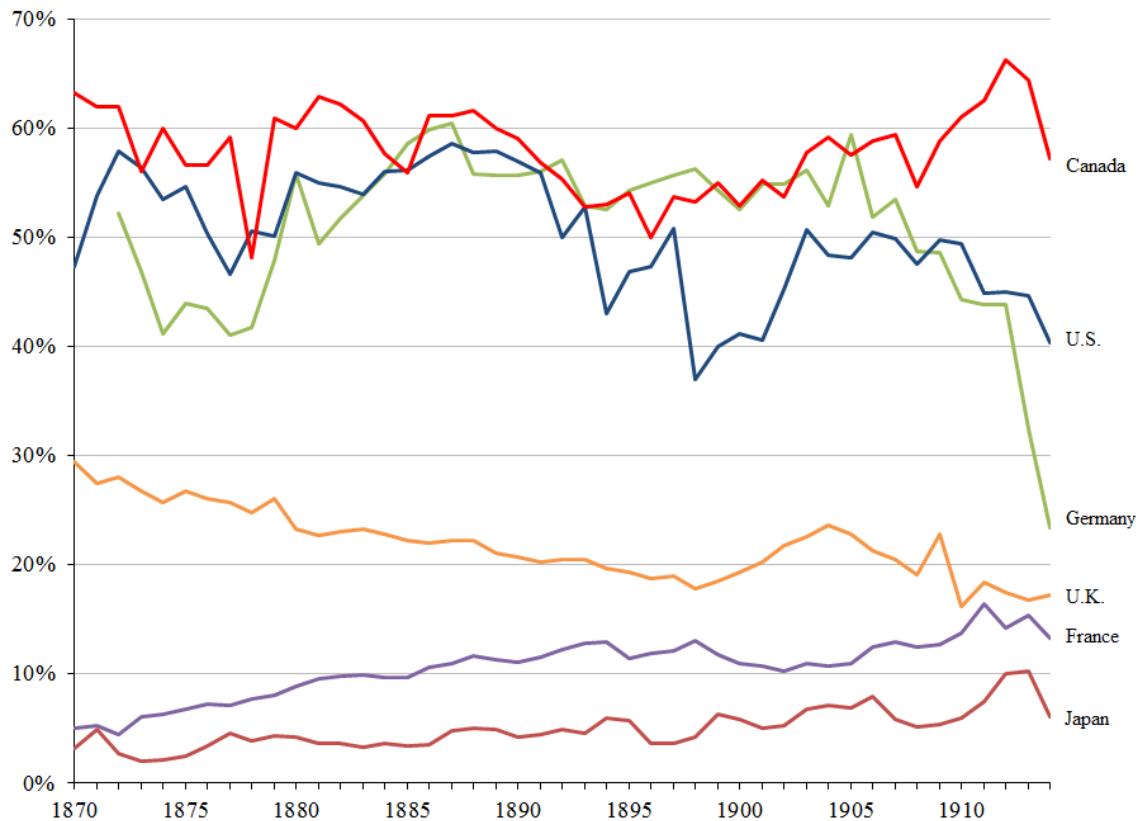


Figure 1-5

Tariff Revenues as Proportion of Central Government Revenues, 1870-1914

NOTE: Data for Germany unavailable prior to unification in 1871. Reporting of total taxes in Germany was revised and enlarged starting from 1913.

SOURCE: Calculated from Mitchell 2003: 571-80; Nihon Ginkō Tōkeikyoku 1966: 130-7; U.S. Bureau of the Census 1975: 1106.

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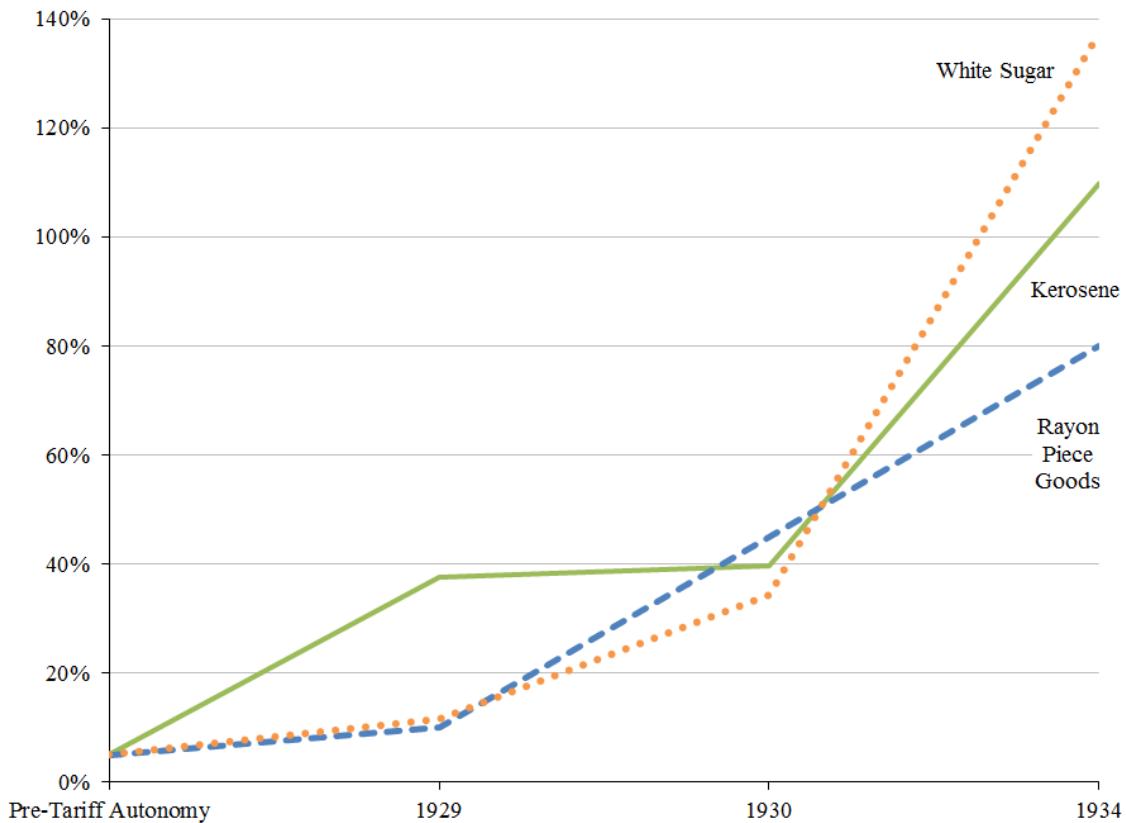


Figure 1-6
Tariff Rates by Select Commodities

Periods of tariff changes shown. Tariffs assessed in absolute amount calculated using volume, value, and duty rate. Methodology of calculations similar to Kubo 2005.

SOURCE: TC (various).

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Figure 1-7 “Smuggling in Shantou” (Zousi zai Shantou) Translation of text by panel.



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1) As a foreign steamship nears the shore, the many ventilators begin unloading [the smuggled goods] to Taiwanese vagrants and Chinese tea-boys.

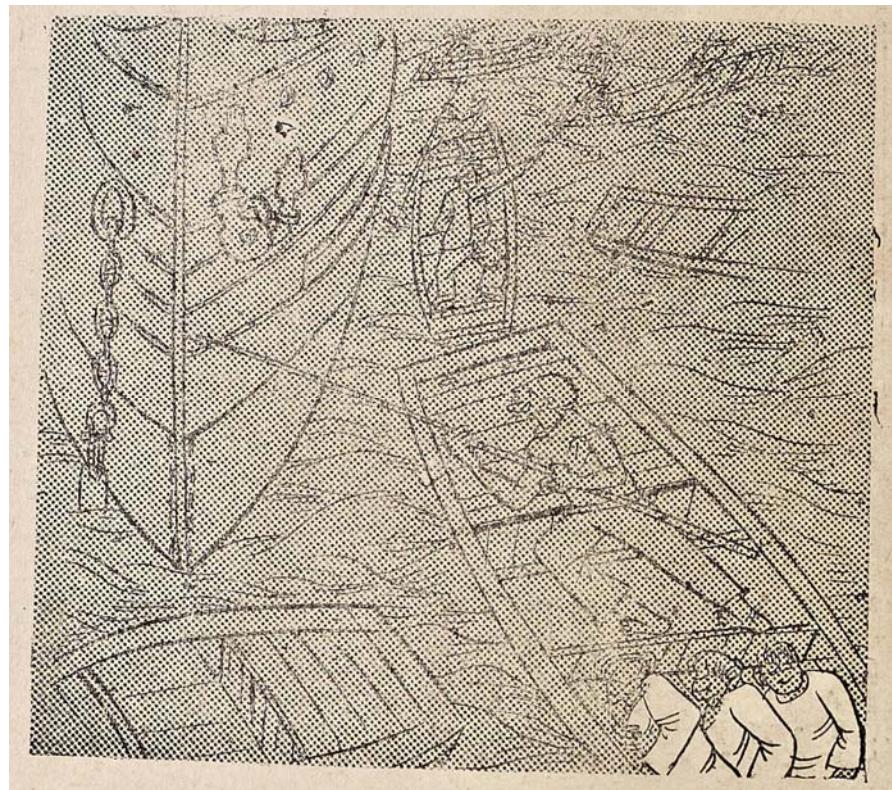


2) Bag after bag of smuggled goods are divided and stuffed into the bellies of dirty poor women. A young woman pressed by the vagrants to speed up suddenly cries in fright!

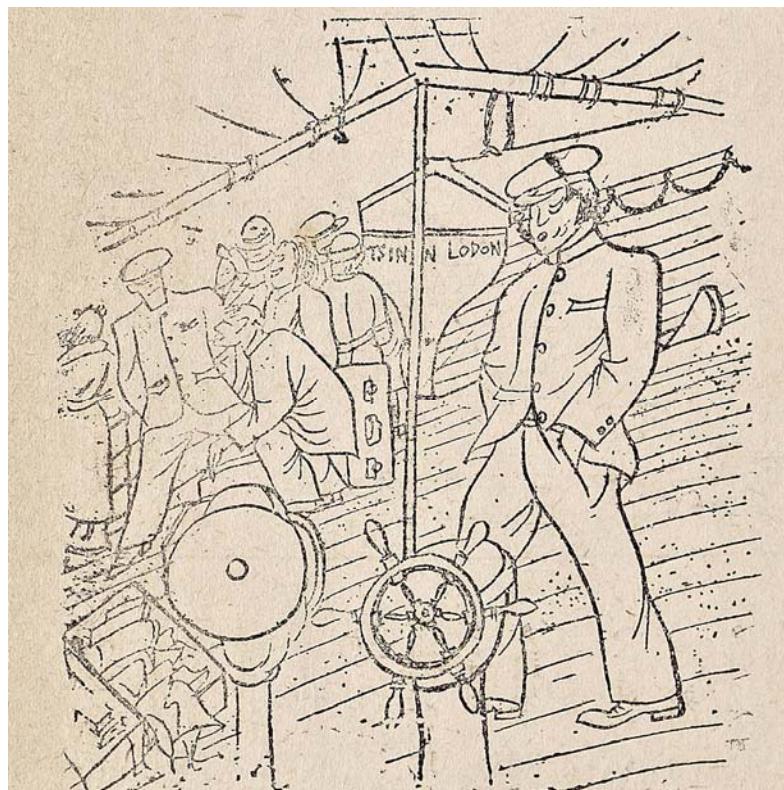


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- 3) The women board a boat lying low at the tail end of the ship and hide themselves in the cabin before a vagrant commandeers the ship for escape.



- 4) They say that some tidewaiters come wearing snow-white uniforms, lacquer-bright leather shoes, and off-centered Chevalier-style caps. Some appreciate the confused sentiments of gawking commoners, some whistle "Song of the Fisherman" while strolling on the deck.⁹⁷



⁹⁷ “Chevalier-style” (*Xifulai shi*) refers to Maurice Chevalier, a French movie actor known for his trademark boater hat. “Song of the Fisherman” (*Yuguang qu*) comes from a 1930s Chinese movie.

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5) The ventilators seem to say: "Who would have thought that after eighteen hours leaving Hong Kong, we can finally get some air." But the seasick upper-class Chinese couple can't understand because they don't see a thing.



6) From the belly of filthy women and dumped into a glass cup: high-grade sugar, in the eyes of elites, is something black tea and coffee cannot afford to be without!



SOURCE: *Shidai Manhua*, No. 35, Feb. 1937, 18
 Colgate University Library, Special Collections and University Archives

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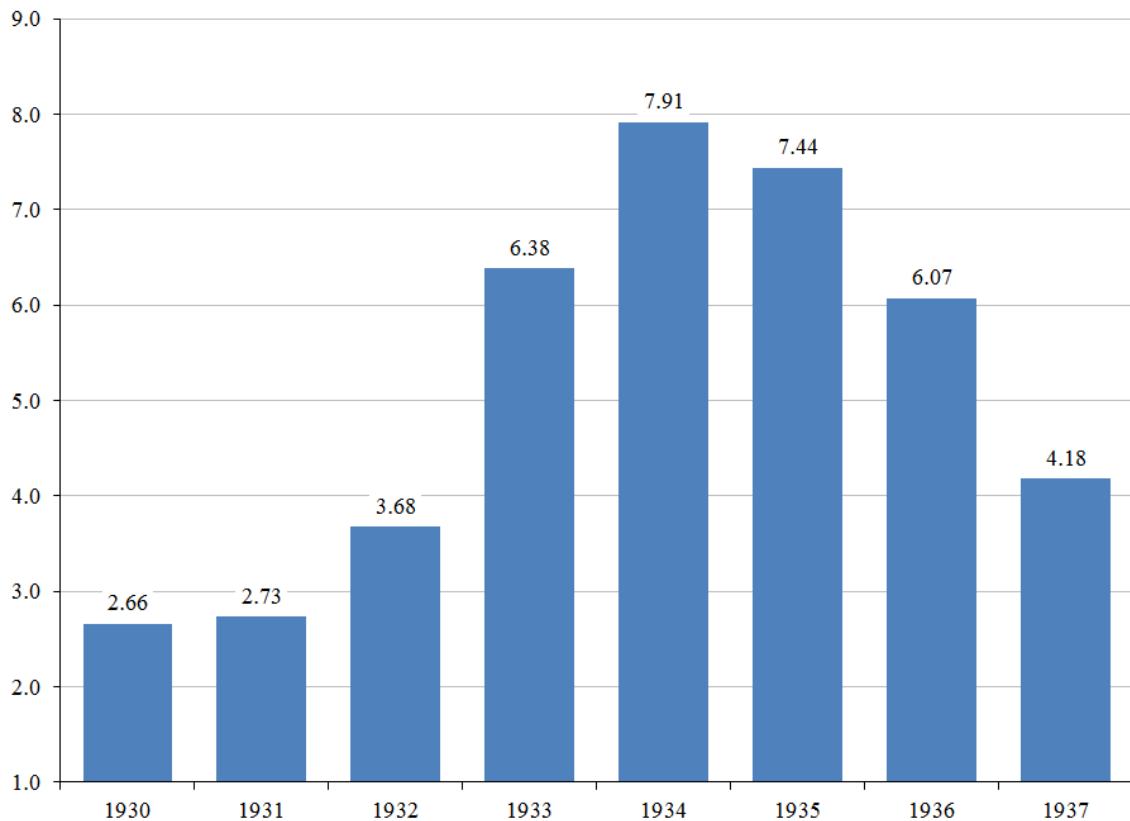


Figure 1-8
Fines and Confiscations, 1930-37
(CN\$ millions)

Fines and confiscations rose roughly threefold from 1930 to 1935 before declining precipitously on the eve of the Second Sino-Japanese War (1937-45).

SOURCE: PN (various).

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Asserting Sovereignty

Legal Centralization and the Policing of Trade

On March 26, 1936, a Customs patrol ship sighted and boarded a junk, the *Jintongshun*, off the coast of Fuzhou in Southeast China. Customs agents subsequently discovered that the junk had been registered for foreign trade and had sailed from the Japanese colony of Taiwan days earlier. The junk, however, did not have an import manifest for the foreign cargo it carried, nor did it report to a Customs station after returning to Chinese territorial waters as regulations required. As a result, agents confiscated both the junk and the cargo. In response, the owner of the junk filed an appeal with a legal board overseeing Customs penalties, arguing that the vessel had navigated off-course from its intended destination at Wenzhou (roughly 150 miles north of Fuzhou) because of torn sails and fear of pirates. To bolster his claim that he had no intent to engage in smuggling and that he secured legal sanction for his journey, the owner produced an invoice issued by the Chinese consulate in Taipei enumerating the cargo.¹

The board reviewed his appeal and, unfortunately for the owner, upheld the original penalties and dismissed his claims that extenuating circumstances prevented the vessel from complying with regulations to report to a Customs station. Moreover, the board ruled that the invoice issued by the Chinese consulate was “insufficient” to substitute for the required import manifest—thereby reaffirming the primacy of the

¹ Letter of protest filed by Zhang Yongfa, owner of the *Jintongshun*, undated. HH: 301-4.

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Maritime Customs regulations in matters of foreign trade. That Customs officials only confiscated the vessel and cargo without imposing an additional fine, the board added, demonstrated their “lenient handling” (*congkuan banli*) of the case, given the nature of the offense.²

Far from being an isolated incident, this dispute encapsulated a broader transformation in governmental authority at the time. The legal framework that regulated maritime movement, stipulated penalties, and governed the adjudication of this dispute was new. In fact, it was created as part of the war on smuggling and did not exist prior to the recovery of tariff autonomy. In the war against smuggling, the intangible tools of interdiction—new laws—proved to be just as important as their tangible counterparts—e.g. faster ships and more lethal weapons. In addition to investing more resources in expanding the Customs’ technical assets, the Nationalist government at the same time constructed a new legal framework that defined smuggling, delineated the legitimate parameters of exchange, and governed the treatment of all those accused of the crime.

The promulgation of new laws and their enforcement are critical to understanding the projection of state power. How did this legal context change during the Nanjing Decade? What do the promulgation of laws, adjudication of disputes, and quotidian details of legal cases reveal about political imperatives of the Nationalists? How did policing trade and legal formalization help the Nationalists assert their sovereignty? Finally, what were some the social consequences of this proliferation and enforcement of laws to fight smuggling and what resistance did they provoke?

To answer these questions, this chapter outlines the legal legacies from the late imperial and early Republican eras and chronicles the Nationalists’ legal reforms during

² Guan-wu Shu record of discussions, 19 June 1936. HH: 307-11.

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the Nanjing Decade to examine their promulgation, implementation, and impact. In particular, I look at three major initiatives undertaken by the Nationalists: expanding the geography of enforcement, contesting the boundaries of extraterritoriality, and policing maritime borders. A final section turns to the smuggling crisis of 1936 to examine the legal war's escalation and its social consequences.

Legal Legacies: Late Imperial and Republican

Smuggling, to reiterate the observation made by the historian Eric Tagliacozzo, is a crime with no ontology, one whose definition pivots on whatever the state says at any given time. To understand how the Chinese state defined the crime, then, we must start by looking at its laws. For the Qing, “smuggling” encompassed distinct and sometimes overlapping categories.³ The definition of contraband was a function of changing political and economic imperatives. The earliest proscriptions against opium trafficking, for instance, were promulgated during the reign of the Yongzheng emperor (1723-35), when officials considered it to be a minor problem confined to the southeast coast. The court, however, moved to enact harsher penalties against the production, distribution, and even consumption of opium by the early nineteenth century, when addiction and silver outflows reached alarming proportions.⁴ Security concerns also shaped the legal classification of contraband. Qing regulations banned the export of weapons, iron, copper, combustible saltpeter for fear that such articles would fall into the hands of challengers to the throne.⁵

³ It should be noted that the word “smuggling” (*zousi*) appears only once in the Qing Code under a substatute prohibiting the import opium (*yang yao*) with the intent to evade duties. The substatute was promulgated in the ninth year of the Xianfeng emperor (1858). See DC 146-07.

⁴ Bello 2005: 114-42, 166-76.

⁵ HD (KX) 73.12b-14a and HD (QL) 56.9a-9b. Despite strong demand from neighboring kingdoms for iron, the Qing court prohibited the export of the commodity due to concerns over coastal piracy. See Murray 1987: 28-31. In another case, the Board of Revenue ordered officials at one northern port to

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More common than the transport of forbidden goods was the evasion of duties.

Two statutes addressed this problem.⁶ The statute against “Concealing [Goods to Evade] Taxes” (Ni shui) required merchants to pay taxes on products passing through inspection points and threatened punishment of fifty strokes of the light bamboo and confiscation of half of the goods in question for violation.⁷ The statute against “Maritime Merchants Who Hide Goods [That are Subject to Tax]” (Boshang nihuo) required ships upon docking to report to local authorities who would assess the appropriate duties. Evading duties or misrepresenting the goods’ value was to be punished with one hundred strokes of the heavy bamboo and confiscation of all the goods in question.⁸ Qing regulations cited both statutes in their treatment of duty evasion, although actual implementation varied.⁹

Finally, trade outside of government-sanctioned channels or official monopolies constituted another important category of smuggling. Prior to 1842 with the signing of the Treaty of Nanjing, foreign commerce was ostensibly conducted under the umbrella of the tributary system, whereby merchants attached to tributary missions were allowed to trade.¹⁰ Regulations specified the location, timing, and quantity of trade; other transactions were prohibited. As for government monopolies, the most profitable and most restricted was salt. Extensive regulations governed the production, distribution, sale, and consumption of salt and also prescribed an escalating array of punishments (e.g.

carefully monitor the transport of iron and ascertain the final destination and intended usage of shipments after reviewing some questionable cases of export. See XH 1-425.

⁶ Both statutes were modified only slightly from their predecessors in the Ming code.

⁷ DC 146-00.

⁸ DC 147-00.

⁹ Huang 2000: 333-4. Stations at Guangzhou and Fuzhou, for instance, each had slightly different degrees of punishment and grades of fines for offenders.

¹⁰ For an overview of the Qing Tributary System, see Fairbank and Teng (1941).

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strokes of the bamboo, penal servitude, exile, and even death) to match the severity of the transgression.¹¹

Despite the draconian nature of Qing laws against smuggling, their actual enforcement differed significantly from their representation. Merchants, in fact, found numerous ways to evade both the reach and the gaze of the state. One tactic was to fold illicit activities into nominally licit ones, thus blurring the categories of legality. Merchants from southeast China, for instance, partnered with Siamese nobles and sponsors to attach themselves to “tribute” missions that not only exceeded allotted trade quotas but effectively circumvented various bans on maritime trade.¹² When caught, smugglers deployed strategies to undermine the efficacy of the Qing legal machinery.¹³ Laws were also selectively enforced. The salt laws, for instance, were indeed among the harshest in the code, yet their actual application was rather uneven. Qing officials tacitly allowed licensed salt merchants to exceed their official quotas despite being fully aware that petty smugglers were being punished for much smaller transgressions.¹⁴

The legal environment underwent significant transformations from the late Qing through the Republican period. First to change were the laws themselves. A German-inspired code with separate civil and criminal components was drafted during the New Policy era (1901-11). Although the Civil Code was soon discarded, the draft of the Criminal Code was enacted on a provisional basis by the Republican government until

¹¹ DC 141-00. By the end of the nineteenth century, the salt laws consisted of one long statute with twenty-five sub-statutes—more than any other laws covering commodities in the “Taxes” (Ke cheng) section of the Qing code. Two other commodities over which the government also held a monopoly—tea and alum—were also tightly regulated, though not to the degree of salt. See DC 144-00, 145-00.

¹² Viraphol 1977: 42-57, 140-59.

¹³ Melissa Macauley (2009), for instance, shows how opium smuggling syndicates leveraged strong native-place ties to marshal the necessary resources or procure convenient witnesses to bail out members arrested by the Qing state.

¹⁴ In her examination of numerous central-level cases on salt smuggling, Zhang Xiaoye (2001) found that

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1928, when the Nationalists initiated another round of reforms. Both the 1928 and 1935 editions of the Criminal Code defined smuggling more narrowly than their Qing predecessors. For one thing, they expressly prohibited the manufacture, transport, sale, and consumption of opium and other narcotics including morphine, heroin, and cocaine. Importation from abroad was punished most heavily: those who engaged in the domestic sale or transport of narcotics, for instance, could be sentenced to three to ten years in prison and fined no less than CN\$5,000 whereas importers could be sentenced to life in prison or five years plus a fine of no less than CN\$10,000.¹⁵

Other statutes were also commodity-specific in their focus. Private trade in controlled substances such as salt or armaments, for instance, was prohibited.¹⁶ At various times, the government also prohibited or regulated the movement of strategic commodities such as silver and tungsten.¹⁷ Yet the Criminal Code made no explicit mention of how to deal with individuals engaged in customs duty evasion or smuggling in general. Article 349 under the category of “Offenses of Receiving Stolen Property” (Zangwu zui) was usually cited as the closest applicable statute. The government, however, did not make the link between stolen property and smuggled goods official until 1936, when the smuggling epidemic in north China forced the adoption more punitive measures.¹⁸

¹⁵ Such financial penalties were among the harshest in the Criminal Code. For the Opium Laws, see Chapter 20, Articles 256-265 in FD 1 150 and CA 93-5.

¹⁶ For salt, see “Law Governing the Punishment of Salt Smuggling” (Siyan zhizui fa) in FD 3 3178 and CA 147-50. For military armaments, see “Regulations for the Restriction of Guns, Cannons, or Ammunition Used for Military Purposes (Junyong qiangpao qudi tiaoli) in FD 1 924 and CA 144-6.

¹⁷ For silver, see “Measures Governing the Application for Passes to Cover Movement of Silver Dollars and Other Forms of Silver and Penalties Against the Illicit Transportation of Silver” (Yunshu yinbi yinlei qingling huzhao ji siyun sidai chufa ban fa) in FD 4 415 and “Measures Governing the Penalties and Awards in the Seizure of Silver Dollars and Other Forms of Silver” (Jihuo siyun yinlei yinbi chufa jijiang banfa) in FD 5 415-6.

¹⁸ To be discussed in later section of paper.

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In sum, laws against trafficking commodities such as narcotics and weapons existed but laws against evading duties and smuggling more generally did not. This legal ambiguity often led to confusion in prosecuting suspected smugglers who trafficked ordinary consumer products, and the outbreak of the smuggling epidemic and escalation of interdiction after 1928 exacerbated this problem. Individuals caught transporting contraband were often handed to local officials for prosecution, but general duty evasion prior to the 1930s was punished with a simple fine or confiscation.¹⁹ Efforts by Customs officials to hand over smugglers trafficking consumer goods to local officials for prosecution faced many obstacles. When one commissioner in the southeast, for instance, sought to transfer two smugglers to the custody of local officials, the prosecutor balked, stating that “there were no laws by which he could deal with these so-called offenders.” They were then transferred to another local official who accepted—but would not prosecute—theirsmugglers. In the meantime, the suspects, along with dozens of others, languished behind bars in various local government offices and police stations. “These officials,” the commissioner observed, “are clearly at a loss as to how to deal with the offenders.”²⁰ In the northeast, an official reported that the local police released a smuggler shortly after arrest on the pretext that since no special regulations punishing smuggling existed, they had no authority to inflict penalties.²¹

¹⁹ Duty evasion or disputes arising from proper assessment of duties were settled at the customs house through fines and confiscations. Cases involving the transport of contraband were usually transferred to local authorities for adjudication. Foreign opium was later classified as contraband after it was banned by imperial edict in September 1906 and subsequent agreements with Great Britain to halt its importation from India by 1917. The Qing’s Republican successor also ordered that Chinese steamship crews caught smuggling opium by the Customs were to be handed over to local authorities for processing. See Zongli Yamen Dispatch to IG, No. 1574, 19th day 1st month 19th year of Guangxu (1888) in IG Circular No. 413, 19 Apr. 1888 and Shuiwu-chu Dispatch to IG No. 42, 6 June 1914 in IG Circular No. 2218, 10 June 1914.

²⁰ GDPA 95-1-1053, Pakhoi SR, June and July 1934, 4.

²¹ SHAC 679-1-20362, “General Considerations Concerning Smuggling and Preventive Work Throughout China, 1911-1932,” IG Dispatch No. 135367 to Antung, 15 June 1931.

The Legal War on Smuggling

Expanding the Geography of Enforcement

Problems created by legal ambiguities were less salient in an era when duty evasion was a financially insignificant offense and the Customs largely stayed within the immediate confines of treaty ports. They proved, however, unacceptable with the urgent need to stem the tide of smuggling after the recovery of tariff autonomy. To meet such challenges, the Nationalists throughout the 1930s moved to enact a number of new laws that empowered the Customs to conduct more expansive and invasive searches to restrict and monitor the movement of vessels. As early as 1931, the Ministry of Finance ordered the Customs to prepare a uniform set of regulations for implementation across China. In late 1933, the government passed a resolution calling for more authority to be invested in the Customs to effect confiscations, levy fines, and fight duty evasion by “treacherous merchants.” As one of the resolution’s points read: “The parameters and procedures for Customs preventive work should be defined and executed as soon as possible.”²²

One major product of these efforts was the Customs Preventive Law of 1934 (hereafter “Preventive Law”). (See Appendix A.) Among other things, the 1934 law escalated the financial penalties for smuggling and clarified the authority of the Customs in interdiction operations even in areas beyond its traditional jurisdiction at treaty ports. To punish would-be smugglers, Customs officials were now authorized to levy a “double penalty”—fines to mark infractions *and* confiscations of illicit cargo or even the vessel of transport itself. More importantly, the new law expanded the timeframe and geography of enforcement. The Customs and its agents were no longer confined to on-the-spot interventions in limited venues such as wharves or steamships. Instead, they were now

²² *Li fa zhuan kan*, Vol. 10, 1934, “Li fa yuan ze,” 1.

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authorized to raid villages and businesses suspected of harboring smuggled goods, investigate records for evidence of past duty evasion, and levy fines and effect seizures well after the initial incidence of smuggling. Finally, in addition to conducting more invasive searches, officials were authorized to interrogate suspects, witnesses, and other persons of interest.²³ The law, in effect, sanctioned the central state—vis-à-vis the Customs—to extend its reach over many more individuals and communities and ultimately to become a more intrusive presence in society, economy, and everyday life.

Beyond protecting valuable revenues, another aim of the war on smuggling was broadcasting the authority of the central state by regulating and policing trade. The Nationalists' ongoing efforts at legal reform and centralization were aimed at expanding the coverage of national laws and ensuring that they were interpreted and executed in a manner consistent with central prerogatives.²⁴ Again, even after the new regime's victories on the battlefield during the late 1920s, *de facto* Nationalist control remained confined to the Lower Yangzi region. The Customs, by contrast, had a presence in almost fifty treaty ports throughout China, including areas that were in rival regimes' spheres of influence.

The promulgation of anti-smuggling measures thus dovetailed with the regime's efforts to extend central authority into areas where Nationalist control was weak or non-existent. The Preventive Law, for instance, explicitly placed local authorities under the command of the Customs in any interdiction operation. Article 1 authorized Customs agents to search private and government premises and also required the presence of "a representative of the local police or other local officials" to legitimate and facilitate

²³ See, specifically, Articles 2 and 3 of the Preventive Law.

²⁴ For more on legal reforms and their role in state-building, see Xu 2008 and Kayaoglu 2010.

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inspections. Article 4 called for local authorities—including the military—to assist the agency in conducting search and interdiction operations. Such clauses marked a change in operational principle. As instructions to commissioners regarding the interpretation and application of the Preventive Law explained: “The Customs can now quote the Law and demand the presence of the representatives of the local police and other officials, whereas formerly we were entirely dependent on the goodwill and whim of local authorities for such co-operation as they might care to extend.”²⁵ In other words, the new law and its enforcement were to serve as affirmations of the principle that the center possessed the authority to demand compliance from the local.

The new regulations were intended to confer a degree of legitimacy on the Customs whenever the agency requested the assistance of local authorities in conducting searches. As some Customs stations reported shortly after the passage of the law, local officials evinced greater willingness to cooperate.²⁶ More significantly, the new regulations provided a legal framework governing interdiction beyond the treaty ports, the Customs’ traditional arena of operation. Nationalist and Customs officials had considered coastal raids as a tactic in the fight against smuggling since the late 1920s, going so far as conducting a trial search and seizure operation in 1930 with the cooperation of the Chinese navy and local troops.²⁷ Now empowered by new legal

²⁵ IG Circular No. 4926, 23 Aug. 1934.

²⁶ See, for instance, Canton Dispatch No. 14333, 13 Apr. 1935 and Chefoo Dispatch No. 7469, 4 Apr. 1935, in SHAC 679-1-27720, “Preventive Law: Reports on Working of, 1913-1926.”

²⁷ This 1930 operation yielded a large assortment of sundries confiscated from homes and warehouses and also led to the capture of smuggling motorboats and junks. Its success was received with great favor by officials at the highest echelons in both Customs and the Ministry of Finance. The latter, moreover, commended the Customs officers in charge and asked the Inspector General to plan for similar operations in the near future. See IG Semi-Official Circular No. 67, 5 May 1930. The planned operation had received some publicity prior to its execution. See for instance: *GR*, 15 Feb. 1930, 2:3.

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sanctions, Customs search teams fanned out along the Chinese seaboard to raid villages, effect seizures, and enforce anti-smuggling regulations.

Resistance to this crackdown was widespread. Whole communities and even local governments refused to recognize the authority of the Nationalists as China's central government. Some local magistrates hesitated or refused to offer their support. A raid on one rural town to bust a smuggling operation, for instance, was foiled when the local magistrate declined to cooperate, despite being obligated to do so under the Preventive Law. The search party was threatened and pelted by hostile villagers before the magistrate finally relented hours later and offered some assistance. By then it was too late: the smuggled goods in question had disappeared.²⁸

Geography also hampered interdiction. Securing cooperation from local officials proved quite difficult in frontiers and coastal villages where formal state presence was virtually non-existent. A commissioner of one frontier station, for instance, reported that law enforcement authorities were rarely available in his locale and that he often had to approach village leaders for assistance.²⁹ Yet because these leaders were nominated by the villagers themselves, one official noted, “they desire to maintain good relations...[and] it is natural that they do not wish to do anything detrimental to the interest of the villagers.”³⁰ Not surprisingly, when village leaders declined to cooperate, heated—and sometimes violent—resistance often ensued. As one report describes an operation conducted without the participation of a village head: “The search commenced with three houses, quantities of smuggled goods were discovered, but the attempt to seize

²⁸ GDPA 95-1-1054, Kiungchow SR, June 1935, 2-4.

²⁹ GDPA 95-1-243, Kowloon Dispatch No. 10666, 30 Mar. 1935.

³⁰ SHAC 679-1-27720, “Preventive Law: Reports on Working of, 1913-1926,” Lungkow Dispatch No. 576, 3 Apr. 1936.

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the goods failed, as a mob of the villagers attacked the searching party with poles and pelted our men with tins of pineapple. The party had to retreat in haste with only a few small packages taken as evidence.”³¹

Such episodes were common. Despite new regulations from Nanjing clarifying lines of authority and mandating cooperation, significant resistance persisted. The loyalties of local officials to the communities in which they were embedded were stronger than those to a distant “national” government. These instances of resistance do not necessarily signify the failure of the new regulations, but they underscore the difficulties of consolidating fragmented authority during the Republican era.

Contesting the Boundaries of Extraterritoriality

Progress in the war on smuggling was also uneven on other fronts. Extraterritoriality, which had exempted certain foreign nationals from prosecution under local laws since the mid-nineteenth century, confounded the Nationalists from exercising full territorial sovereignty. Extraterritorial arrangements effectively circumscribed the legal and territorial jurisdictions of domestic authorities by preventing them from entering foreign concessions and trying foreign citizens. Reversing this late imperial legacy had been a long-standing goal of Republican officials and central to the emergence of Chinese nationalism during the early twentieth century.³² No less of an authority than Sun Yat-sen, “Father of the Republic,” declared: “China seeks, not merely in name but in fact, the status of absolute independence and equality in the family of nations.” Elaborating on Sun’s declaration, the diplomat C. C. Wu (Wu Chaoshu) argued

³¹ GDPA 95-1-1053, Pakhoi SR, May 1935, “Appendix No. 1: Smuggling and Preventive Activities in Kwangchowwan,” 3-4.

³² For the relationship between extraterritoriality and legal pluralism in the nineteenth century, see Cassel 2012.

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that for China to be a “mistress in her own house is substantially the same policy that every independent and sovereign state has adopted.”³³ What Sun and Wu were arguing for China was sovereign equality on the world stage and unrestricted authority within its territorial boundaries (i.e. “her own house”). This notion of Westphalian sovereignty may have been more of an ideal than a reality, yet it nonetheless represented a goal to which Nationalist leaders very much aspired to realize for China.

Beyond the symbolic value of removing a shameful vestige of foreign imperialism, eliminating extraterritoriality had other important practical value. Effecting a shift from jurisdiction over *persons* to jurisdiction over *territory* was urgent for the Nationalists because ever-growing numbers of would-be smugglers were exploiting China’s fragmented and compromised sovereignty to evade arrest and punishment. Well into the 1930s when extraterritoriality had been abolished in most semi-colonial polities, the legal walls protecting foreign nationals in China remained formidable. The most sensational smuggling cases involved Japanese nationals and colonial subjects (e.g. Taiwanese and Koreans), whose consuls frequently and aggressively intervened to protect them from prosecution.³⁴ But press reports and governmental correspondences were replete with accounts of smugglers of many nationalities finding refuge in extraterritoriality. Aware of the advantages extraterritoriality conferred, some Chinese merchants who dealt in smuggled goods adopted various business strategies to gain favorable access to supplies and minimize the risk of prosecution: claiming multiple nationalities, moving their businesses to foreign concessions, or partnering with foreign

³³ Wu 1928: 668.

³⁴ For more on the extraterritorial privileges Taiwanese and Koreans enjoyed in mainland China as Japan’s “colonial citizens,” see Brooks 2000.

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nationals.³⁵ Not surprisingly, Chinese officials expressed irritation at the adverse impact of extraterritoriality on interdiction. Finance Minister T. V. Soong (Song Ziwen), for instance, complained of Chinese authorities being kept from operating in foreign concessions to enforce anti-smuggling regulations.³⁶

While the Nationalists were unable to secure the consent of foreign powers to abolish extraterritoriality until 1943, they did chip away at some extraterritorial privileges as part of the war on smuggling. As Lauren Benton notes, semi-colonial polities seeking to reverse extraterritorial arrangements often faced “inherently contradictory” claims by powerful outsiders that “militated for legal immunity and jurisdictional protections for their subjects while at the same time basing their claims on a critique of the failings of local justice and the weaknesses of local state sovereignty.”³⁷ Following the strategy pursued by these polities, the Nationalists moved to both formalize and monopolize the channels of legal authority. Since 1868, the legal procedures for adjudicating and penalizing foreign nationals had been governed by the “Joint Investigation Rules.”³⁸ Established within the framework of the unequal treaties, these rules required a Chinese official and the foreign consul of the accused to jointly hold a hearing to review the case.³⁹ Both sides had to come to a unanimous agreement on the findings before any

³⁵ While not focused on smuggling specifically, Lin 2001 examined the use of similar strategies in the case of overseas Chinese merchants.

³⁶ CR 44 (5), May 1928, 280.

³⁷ Benton 2001, for instance, employs the case of nineteenth-century Uruguay to demonstrate how foreigners’ frequent assertion of extraterritorial rights paradoxically added to pressures for reform. Cassel 2012 shows how Japanese authorities sought to westernize their country’s legal institutions in order to secure the consent of foreign powers to abolish extraterritoriality.

³⁸ *Huixun chuanhuo ruguan zhangcheng*, usually shortened and referred to just *Huixun zhangcheng*. The rules applied to nationals of a treaty power charged with smuggling, usually the evasion of duties through fraud or misrepresentation of import manifests.

³⁹ The representative for the Chinese side was officially the superintendent (*Jiandu*) but oftentimes was the commissioner. For the Chinese side: Zongli Yamen during the Qing and the Ministry of Foreign Affairs during the Republican era.

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penalties could be imposed. If there was a disagreement, the dispute moved up diplomatic channels for resolution.

Although they were infrequently invoked,⁴⁰ the Joint Investigation Rules were nonetheless problematic from the perspective of the Nationalists. On an ideological level, the rules embodied another lingering legacy of extraterritoriality and were unacceptable to a regime that based its legitimacy on Chinese nationalism. On a practical level, the rules also represented an alternative source of authority that undermined the Nationalists' prerogative to prosecute smuggling. With tariff autonomy, the Nationalists unilaterally renounced the rules and introduced new procedures requiring any company or merchant who sought to appeal their penalties to deal directly with the Chinese government and thereby limited jurisdictional shopping by would-be appellants.⁴¹ By mandating that cases be processed through these new legal procedures and channels, the Nationalists signaled their intent to make smuggling no longer a diplomatic issue but a routine, domestic law-enforcement issue. Again, these reforms mirrored attempts by other semi-colonial polities subjected to extraterritorial arrangements to reverse the privileges of foreigners by formalizing legal proceedings.

Another strategy the Nationalists adopted was expanding territorial jurisdictions to cover foreign concessions when possible. A handful of foreign concessions had been

⁴⁰ The Joint Investigation Rules were rarely invoked since the cost in time and resources of appealing a penalty often exceeded the fine under contestation. An examination of the 2,656 cases of fines and confiscations from 1885, for instance, show that not one of the 180 cases involving a non-Chinese national was settled using the Joint Investigation Rules. Individual fines for such cases usually ranged from five to ten taels, though heavier penalties were levied for more egregious cases of misrepresentation.

⁴¹ Treaties restoring tariff autonomy ratified in the late 1920s made no mention of the rules' repeal, but the Inspectorate notified commissioners in 1931 that in accordance with the principle of tariff autonomy, the rules were effectively nullified. A formal announcement by the Guan-wu Shu, however, came only in 1932 in response to a query from the American legation regarding the rules' status. See IG Circular No. 4285, 15 Aug. 1931 and Guan-wu Shu Dispatch No. 7753, 28 July 1932 in IG Circular No. 4468, 13 Aug. 1932.

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successfully reclaimed by the early 1930s,⁴² and the Nationalists continued expending considerable efforts at penetrating the remaining extraterritorial enclaves. Effectively “asserting sovereignty through policing,” they vigorously and aggressively pursued opportunities to supplant the jurisdiction of extraterritorial authorities with the Nationalists’ own police force.⁴³ Parallel to the Nationalists’ program was the Customs’ own program to extend the agency’s reach by establishing a legal framework that would facilitate its operations in foreign concessions. Shanghai received particular attention from both the Nationalists and the Customs. The city registered the highest levels of smuggling and was much compromised by the fragmented sovereignties of foreign concessions.⁴⁴ During the early 1930s, officials debated ways to effect interdiction in the International Settlement before settling on exploiting a technicality in existing import regulations that gave the agency the right to inspect firm records to ensure duties were properly paid.⁴⁵ Invoking this legal justification, the Customs concluded an unofficial agreement with the foreign-run Shanghai Municipal Council in 1932 that allowed agents to raid businesses within the Settlement suspected of harboring smuggled goods upon notifying the Council.⁴⁶

⁴² For instance, British concessions in smaller treaty ports (e.g. Hankou, Jiujiang, Weihaiwei, etc.) were surrendered to the Nationalists in the late 1920s and early 1930s largely without a fight. See Bickers 1999: 139-43.

⁴³ Wakeman 1995.

⁴⁴ Shanghai ranked first or second among all ports in fines and confiscations through much of the 1930s.

⁴⁵ This new policy would eventually be codified in the Preventive Law and implemented across China in 1934.

⁴⁶ SHAC 679-1-27723, “Queries Raised re. Chinese Preventive Law, 1931-1949,” Preventive Secretary to Chief Secretary, 23 May 1931.

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Once a few well-publicized raids were conducted, however, opposition quickly emerged.⁴⁷ Foreign consuls asserted their nationals' extraterritoriality and objected to raids without their involvement. Objections were often expressed through what some scholars have called the "colonial discourse of deficiency": since China lacked an official law to deal with smuggling, foreign consuls declined to assist the Chinese government in any interdiction operation. Equally vehement in their objection were local Chinese merchants. In a series of petitions publicized in newspapers and forwarded to various high-level government organs in Nanjing on behalf of its members, the Shanghai Chamber of Commerce expressed its opposition to the raids.⁴⁸ One petition complained of their impact on business: "As soon as a store is searched, business immediately comes to a halt and [customers] transacting with the store are frightened."⁴⁹ Other petitions pointed to the discriminatory quality of the raids (which were accused of being directed at Chinese firms without extraterritorial protection), demanded the right of merchants to appeal penalties levied by the Customs, and accused the agency of "exceeding its authority."⁵⁰

While such protests found sympathetic ears, they did not keep the Customs out of foreign concessions. The agency did initially pull back on raids, but its actions received support from the Nationalist government. The Ministry of Finance, for instance, publicly reaffirmed the right of the Customs to examine firm records, noting that such tactics stopped fraudulent practices such as misrepresentation and "not only protect[ed] the

⁴⁷ For a sample of such cases, see: SHAC 679-1-28138, "Smuggling Reports, Shanghai, 1931-1933," Shanghai SR, Aug. 1932, 2-3; and Shanghai SR Oct. 1932, 1-5. *SB*, 25 Aug. 1932, 15; and *SB*, 31 Aug. 1932, 15.

⁴⁸ The recipients of the petitions included the Executive Yuan, Ministry of Finance, and the Guan-wu Shu.

⁴⁹ *SB*, 21 Oct. 1932, 10.

⁵⁰ *SB*, 12 June 1933, 11. Petitions also reprinted in *SY* 12 (11); and 13 (7).

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national revenue but also the operations of legitimate merchants.”⁵¹ With the promulgation of the Preventive Law in 1934, negotiations with the Shanghai Municipal Council and foreign consuls on the legal parameters of Customs agents operating within the Settlement were revived. Armed with the new law, which authorized inspection of premises storing smuggled goods, officials secured another unofficial agreement whereby raids could be executed upon the issuance of a search warrant by the Shanghai No. 1 Special District Court but only on the shops of Chinese and non-extraterritorialized foreigners. Customs officials found the agreement “eminently unsatisfactory,” although they acknowledged that it was similar to arrangements other government agencies reached with the Council and was the best deal that could be obtained under the circumstances.⁵²

Similar arrangements were made elsewhere although their efficacy was mixed. In Guangzhou, for instance, Customs agents raided a British-owned business in the foreign concession of Shamian (Shameen) Island suspected of evading duties on foreign alcohol, but they were unable to do anything other than levy a nominal fine on the firm’s owner.⁵³ In Tianjin, unrestricted entry into foreign concessions by the Customs would not be fully realized until after the abolition of extraterritoriality.⁵⁴ In the meantime, agents maintained detailed surveillance on various smuggling concerns operating in the city’s foreign concessions.⁵⁵ Such problems, in any case, did not stop the Customs from

⁵¹ SB, 24 June 1933, 12.

⁵² SHAC 679-1-27723, “Queries Raised re. Chinese Preventive Law, 1931-1949,” Shanghai to IG, 21 Nov. 1934.

⁵³ SHAC 679-1-4135, “Preventive Secretary’s Printed Note, 1932-1949,” PN No. 20, 19 Aug. 1935, 5-13.

⁵⁴ SHAC 679-1-901, “Cover No.91 Bogus Customs, activities of, Report on., 1943,” “Memorandum for Commissioner,” 27 July 1943.

⁵⁵ TJMA W1-1-2658, Tientsin SR, Jan. 1937. Intelligence reports, in fact, showed that Customs officials were aware not only of the existence of these firms but also of their scale and scope of their operations. These firms—mostly Chinese and Japanese firms in foreign concessions with estimated operating capital of

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continuing to execute raids in foreign concessions when possible. Looking back at interdiction operations at the end of 1936, the Shanghai commissioner reported that despite intermittent difficulties,⁵⁶ the Customs continued to enforce the Preventive Law in both the International Settlement and French Concession even without the assistance of the Municipal Council or French authorities.⁵⁷

If we conceive of sovereignty in binary terms—full sovereignty or compromised sovereignty—then the Nationalists’ accomplishments in pushing back the boundaries of extraterritoriality through the policing of trade appear rather modest, even insignificant. Yet if we recognize that sovereignty, as Lauren Benton argues, has always been variegated, layered, and tenuous, then the Nationalists’ progress at effecting the transition from jurisdiction over persons to jurisdiction over territory appears quite remarkable.⁵⁸ Although this transition was never fully realized during the Nanjing Decade, the suppression of smuggling provided consistent opportunities for the Nationalists to reverse the late imperial legacy of extraterritorial concessions and project their authority into foreign-controlled enclaves in ways their predecessors were unable to do.

Policing Maritime Borders

Another important element in the Nationalists’ agenda was control of China’s maritime borders. Officials sought ways to regulate, monitor, or even prohibit the

anywhere from CN\$1 million to CN\$2.5 million each—ran very profitable businesses importing and selling smuggled sugar, artificial silk, and other high-value products on a large scale.

⁵⁶ Such difficulties centered on the issue of proper jurisdiction of courts to hear smuggling cases. Two cases attracted particular attention from officials. On the Pinzhen case, see: SHAC 679-1-28139, “Smuggling Reports, Shanghai, 1934-1935,” Shanghai SR, Aug. 1935, 4-6. SB: 21 Aug. 1935, 12; and SB: 6 Sept. 1935, 15. On the Yisheng case, see: SHAC 679-1-28139, “Smuggling Reports, Shanghai, 1934-1935,” Shanghai SR, Nov. 1935, Appendix No. 2; and Shanghai SR Dec. 1935, Appendix No. 3. SB: 26 Nov. 1935, 10; and SB: 27 Nov. 1935, 11.

⁵⁷ “Annual Resume of Preventive Work for 1936,” in SHAC 679-1-28140, “Smuggling Reports, Shanghai, 1936-1937,” Shanghai SR, Dec. 1936, Appendix, 7.

⁵⁸ See Benton 2010 for an explication on the historical problems of sovereignty.

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movement of vessels across different political spaces beyond Chinese territorial waters.

Patrolling and controlling such traffic, however, proved to be a challenge. Ownership for junks and other vessels were difficult to trace. Their number was too large, and their size too small for authorities to monitor effectively.⁵⁹

To remedy this problem, the Nationalists permitted the Customs to expand its preventive fleet and construct a coastal surveillance network of radio stations.⁶⁰ But to complement these tangible tools of border control, the Nationalists also promulgated regulations reaffirming China's maritime borders. The central government charged the Customs with the responsibility to patrol China's entire coastline, claiming "the right of exercising any preventive measures it may consider necessary for the protection of its revenue within a limit of 12 marine miles from the coast of China."⁶¹ Other rules were designed to regulate maritime activities and render movement across maritime space more legible to the central state. Small vessels and junks, in particular, were barred from calling at certain ports and required to register with the Customs, carry licenses and pass-books, and report to specified stations.⁶² Owners were also required to brand their vessels with their registration number and a single Chinese character signifying the port

⁵⁹ Steamship traffic, in contrast, proved comparatively more pliable to such regulations. Though authorities had a difficult time in stemming smuggling on steamships and going after the real suppliers of illicit goods, they had more success holding the shipping companies (or their agents and compradors) to account through fines or other sanctions.

⁶⁰ See Chapter 1.

⁶¹ IG Circular No. 4241, 5 June 1931. Moreover, regulations permitted the Customs to engage in the "internationally accepted practice of 'hot pursuit,'" whereby vessels suspected of violating Chinese laws within the 12-mile limit may be pursued into the open seas. Some foreign powers, particularly Japan, challenged the Chinese government's interpretation of its maritime claims, and in some areas, Customs patrols were still limited to 3 miles from the coast of China. See IG Circular No. 5307, 7 July 1936.

⁶² The most important of which would be the Junk Regulations (*Haiguan guanli hanghai minchuan hangyun zhangcheng*), promulgated in 1931 and revised in 1934. For the 1931 version, see FD 4 4846-50. For the 1934 version, see FD 5 656-60.

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of registration.⁶³ Violation resulted in a fine or confiscation of cargo or even of the vessel itself. From 1932 to 1937, more than 37,000 vessels up and down the coast submitted to this process and registered with their local Customs station.⁶⁴

Another window into the operation of border controls and enforcement by the state comes from legal cases. The cases were adjudicated by the Customs Penalty Board of Inquiry and Appeal⁶⁵ (hereafter “Board”), which was established in November of 1934 by the Preventive Law as a venue for merchants who wished to contest penalties levied by the Customs. As specified by Article 31 of the Preventive Law, individuals or firms who wished to appeal a fine levied or confiscation effected by the Customs could submit a written protest within ten days of receiving the original decision. More generally, the Board was designed to replace the defunct Joint Investigation Rules and provide Chinese merchants a legal forum to appeal Customs decisions. It was also the very institution that adjudicated the case of the *Jintongshun* in the chapter’s opening.

Consisting of senior-level officials from the Ministry of Finance and the Customs, the Board reviewed appeals and issued one of three rulings to uphold, modify, or reverse the original penalty. In its review of cases, the Board upheld the original penalty 60% of the time, whereas it modified and reversed the original penalty 26% and 14%, respectively, of the time.⁶⁶ Modifications usually reduced or waived the original penalty, and combining them with reversals, we can say that the Board ruled in favor of appellants in 40% of the cases it reviewed—a bias towards upholding original penalties but only

⁶³ Some vessels were branded with roman letters. See for example GDPA 101-1-47, Confidential Preventive Memorandum No.62 from Kowloon Customs to all preventive vessels and stations, 7 Dec. 1936.

⁶⁴ The exact figure was 37,217 vessels. Re-registrations not included. Data tabulated from PN (various).

⁶⁵ *Haiguan faze pingyi hui*.

⁶⁶ Data tabulated from: IG Circular No. 5527, 1 Jul. 1937; IG Circular No. 5571, 20 Aug. 1937; IG Circular No. 5611, 27 Oct. 1937; and IG Circular No. 5694, 5 Jul. 1938.

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slightly so. One senior Customs official commented favorably on the operation of the Board: “The impression I have derived from these meetings is that the [Guan-wu Shu] members are very fair, always willing to see the Customs point of view but at the same time they require to be convinced of the justice of the Customs case.”⁶⁷

The Board and its operations are significant for several reasons. First, the Board was another product of the Nationalists’ aforementioned project at formalizing legal procedures and institutions along Western lines. Realizing such reforms thereby helped China demonstrate its status as a “modern” and “civilized” nation worthy of exercising full territorial sovereignty. One senior-level official, in fact, made this link explicit when he noted how China—like Europe and the United States—now established a dedicated court for its citizens to challenge the decisions rendered by the Customs.⁶⁸ Second, the Board’s rulings represented some of the most direct expressions of the Nationalist regime’s attitude toward smuggling, given that the cases were adjudicated by senior government officials. Finally, the cases themselves are significant in that the quotidian information contained in plaints and captured in testimonies reflect contemporary business practices as well as attitudes of merchants toward regulations.

Many of the appeals to the Board concerned fines, which increased dramatically under the new Preventive Law. In these cases, appellants requested to have their fines reduced or waived outright. Another major issue was violation of regulations on maritime movement. One such case occurred in south China. On December 12, 1934, the junk *De'anli* (*Tehanlee*) was sailing off the coast of Guangdong when it was spotted

⁶⁷ SHAC 679-(3)-27757, “Preventive Secretaries, Handing Over Charge Memorandums, 1935-1946,” “Memorandum for Mr. E. A. Pritchard”, 20 Apr. 1936, 17.

⁶⁸ As Zhang Lai (Chang Loy), Director General of the Guan-wu Shu for most of the 1930s, observed regarding the old Joint Investigation Rules: “Not only did [the rules] not treat Chinese and foreigners equally, but this system also damaged [the nation’s] sovereignty.” HH: Forward (*bian yan*).

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by a Customs patrol boat. Realizing that it had been sighted, the *De'anli* quickly sought to flee the area (“making a sudden turn to starboard”) before it was overtaken and boarded by the patrol boat. A search revealed that the quantity of domestic goods onboard did not match the amounts listed in the manifest and that some foreign goods were concealed beneath other cargo. Cross-referencing the junk’s logs with the Customs records further revealed that the vessel had been at sea for two weeks—a suspiciously long time given the short distance between its point of origin and its destination. Confronted with the evidence, the junkmaster admitted that the vessel, en route, docked at the Guangzhouwan Leased Territory, a French concession. Part of the original cargo was then discharged and foreign goods were taken onboard in violation of Article 11 of the Revised Junk Regulations that prohibited trade with “foreign territories” (*guowai defang*) without authorization. The junk and its entire cargo were confiscated.

Two months after the incident, merchant Huang Yousan filed a protest on behalf of the cargo owners against the penalty. In addition to questioning whether the entire cargo (both native and foreign in origin) could be legitimately confiscated, Huang and the petitioners also protested the seizure of the junk for sailing in restricted waters without reporting to the Customs. They argued that the vessel in fact traversed a common maritime route: “Ask any navigator and without exception [they will] acknowledge [this]; many local people also know [this].”⁶⁹ Their argument, in essence, was that the abstract and artificial boundaries delineated and enforced by the state did not accord with local understandings or practices. Unfortunately for the petitioners, the Board upheld the

⁶⁹ Letter of protest from Huang Yousan and other owners of native cargo, 27 Feb. 1935. HH 1: 29.

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original penalty, given that there was no question that the route taken by the *De'anli* traversed foreign waters as defined by regulations.⁷⁰

The second case occurred in North China, where border control and the fight against smuggling intertwined with broader geopolitical goals. The Japanese army invaded Manchuria in 1931 and subsequently established the Manzhouguo puppet regime. The army also provided support to local warlords in North China to help serve as buffers. For their part, the Nationalists did not directly challenge Japanese influence in the region until mid-1937 but they did introduce regulations from 1931 onward to restrict economic intercourse between occupied and unoccupied territories. Small motor vessels, for instance, were prohibited from plying between China, Manchuria, and various “foreign territories.”⁷¹ Tensions in North China exacerbated the situation on the ground. As steamship routes and overland transport were all disrupted during the 1930s, junks and other small motor vessels became attractive options for merchants seeking to move goods within north China and to and from Manchuria.⁷²

This was the geopolitical environment in which the fishing trawler *Lianshun No. 1* operated. The Customs received information that before returning to the Weihaiwei station near Yantai in Shandong on February 6, 1936, the boat had sailed to the nearby

⁷⁰ Guan-wu Shu record of discussions, 3 May 1935. HH 1: 31-3.

⁷¹ Japan's seizure of Manchuria in 1931 and the subsequent establishment of Manzhouguo in 1932 severely tested the Nationalists in maintaining the territorial integrity of China. The Nationalists initially took the position that as the Japanese occupation was illegal and illegitimate, Manchuria remained an integral part of China and trade between the two should continue as before. Thus, interport or domestic duties, rather than foreign duties, for native goods moving between China and Manchuria were applied. In response to the alarming increase in coastal smuggling, the government had already prohibited small motor vessels plying between China and various “foreign ports” in January of 1931. See IG Circular No. 4166, 27 Jan. 1931. After the seizure of Manchuria and its Customs stations in 1932, the government in 1933 reiterated the ban on small motor vessels traveling to the Dalian in the Guandong Leased Territory and Manchuria until the latter was “recovered” (*huifu*) by China. See IG Circular No. 4502, 6 Oct. 1932 and IG Circular No. 4596, 4, Apr. 1933. For a political overview on the Japanese takeover of Manchuria and its impact on Customs operations, see Wright 1938: 673-80 and Chen 1999: 315-29.

⁷² Son 1997: 14-5.

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Japanese-occupied Manchurian port of Dalian in contravention of regulations. Inspection revealed a suspicious abundance of supplies for a vessel that—according to its own records—had been at seas for three weeks. A search of the crew yielded more incriminating evidence: a draft telegram outlining plans for the ship to sail to Dalian for provisions. The captain admitted to its veracity, and the ship was confiscated.

Chen Wanfu, owner of the *Lianshun No. 1*, filed an appeal on the grounds that since the ship was unable to dock at Yantai due to inclement weather, it needed to sail to Dalian for supplies. Chen argued for leniency under the terms of Article 9 of the Preventive Law, which stated that penalties may be waived if “the entry of a vessel at an unauthorized place [was] due to reasons of distress or other unavoidable circumstances.”⁷³ His pleas, unfortunately, did not find a receptive audience in the Board, who upheld the commissioner’s original decision. The Board rejected claims that inclement weather prevented the vessel from returning since records showed other vessels moving in and out of Yantai on the day in question. Most importantly, through repeated reports from informants, the Board was fully aware that fishing vessels like the *Lianshun No. 1* often sailed clandestinely to Dalian for supplies.⁷⁴

These cases—along with others from up and down the Chinese seaboard—show how seriously authorities took the issue of illicit border crossing. They also, however, illustrate the enduring ties within regional economies that were disrupted but not severed by new restrictions. Merchants often challenged regulations marking legal spheres of trade by pointing out that the boundaries drawn on maps and enforced by the government did not accord with local economic realities. Moreover, these cases underscore how the

⁷³ Letter of protest filed by Chen Wanfu, 29 Mar. 1936. HH: 273-8.

⁷⁴ Guan-wu Shu record of discussions, 19 June 1936. HH: 286-90.

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boundaries of legitimate trade were difficult to delineate and recognize, given the many foreign concessions and colonies that dotted the Chinese seaboard or lay in close proximity.⁷⁵ Authorities were certainly aware of this problem. One official opined that while many individuals were no doubt motivated by the desire to evade duties, many others were “not smugglers in the true sense of the word, but rather seem to be ignorant of the new procedure, and are carrying on as they did before.”⁷⁶

As political scientist Janice Thomson reminds scholars, boundaries—far from being “given, permanent, or even natural”—are actually “arbitrary, contested, and ever-changing” and intricately intertwined with the sovereign claims of modern nation-states.⁷⁷ The Nationalists’ attempts to define and enforce China’s maritime borders highlight this malleable quality of boundaries. But with the proliferation of new laws, practices and patterns of exchange were gradually or abruptly restricted. Indeed, it is clear that one unintended consequence of the war on smuggling was—ironically enough—more “smuggling.” Although he was not referring specifically to China, one legal historian perhaps best sums up this dynamic: “[L]egalities generate illegalities, for the two are necessary conditions of each other’s existence. Law, after all, makes outlaws, not law’s absence.”⁷⁸

⁷⁵ “Foreign territories,” for instance, were defined to include concessions such as the Guangzhouwan Leased Territory and Dalian in the Kwantung Leased Territory or foreign-occupied territories such as Taiwan or Manchuria. More permissive regulations on movement, by contrast, applied to the Pearl River Delta—which included the long-time smuggling centers of Hong Kong and Macau.

⁷⁶ SHAC 679-1-20385, “General Considerations Concerning Smuggling and Preventive Work at Tientsin, 1931-1933,” Chefoo Commissioner’s Comments on Tientsin Commissioner’s Dispatch No. 9414, Undated.

⁷⁷ Thomson 1994: 13.

⁷⁸ Tomlins 2001: 3.

Consequences: Intended, Unintended

Dual Standards of Legal Treatment

Along with greater financial resources, the proliferation of regulations provided the Customs with the legal sanction to expand and intensify the war on smuggling. As noted in the previous chapter, a tangible indicator of progress in the suppression of smuggling is the rising levels of fines and confiscations. Such statistics, however, obscure the serious social conflicts and other unintended consequences created by ramped-up enforcement. Nowhere was this more glaring than in the dual standards of the legal treatment of petty smugglers and merchants. Again, new regulations permitted officials to inflict significant fines on suspected smugglers and confiscate not just the smuggled goods in question but the vessel of transport itself for a variety of offenses. Officials were also instructed to negotiate with the offender or even pursue fines in civil court if payment was not forthcoming. In theory, heavier punishments discouraged smuggling by raising the financial stakes involved. This was certainly the view of officials who saw smuggling as a “business” with its own economic logic.⁷⁹ To be sure, such penalties had serious and painful financial repercussions—even for individuals or firms that could absorb such losses. In practice, however, punishments were often disproportionately meted and their efficacy as a form of deterrence proved to be limited. In some cases, the fines levied or the duties evaded actually exceeded the market value of the confiscated goods. The offender thus had an incentive to simply abandon the goods

⁷⁹ See for instance, SHAC 679-1-27750, “Inauguration of Preventive Service, 1929-1930,” “Memo No. 12 to I.G.: General Considerations Governing the Control of Smuggling and the Formation of a Preventive Service,” 1930.

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and write off the associated expenses rather than engage in any further dealings with the Customs.⁸⁰

Heavy fines were even less effective at punishing petty smugglers. Impoverished female smugglers who made a precarious living shuttling small amounts of goods between port were especially troublesome and numerous. They were also partly shielded by prevailing social taboos (i.e. the inspection of their bodies) that afforded them advantages over their male counterparts.⁸¹ Unlike merchants accused of smuggling who often had the resources to contest their penalties, these individuals simply had no means to pay the financial penalties. As one commissioner reported, it was “futile” to sue petty runners for payment of fines given that they came from the lowest rungs of the socioeconomic ladder.⁸² In many instances, those who could not or would not pay the fine simply had their cargoes confiscated. Punishment even led to confiscation of the suspected smuggler’s means of livelihood. To cite but one example, sampan owners in Xiamen caught collecting smuggled goods tossed from steamships prior to docking were fined anywhere from CN\$15 to CN\$30. Those who could not pay the fine usually had their vessels destroyed.⁸³ Officials were certainly aware of this tiered system of justice. In a confidential letter to his superior, one commissioner noted that while the small operators who were paid to transport illicit goods were often caught and punished, the actual owners of the cargo remained beyond the reach of the law.⁸⁴

⁸⁰ While financially harmful, such cases, as one commissioner happily noted, were still relatively “rare.” SHAC 679-1-28140, “Smuggling Reports, Shanghai, 1936-1937,” Shanghai SR, Mar. 1936, 4-5.

⁸¹ Other scholars have identified this “gendered dimension” in the practice and suppression of smuggling. See in particular: Niger-Thomas 2001 and Cohen 2010.

⁸² SHAC 679-1-27720, “Preventive Law: Reports on Working of, 1913-1926,” Chinwangtao Dispatch No. 1241, 3 Apr. 1935.

⁸³ GDPA 95-1-1055, Amoy SR, Jul 1936, 2.

⁸⁴ SHAC 679-1-27723, “Queries Raised re. Chinese Preventive Law, 1931-1949,” Chefoo Commissioner to Preventive Secretary, 4 Oct. 1934.

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Incarceration was the fate for many petty smugglers, although the administration of justice was uneven. Even after the passage of the Preventive Law and other legal reforms, the prosecution of smugglers was a low priority for many magistrates, given that duty evasion affected the revenues of the central government (i.e. the Nationalists) more than those of the local government (i.e. provincial, county, or village). As a result, the legal machinery at the local level proved slow at prosecuting smuggling. In one southern port, for instance, a commissioner lamented the backlog of more than eight hundred smuggling cases in the local court: “The possibilities of grave injustice to the accused—whose offenses may not warrant an imprisonment term as long as the period which elapses between being handed over for trial and actual trial—are evident; and the Customs suffer inconvenience in being unable to dispose of the smuggled goods involved in the cases.”⁸⁵ Moreover, administrative indifference was compounded by other practical considerations. Many local governments, as Xiaoqun Xu points out, faced mutually-reinforcing incentives to avoid the formal but lengthy prosecution of suspected offenders. The costs of jailing and feeding the defendants during the entire legal process represented a significant burden, given the meager resources of many local governments during the Republican era. The requirement to prosecute the ever-growing volume of suspected smugglers in local courts, in essence, represented an unfunded mandate for local magistrates.⁸⁶

⁸⁵ GDPA 95-1-1055, Swatow SR, Sept. 1936, 6.

⁸⁶ This was not an uncommon phenomenon limited to the prosecution of smuggling. The Anti-Drug Campaign of 1933 that prohibited narcotics consumption, for instance, was promulgated and enforced by the military but the resultant costs of jailing the suspects were passed on to local and provincial governments. The judicial system at least enjoyed partial financial relief from the fines local governments and courts were permitted to collect from drug offenders. No such revenue stream, by contrast, was available to local governments in prosecuting smugglers. Except for rewards issued for information and assistance in interdiction operations, the Customs generally held on to all proceeds from fines levied and confiscations effected. See Xu 2008: 107-11, 172-3.

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It should be of little surprise, then, that local authorities frequently found a variety of more expedient ways to deal with suspected smugglers. Some officials simply released prisoners after a short stay in jail. Such was the case in one port where smugglers caught by the Customs were handed over to the local police for imprisonment. After a week or so, the police informed the Customs that it had to release the prisoners “on the plea of lack of space to keep them and lack of funds to feed them.” Scarcity of resources encouraged local officials to dispense a form of “quick justice.” As the commissioner noted: “In such cases there is no alternative but to treat the short [jail] term as a punishment in lieu of fine and to let offenders go.”⁸⁷ In other cases, magistrates avoided accepting suspects altogether. For instance, a commissioner and a local magistrate north of Hong Kong instituted a pilot program shortly after the passage of the Preventive Law to hand over captured smugglers for prosecution. The scheme, however, was quickly suspended when the volume of suspects transferred from the former overwhelmed the resources of the latter. As reported by the commissioner, while the magistrate was initially cooperative in accepting the first two batches of suspects, he declined to accept more because “once he accepts them, he must charge them, a course which takes three days and he has no room in his prison to keep them for so long.”⁸⁸

Criminalizing Duty Evasion, 1936-1937

Problems stemming from socioeconomic differences in legal treatment were compounded near the end of the Nanjing Decade with the introduction of more punitive laws combatting smuggling. The primary driver behind this escalation was the shifting geopolitical situation. By late 1935, growing tensions with Japan in north China began

⁸⁷ SHAC 679-1-27720, “Preventive Law: Reports on Working of, 1913-1926,” Amoy Dispatch No. 9094, 19 Aug. 1935.

⁸⁸ GDPA 95-1-1054, Kowloon SR, Mar 1935, 5.

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undermining the efficacy of local interdiction.⁸⁹ In the spring of 1936, with the encouragement of the Japanese army and cooperation of separatist regimes, smuggling in north China grew to alarming proportions. Customs stations in Tianjin, along the Shandong coast, and on the Manchurian border all reported being inundated by smuggling. In addition to sovereignty and public order, national finances were under threat: multiple warnings were issued by the Customs to the Ministry of Finance in mid-1936 that the fall in revenues was serious and could undermine the government's ability to service its debt and pay remaining indemnities.⁹⁰

Flagrant support for smuggling by Japanese armed forces further inflamed anti-Japanese sentiments. Stories of Taiwanese and Korean “vagrants” (Chinese: *langren*; Japanese: *rōnin*) colluding with “traitorous Chinese” (*Hanjian*) or “treacherous merchants” (*jianshang*) flooded the media and scandalized the public. The *Shen Bao Weekly* article “Northeast China’s Startling Amount of Smuggling” reported how smuggled sugar, cotton yarn, rayon, and other products (“too many to enumerate”) were making their way from Tianjin and Beiping (Beijing) to nearby provinces in northeast and central China and even to the Lower Yangzi. The article concluded on an ominous note: “Although the Ministry of Finance has now decided to solve the problem through diplomacy and rigorous enforcement of inspections, whether or not it can truly stamp out smuggling in a north China full of vagrants and traitorous Chinese remains an open question.”⁹¹

⁸⁹ The Umezu-Ho and Doihara-Chin agreements of June 1935 created a “demilitarized zone” in north China that formally expelled Nationalist military and political influence from the region. Customs stations that remained in the region had to disarm their staff and patrol teams. East Hebei and Chahar declared their autonomy from Nanjing in late 1935. For more details, see Iriye 1986.

⁹⁰ For detailed look at the political dynamics of the 1936 north China smuggling crisis, see Son 1997 and Hill 2008.

⁹¹ Zhongguo wen ti yan jiu hui 1936: 11-2.

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Concerns over smuggling were also articulated in a more abstract manner. The *Shidai Manhua* (“Modern Sketch”) cartoon “Three Stages of Smuggling,” for instance, reflected popular fears of smuggling’s existential threat to China. (See Figure 2-1.) The first panel on top shows how smugglers have been crossing in the dead of night with their goods labeled *si* or “illicit.” The second panel in the center shows smuggling brazenly conducted in middle of the day, with illicit goods fortifying and shielding an invading army (presumably Japanese). The final panel at the bottom is a harbinger of an ominous future, when smuggling becomes not illicit trafficking but part of a supply convoy protected by formidable tanks. The message of the cartoon is clear: smugglers were but the first wave of an incoming invasion.

In response to this upsurge in smuggling and widespread public sentiment for action, the Nationalists instituted two sets of important measures. First, the government formally criminalized the transaction of smuggled goods. At the suggestion of the Ministry of Finance and Customs officials, the Executive Yuan (China’s executive body) in June of 1936 made transacting smuggled goods punishable under article 349—“Offenses of Receiving Stolen Property”—of the Criminal Code. Goods for which import duties had not been paid were now classified as stolen property. Recipients of such goods could be imprisoned for up to three years and fined up to CN\$500. Others who transported, accepted in deposit, purchased, or otherwise aided in the disposal of illicit goods could be imprisoned for up to five years and fined up to CN\$1,000.⁹²

The second set of measures, also introduced during June of 1936, was more far-reaching. The Revised Provisional Code Governing Punishments for the Evasion of

⁹² Ministry of Finance Dispatch No. 25983, 8 June 1936 in IG Circular No. 5286, 1 June 1936.

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Customs Duty⁹³ (hereafter “Revised Punishment Code”) criminalized duty evasion for select high-value and frequently-trafficked foreign products (e.g. sugar, rayon, and kerosene). In contrast to the Preventive Law, the Revised Punishment Code prescribed prison terms of three to ten years and more onerous fines for offenders, all linked to the value of the smuggled goods. (See Appendix B.) Reflecting the harsher line taken against smuggling, the new law also specified that attempts to conceal, transport, or sell smuggled goods—even if unsuccessful—were to be punished as actual infringements.⁹⁴ Finally, those leading and inciting violence while resisting arrest or “conspiring with foreigners or rebels” in evading duties could be sentenced to life in prison or even death in certain cases.⁹⁵ The Revised Punishment Code was reprinted in full in newspapers like *Shen Bao* and generated considerable publicity.

The new regulations on paper seemed draconian, yet their actual application in many instances was far less severe. Consider the capital punishment clause in the Revised Punishment Code. Most cases where capital punishment was applied involved smuggling by government or military officials.⁹⁶ Feng Rui, a prominent official in the separatist Chen Jitang regime in Guangdong who spearheaded a host of economic development programs, was perhaps the most prominent example. He was arrested, tried, and executed in September 1936 for “corruption” and his alleged role in the ubiquitous “official smuggling”—i.e. smuggling conducted by the Nationalists’ warlord rivals—that

⁹³ *Xiuzheng chengzhi toulou guanshui zanxing tiaoli*.

⁹⁴ See, in particular, Articles 6 and 7.

⁹⁵ See Article 3. As its name suggests, the law was enacted provisionally for one year from June 1936, although the Ministry of Finance extended it at least twice for one-year periods in July of 1937 and 1938. See IG Circular No. 5532, 12 July 1937 and IG Circular No. 5703, 26 July 1938. The law was repealed by the Ministry of Finance under the Wang Jingwei regime in 1942. See IG Circular No. 5814 (Bogus Customs), 23 Oct. 1942.

⁹⁶ Nowhere in the records I have examined, in fact, mention any case of a petty runner or merchant executed for duty evasion on ordinary consumer goods. Trafficking of narcotics and armaments, however, was another matter.

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scandalized the public during much of the 1930s. Feng’s case, however, appeared to be an exception. As Emily Hill notes, Feng’s conviction and execution may have had less to do with his involvement with smuggling (of which there is little direct evidence) and more with domestic and international politics. The Nationalists were already consolidating their control over Guangdong after the departure of Chen in the summer of 1936, and the singling out of Feng for punishment seemed excessive. Moreover, the actual charges of “corruption” against Feng were deliberately vague, and Hill speculates that the Nationalists chose not to highlight the problem of official involvement in smuggling for fear of giving Japan more rhetorical ammunition in claiming that smuggling was a product of Chinese disunity and that high tariffs kept out much-desired Japanese goods.⁹⁷

Extraterritoriality also remained a problem. The Inspector General notified commissioners that the Revised Punishment Code, although promulgated in response to the Japanese-backed smuggling epidemic in north China, was applicable only to Chinese and foreigners without extraterritorial privileges. Also, the new regulations addressed the crisis only indirectly by punishing consumers and transporters, rather than suppliers. The public was certainly aware of such limitations. An article in the *Public Opinion Monthly* (*Guolun Yuekan*) on the north China smuggling crisis written shortly after the promulgation of the new regulations posed a rhetorical question that neatly captured the public’s misgivings: “[The Revised Punishment Code] is sufficiently severe, but what if those who evade Customs duties are Japanese or Korean vagrants?”⁹⁸

⁹⁷ See Hill (2010: 131-6) for more details of Feng’s case and the surrounding controversy.

⁹⁸ Zhongguo wen ti yan jiu hui 1936: 246-7.

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Enforcement, moreover, varied by locale. On the one hand, the Ministry of Finance issued a clarification that the new Revised Punishment Code was promulgated to only “deal with extraordinary circumstances” and applied primarily to transporting and transacting in smuggled goods in the interior. On the other hand, the Preventive Law continued to be applicable in cases of direct smuggling from abroad.⁹⁹ In western Shandong, the Customs began reporting more instances of suspected runners and merchants being convicted under the Revised Punishment Code.¹⁰⁰ In the southeastern ports of Xiamen and Shantou, smuggling was mostly tied to the extensive steamship network or coastal junk traffic between Taiwan and Hong Kong, and commissioners reported local courts meting out harsher penalties in accordance with the new regulations. The Xiamen commissioner reported on a case of a coastal villager who was convicted under the Revised Punishment Code for concealing smuggled goods (thirty bags of sugar and twenty tins of matches) in his home.¹⁰¹ The Shantou commissioner, despite continued complaints about the slow pace of justice in the region, reported that steamship crews trafficking in sugar, silver, and rayon caught by the Customs and handed over to local authorities had been sentenced to penal servitude of one to more than three years.¹⁰²

Conclusion

Beyond protecting a critical source of revenues, the Nationalists’ suppression of smuggling provided the nascent regime opportunities to assert and broadcast the authority of the central state, which had been progressively attenuated since the late nineteenth century. Despite its inconclusive efficacy and significant social costs, the war on

⁹⁹ IG Circular No. 5379, 15 Oct. 1936.

¹⁰⁰ See, for example, SHAC 679-1-28305, “Chief Inspection Bureau (Land), Confidential Letters, Semi-official, Telegrams, 1936-1937,” “Weekly Report,” 5 May 1937; 12 May 1937; and 26 May 1937.

¹⁰¹ GDPA 95-1-1055, Amoy SR, Aug. 1936, 16-7; and Amoy SR, Oct. 1936, 10.

¹⁰² GDPA 95-1-1056, Swatow SR, May 1937, 10-1.

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smuggling nonetheless supported the Nationalists' goal of building a strong, central state.

Law was instrumental in this process. As the German historian James Sheehan notes, law has been intricately bound with the making of sovereign claims,¹⁰³ and the proliferation of laws and efforts to enforce them effectively represented attempts by the Nationalists to expand their claims to regulate, tax, and police trade. The new regulations were all created to combat smuggling, but they also sought to reaffirm the legitimacy of the Nationalists as China's central government in compelling compliance from a wide range of social and political actors. Such efforts paralleled the extension of legal authority and the transition from personal jurisdiction to territorial jurisdiction that scholars have shown to be intimately connected to projects of state-building in other contexts¹⁰⁴—even if this assertion of sovereignty was not uniform and faced continual challenges. Indeed, the elimination of competitive sources of authority from local governments, domestic rivals, or foreign powers was by no means complete by the end of the Nanjing Decade. As one scholar aptly notes, the Nationalists' program “was gradually reducing the political fragmentation of China that attended the end of the dynastic system in 1912 [even though this] trend toward recentralizing power and rebuilding the bases of political authority had only partly succeeded by 1937.”¹⁰⁵ Furthermore, as we shall later see, the legal and administrative edifice constructed to fight smuggling and project central authority was severely stressed—if not outright shattered—during the long and brutal Second Sino-Japanese War (1937-45). Nonetheless, it should be recognized that the Nationalists' program represented the most sustained effort since the late Qing to consolidate central authority and project the state's reach into economy and society.

¹⁰³ Sheehan 2006.

¹⁰⁴ See, for example Strauss 1986 and Cassel 2012.

¹⁰⁵ Levine 1992: xix.



Figure 2-1
“Three Stages of Smuggling” (Zousi san bu qu)

Each panel of the cartoon corresponds to a phase in Japanese-backed smuggling. From top to bottom—past, current, and future.

SOURCE: *Shidai Manhua* (“Modern Sketch”), No. 33, Dec. 1936, 5.
Colgate University Library, Special Collections and University Archives.

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THREE

Defying Centralization

Smuggling as Business, Tax Resistance, and Political Independence

In late March 1935, the Maritime Customs dispatched officer Wang Huamin and an assistant on a month-long mission to investigate smuggling conditions in Hangzhou Bay. The region, located just south of Shanghai, had emerged as a major entry point for smuggled goods in the years after tariff autonomy and as controls were strengthened at ports. Wang, at times posing as a smuggler from Shandong “with plenty of capital” (his assistant posed as “a Shanghai gangster”), interviewed a colorful cast of characters including local officials professing varying degrees of sympathy for the Nationalists’ cause, merchants harmed by or profiting from the illicit trade, and junkmasters boasting of their ability to evade Customs patrols “with ease.”

In the course of his investigation, Wang unearthed valuable intelligence not just on local market conditions but also on elaborate networks linking regional merchants with their suppliers. He reported how some junks, returning from as far north as Dalian in the dead of night, took circuitous routes to avoid detection. He detailed how other junks waited offshore for days on end until given the all-clear signal to land at coastal villages without reporting to Customs stations. Their cargo: rayon, sugar, cigarette paper, and other highly-taxed products, favored for their attractive prices and their light weight that minimized the risks associated with transport. Coolies, who were “always available” for a reasonable price, loaded the illicit goods onto fleets of waiting trucks bound for distribution centers in Ningbo and, eventually, to their final destinations in Hangzhou and

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Shanghai. Along the way, the smugglers took the necessary precautions: securing deposits from junkmasters as collateral against the potential loss of cargo, paying tribute to pirates for protection, and purchasing cooperation from local officials with a cut of the profit at various nodes in the supply chain.

That smuggling could be so organized or sophisticated was nothing new—various organized “syndicates” or “triads” have managed the trade of narcotics, weapons, and other commodities at various points in Chinese history. But the price disparity for readily-available, high-value consumer products created by new tariffs in the 1930s had dramatically changed the calculus of profit. As Wang himself noted, profits from trafficking perennial contrabands such as narcotics, while still attractive and ongoing, paled in the wake of tariff autonomy.¹ His conclusion: “The incentive to smugglers to discard other forms of smuggling and engage in evading Customs duty is therefore very strong.”²

Wang’s findings, while specific to one locale, were broadly mirrored in many regions along coastal China. The evidence regarding the existence and dynamics of nominally illicit activities is invariably incomplete, fragmentary, and elusive. Yet because of the increasing attention paid by the state and the popular press during the 1930s, source materials on this phenomenon from this period are considerably richer and more extensive than comparable materials from other periods. Indeed, triangulating this diverse range of materials enables us to delineate general characteristics of various

¹ Wang estimated that smugglers trafficking rayon, for instance, could clear a profit of 30% even if he loses his cargo to seizure one out of every three times. Variations of this risk-reward trade-off for other commodities were repeated in numerous Customs reports.

² SHAC, 679-1-20403, “General Considerations Concerning Smuggling and Preventive Work at Shanghai, 1924-1936,” Memorandum to Shanghai Commissioner, 1 May 1935 in Shanghai Dispatch No. 27344, 12 June 1935.

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individuals, networks, and organizations to see how they exploited competing sovereignties, porous borders, and arbitrage opportunities to turn a profit or simply to survive.

Labeling the various actors in the smuggling trade as “treacherous merchants” (*jianshang*) or even “Chinese traitors” (*Hanjian*), as many contemporary observers were wont to do, is understandable. By the 1930s, the public viewed evading duties on foreign goods (especially those from Japan) as harmful to the Chinese nation. Such sentiments, however, vastly oversimplify the diverse set of motivations, dynamics, and operations behind the traffic. Indeed, as Wang’s findings suggest and as this chapter will illustrate, “smuggling” was more than simply a criminal activity involving unsavory characters. Attempts to evade surveillance were pervasive and chronic, but it is also important to recognize that smuggling itself was a byproduct of the state’s expanding presence in society and economy. “Smuggling,” after all, occurs only when goods are transported or sold without official sanction or payment of duties—otherwise, it is trading by any other name. Efforts by the central state vis-à-vis the Customs to streamline its extractive capabilities, expand its jurisdictional reach, and assume a wider array of responsibilities effectively criminalized past practices that were still widespread. This redefinition of legitimate boundaries of commercial activity and the reactions they engendered echo the economic and social conflicts created from the friction of the two “grids” of expanding state authority and existent customary practices scholars like E. P. Thompson have identified in other contexts.³

³ Thompson 1974 provides the most forceful argument regarding state criminalization of existent customary behavior in the case of early modern England.

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This chapter unpacks the many practices of “smuggling” from the perspective of its participants by examining three of its manifestations: as a form of business, as an expression of tax resistance, and as an assertion of political independence. In some cases, smuggling operated like any other enterprise with its own logic, organization, and sophisticated countermeasures against official efforts to disrupt it. In other cases, smuggling was effectively a form of protest against the state’s increasing exactions. In other cases still, smuggling was part of a resistance strategy by local officials or the Nationalists’ political rivals who did not recognize the authority or legitimacy of Nanjing in determining and enforcing the tariff. These categories were of course by no means exhaustive, but an examination into the multifaceted nature of smuggling will show how other considerations were involved. Finally, breaking down smuggling as more than just a simple act of greed or treachery against the Chinese nation enables us to draw larger conclusions regarding the challenges to the Nationalists’ efforts to state-building during the 1930s.

Smuggling as Business

Smuggling is a business. Like all businesses it will be carried on so long as, and no longer than, the profits to its owners are considered worth the risks entailed. It is a business comprising employers; owners of goods who require that it shall pay them well and not involve too many occasions of confiscation and complete loss of capital sums; and employees, who on their part must desire that the dangers to the person are not too many, and the occasions of non-payment for the risks run not too frequent. It is the business of a Government, on its part, to ensure as far as is in its power that the risks shall not be worth the running that honest trade shall pay the individual better.

—Kowloon Customs Commissioner F. H. Bell (1930)⁴

⁴ SHAC 679-1-27750, “Inauguration of Preventive Service, 1929-1930,” “Memo No. 12 to I.G.: General Considerations Governing the Control of Smuggling and the Formation of a Preventive Service,” 1930.

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Profit was an important motivation behind smuggling, but it was intertwined with other considerations. We have already examined cases of impoverished petty runners on steamships eking out precarious livelihoods shuttling between ports. We should also, however, consider the many coastal villages that served as important nodes in smuggling networks and how they supplied the manpower to transport, house, and distribute the goods that evaded duties. The impetus behind smuggling by such communities cannot be so neatly categorized. Residents of the small village of Xuwen in southeast China, for instance, were motivated by survival as much as profit in their practice of smuggling, which helped revive the fortunes of an area devastated by intermittent warfare and economic depression. Stores began doing a brisk trade in high-quality foreign goods at “bargain prices” from Hong Kong and the nearby French concession of Guangzhou Bay. Teahouses and inns, rare a few years ago, lined the streets humming with activity—tangible signs of economic recovery.⁵

Smuggling was also a business survival strategy in response to the significant price disparities between those who participated in the trafficking and those who did not. The “period of prosperity” (*fanrong de shihou*) for the above-mentioned town of Xuwen, for instance, came at the expense of its neighbors like nearby Hainan Island, which housed a Customs station and was under heavy patrol. As their business “withered” (*diaoling*) in the face of competition, it was not long before Hainan merchants themselves “heeded the call of smuggling” (*wen le zousi de fengsheng*) and began selling illicitly-imported goods.⁶ Similar dynamics were at work in the north, where officials reported that some merchants in Tianjin had turned to dealing in smuggled goods: “These brokers

⁵ *GR*, 3 Dec. 1936, 2:3.

⁶ *GR*, 3 Dec. 1936, 2:3 and 4 Dec. 1936, 2:3.

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were men who had previously dealt in legal sugar, artificial silk and piece goods. When their legal business was destroyed, however, they had no alternative but to deal in smuggled products. One cannot really blame them.⁷ Indeed, the prospect of being undercut by competitors was a powerful motivating factor for businesses to evade duties.

The Business of Smuggling: Profits and Risks

Whatever the motivations behind it, smuggling effectively operated as a business with organized logistics and retail channels to connect consumers and suppliers on an ongoing basis. On the face of it, in fact, the dynamics of these illicit operations differed little from their more licit counterparts. In the Chaozhou region in northeast Guangdong, for example, smuggling linked inland retailers with coastal suppliers. As one journalist reported, merchants in the area would contact smuggling concerns with their orders and come to a mutually acceptable price. The supplier bore all the risks prior to delivery, and if losses were incurred during transport, the buyer assumed no responsibility. Payment was made upon delivery in the form of a check or money order, which could be cashed once the buyer telegraphed the supplier that the goods had been received. The traffic in illicit goods was divided along urban-rural lines: suppliers—who possessed capital and access to foreign goods—tended to come from cities, while those responsible for logistics and transport—who could supply the necessary labor—tended to hail from the countryside.⁸

Elsewhere, smuggling operated on different business models. In Guangzhou, the manager of a medicine store admitted, upon being questioned by Customs officials, that his supply network consisted of a number of runners shuttling daily between the city and

⁷ TJMA W1-1-2658, Tientsin SR, Dec. 1936.

⁸ HZ, 10 May 1936, 2:2.

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Hong Kong on trains and steamships.⁹ Further south on the Leizhou Peninsula, one Customs official reported that merchants offered commissions to suppliers who could deliver the goods. Such commissions were initially as high as 20% but fell to 15% and eventually to 7% when intense competition amongst suppliers counterbalanced the strong demand for smuggled goods.¹⁰ To lend these imports a veneer of legality, invoices containing a mixture of accurate and inaccurate information were often included. One firm, for instance, imported clocks and watches through legitimate channels but was later discovered to have produced invoices under-declaring the true value of the items in question by as much as 40%.¹¹ Side industries, in fact, grew out of systematic efforts to evade detection by authorities. To cite but one case, officials on an inspection trip in Hong Kong to verify invoices from one company discovered that it was a “bogus concern consisting of one man only.” The owner of the so-called “firm” kept no records and openly admitted that his entire business was devoted to producing receipts with misleading or even false information.¹²

Trafficking consumer products was profitable partly because it was difficult to detect. Unlike narcotics or weapons, consumer products were common and widespread. As a result, authorities had considerable difficulties in distinguishing which goods were smuggled and which were not, since the question of legality rested not on the goods themselves or their use but the manner in which they were imported. Moreover, as customs revenues belonged to the central government, fighting duty evasion was relatively low on local provincial or municipal authorities’ long list of priorities. During

⁹ SHAC 679-1-28159, “Smuggling Reports, Canton, 1932-1935,” Canton SR, Nov. 1933.

¹⁰ GDPA 95-1-1052, Pakhoi SR, Dec. 1933.

¹¹ GDPA 95-1-1055, Swatow SR, Dec. 1936.

¹² GDPA 94-1-283, TN No. 51, 5 June 1936.

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his investigative trip in the Hangzhou Bay area, Wang Huamin met with an acting magistrate and military commander for a “cordial and frank” discussion. As reported by Wang, the latter two officials admitted that: “Their chief concern about passing junks is to see that no prohibited articles and arms are carried. The question of smuggling never bothered them and they have no exact idea of how to distinguish between smuggled goods and duty-paid commodities.”¹³ In other words, even if local officials wanted to cooperate with the Customs and vigorously fight smuggling of non-contraband, they too faced considerable difficulties in assessing whether the goods under examination had evaded duties.

Despite such problems handicapping interdiction, smuggling—like any other line of business—was not a riskless enterprise. Some individuals and organizations were able to better manage those risks—buying protection and distributing goods across more transport vessels. Others with less resources or time, however, had to move goods with fewer protections. Consider the case of Xu Xueliang’s father and three uncles (*xiongdi siren* or “the four brothers”), who had operated stores selling shoes and other assorted goods in Zhoucun on the Shandong Peninsula since the first years of the Republic. As early as 1931, the town had already emerged as a distribution hub for smuggled Japanese silk, a highly-desired commodity for the local reeling industry. The local army, which was not under the control of Nanjing, escorted shipments to Zhoucun and collected six *yuan* for every box. The shipments therefore effectively avoided paying import duties. As Xu recalls, his father and three uncles, “seeing this opportunity, resolved to take a chance to earn an ‘easy fortune’ (*yi cai*).” In 1934, his uncle took out a bank loan and

¹³ SHAC, 679-1-20403, “General Considerations Concerning Smuggling and Preventive Work at Shanghai, 1924-1936,” Memorandum to Shanghai Commissioner, 1 May 1935 in Shanghai Dispatch No. 27344, 12 June 1935.

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travelled to Dalian to purchase a boatload of silk. After successfully bringing the silk back to Zhoucun, the family was able to turn a profit of more than ten thousand *yuan*. A year later, his uncle secured another bank loan (250,000 *yuan*) and arranged to have two boats successively bring back their cargo of silk, calculating that only one boat needed to return safely for the family to merely break even. Unfortunately, authorities intercepted both shipments and confiscated all the cargo. When news of the seizures reached home, the bank pressed for repayment of the debt. With their capital tied up with the confiscated shipments, the four brothers subsequently liquidated their stores' entire inventory, declared bankruptcy, and divided the household (*fenjia*).¹⁴

The experience of the Xu family holds other important insights on the dynamics of smuggling as a business. The profits and risks associated with the trade, for instance, could be greatly amplified by leverage. This was not an uncommon practice. As a 1936 Ministry of Finance report noted, financial institutions in many localities issued loans to fund smuggling enterprises or accepted smuggled goods as security.¹⁵ One Customs search party, for instance, discovered four major banks in a mid-sized town that had advanced loans amounting to roughly CN\$157,000 to local merchants. The collateral used for the loan turned out to be more than 6,600 bags of smuggled white sugar, which was priced to undercut the competition yet still yield substantial profits for their sellers.¹⁶ What these cases reveal is the existence of an economy straddling the lines of legality

¹⁴ Xu 1990: 231-2. Xu did not specify which government agency seized the shipments. Xu's family would restore its fortune shortly after this episode. In 1936, his family pooled its resources to secure another bank loan. (The amount was considerably smaller this time: a mere 1,500 *yuan*.) One of his uncles, blessed with a "glib tongue" (*neng yan shan bian*), persuaded a supplier in Ji'nan to sell him on credit 120,000 *yuan* worth of products. The new store, selling hats, shoes, and other assorted goods, proved to be a success. Xu did not specify whether the goods for the new store were also smuggled.

¹⁵ SB, 14 June 1936, 9.

¹⁶ SHAC 679-1-31865, "Chief Inspection Bureau Nos.72-101, 1936," SO No. 96, 13 Aug. 1936. The depositors were able to produce proof of duty payment for roughly 10% of the sugar.

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that operated with its own logic, organization, and calculus of profit. Seen in this light, policing trade represented an attempt by the state not just to monopolize the authority to set and collect tariffs but also to enforce new norms of economic transactions.

Finally, the experience of the Xu family also illustrates another hazard of the smuggling business. Without protection, goods remained vulnerable to confiscation. Who bore the loss was determined on a deal-by-deal basis, but someone—be it the buyer, seller, or transporter—inevitably had to pay. In many cases, protection could be procured—for a price, of course—from local governments, military units, and others who chafed at Nanjing’s authority. They not only offered guns but also a measure of legal protection.

The case of the Yau Sang (You Sheng) Company highlights the potential value of such protections. The firm, a gambling establishment with links to the Guangdong provincial government and located on the edge of the Hong Kong border, was rumored to serve as a conduit for smuggled goods. As one commissioner reported, “It has long been known that all the wine, cigarettes, etc., distributed free to the patrons of the establishment have been smuggled without payment of duty.” Its premises were reportedly well-secured: “It possesse[d] a strong force of armed guards, supplied by the [Provincial] Authorities, and a searchlight mounted on a water tower.” The company, for its part, countered that Customs patrols had been “making use of the Company's premises, hiding in there to wait for smugglers and have sometimes fired on them (smugglers) and chased them into the...Company's premises, causing alarm to [its] own guards and misunderstanding to their Customers and therefore seriously affecting [its] business.” The veracity of the company’s accusations is difficult to determine (“a deliberate lie” the

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Kowloon commissioner retorted), but more interesting for our purposes is the manner in which it also conveyed. To underscore its semi-official status, the company conveyed a complaint through the Guangdong Provincial Department of Finance. The Department, in turn, requested that the Customs in the future first secure the cooperation of the company before making any arrests of suspected smugglers on the premises “so that misunderstanding may thus be avoided.” Not surprisingly, Customs officials confessed that they had to exercise greater caution in dealing with the company, as any conflicts “will inevitably lead to friction with persons in high places at [Guangzhou].”¹⁷

Multiple Nationalities as a Business Strategy

Another strategy of protection was to exploit China’s fragmented sovereignties. As the previous chapter illustrated, the Nationalist government during the Nanjing Decade focused on efforts to shift its jurisdiction over persons to territory to make China a more “normal” nation-state. In the meantime, however, merchants and runners continued to seek consular protection from Chinese authority. Individuals from the Japanese colony of Taiwan were among the most frequent users of extraterritorial privileges. They could do so because national identities were quite flexible. The historian Man-Houng Lin noted that many Taiwanese merchants during the late nineteenth and early twentieth centuries assumed multiple nationalities—Chinese and Japanese—to reduce overall commercial risks, gain favorable access to capital, and enjoyed immunity from domestic Chinese taxes and laws.¹⁸ The popular press often

¹⁷ For Customs reports on the company, see SHAC 679-1-28162, “Smuggling Reports, Kowloon, 1933,” Kowloon SR Nov. 1933 and Dec. 1933. For complaint from the Yau Sang Company, see GDPA 95-1-636, Letter from Canton Superintendent to Kowloon Commissioner, 8 Dec. 1933.

¹⁸ See Lin 2001. The practice of securing Japanese nationality by Taiwanese had been long-standing. An article in the *Shen Bao* published not too long after the first Sino-Japanese War (1894-95) already identified the problem of “treacherous merchants” taking advantage of loose requirements to register themselves and their businesses at Japanese consulates. See *SB*, 13 Dec. 1897, 1.

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employed the euphemisms “some country” (*mou guo*) or “X country” (*X guo*) to obliquely reference foreign nationals—often Japanese—involved in operating or investing in smuggling operations.

One case illustrating the ambiguities surrounding the fluidity of national identity involved three individuals—two merchants, one village head (*baozhang*)—who were arrested for importing weapons and narcotics from Taiwan into Xiamen and housing the illicit goods in a village prior to further distribution inland. When news of the arrests surfaced, the mother of one of the merchants, Zeng Hongxi, petitioned the government to argue that her son was a legitimate merchant wrongly accused of the crime. Local Japanese newspapers reported that Zeng also declared himself a Japanese national, which meant that he was not under the jurisdiction of the Chinese legal system. As an article in *Shen Bao* observed, “Only when a criminal matter is involved will proof of nationality be produced. Zeng Hongxi, for instance, acknowledged he was Taiwanese when he was brought to justice.”¹⁹ Often able to pass for Chinese nationals, Taiwanese merchants were able to also use their Japanese nationality as a shield when confronted by Chinese law.

What the historical record shows is that Taiwanese petty merchants, runners, and other “vagrants” were no less adept than their upper class counterparts at leveraging multiple nationalities to their advantage. Businesses in Xiamen, for instance, displayed signs on storefronts advertising that they were owned by Japanese nationals and registered with the local consulate.²⁰ Seized motorboats running smuggled goods between Hong Kong, Taiwan, and southeast China were often found to carry two flags—

¹⁹ *SB*, 21 Mar. 1937, 10.

²⁰ *Riji langren shiliao zhengji xiaozu* 1962: 15. To identify themselves as a foreign firm owned by a Japanese national, signs usually read: “*Riji XX yanghang*” with “XX” being the name of the firm.

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one Japanese and one Chinese—“ready for use according to circumstances.”²¹ Whether the users of such signifiers were actually Japanese subjects is impossible to determine. What is clear, however, is that they were aware of the privileges and protection Japanese nationality conferred.

Their faith in extraterritorial privileges were not misplaced. While Customs officials on the ground complained repeatedly of Japanese-backed smuggling, their superiors urged caution. A case in point: when a commissioner in Shantou in May 1936 protested the protection the Japanese consular police afforded during a raid to a Taiwanese merchant suspected of operating a smuggling center, he received the following message from his superiors:

In no circumstances should you endeavor to search Japanese premises without the full support and cooperation of the Japanese authorities. Such a procedure would lead us into grave difficulties. If you can persuade the Japanese Consul to take action against these Koreans [sic] it will be well and good but if he will not assist—and apparently smuggling into China is not an offence against the Japanese legal code—we can only do our best to intercept the goods when being smuggled.²²

Indeed, despite ongoing legal efforts to challenge extraterritoriality, consular protection remained a valuable and effective tool exploited by individuals who were able to straddle the vague boundaries of nationality.

Measures and Countermeasures

In addition to securing financing and protection, smugglers also practiced various countermeasures to challenge, evade, or defeat state interdiction. In contrast to petty smugglers, who evaded Customs patrols and searches individually, organized traffickers possessed the resources to challenge preventive measures more systematically. These

²¹ GDPA 95-1-1052, Swatow SR, Apr. 1935.

²² GDPA 95-1-1055, Swatow SR, May 1936, 6-8; and Preventive Secretary to Swatow Commissioner, 16 June 1936.

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organized traffickers, for instance, employed elaborate systems of lookouts to monitor Customs activities and movement on both land and sea. As one commissioner reported, spies exercised “extreme vigilance” in their surveillance: “No sooner does a [search] party leave a station than signals are flashed and cannon fired to give the alarm.”²³ Also not uncommon was the ability of smugglers to match the resources of the Maritime Customs. The unimpeded flow of weapons along the coast equipped smuggling organizations and even whole villages with the means to violently resist interdiction. Not only did the state not possess a monopoly on the use of force, it also did not possess a monopoly on advanced technology. Customs officials quickly realized, for instance, that smugglers in certain areas effectively nullified the advantages the agency initially enjoyed from its vaunted wireless network linking stations and patrol teams along the Chinese seaboard. In one case, provincial officials surveying the coast of Fujian found thirty-five wireless stations built by one smuggling concern and its many branches to coordinate their own operations.²⁴ Elsewhere, reconnaissance revealed a wireless station and local Customs personnel were warned of the possibility that outside parties could eavesdrop on their radio communications: “As this station is in the middle of the smuggling district, caution should be exercised by our vessels in the use of their wireless while in this district.”²⁵

Smugglers also challenged another important component of interdiction operations: information. The Customs had long relied on informants as part of its

²³ SHAC 679-1-28161, “Smuggling Reports, Kowloon, 1931-1932,” Kowloon SR Apr. 1932. Similar accounts were reported elsewhere: “When Customs party go out to keep watch at night, the spies will hang up signal lights to inform the smugglers not to proceed further; and that in case our party are able to get to a place where smugglers are coming near to, the spies will then fire rockets, and the smuggling party will accordingly retreat before being sighted by the Customs.” See GDPA 95-1-1052, Pakhoi SR, Apr. 1934.

²⁴ SB, 18 Mar. 1936, 5 and 20 Mar. 1936, 3.

²⁵ GDPA 95-1-1052, Swatow SR, July 1933.

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preventive efforts and offered rewards or a cut of the seized goods' value. The upsurge in smuggling and growing interest from the state to suppress it should have, one might expect, increased the opportunities for informants to profit from communicating their knowledge to authorities. Indeed, as previously noted, the agency went so far to create a dedicated intelligence service to hire informants (both Chinese and foreign) with good connections on a retainer basis.

Mirroring the state's construction of this elaborate intelligence network, however, were the growing efforts to defeat it. We have already described various instances of counter-surveillance, but smugglers found other ways of degrading the state's intelligence apparatus. The most direct, brute method was to silence the channels of information by intimidating informants themselves. The sheer volume of tips authorities received suggests that within the complicated risk and reward calculus in the minds of would-be informants, many still believed that monetary rewards or perhaps the satisfaction of thwarting an instance of illegality still outweighed the risk of personal harm. Yet the risks remained real, since such information threatened potentially lucrative profits. In a letter to authorities, for instance, one merchant was willing to come forward and draw attention to major smuggling routes across the Sino-Hong Kong border but hesitated to reveal more information: "This humble merchant is weak, and [since] the bandits can retaliate, [I] therefore dare not point out their names and addresses."²⁶ One commissioner, lamenting the relative dearth of actionable intelligence of late, blamed the maddening silence on rumors that an informant had been killed by smugglers, noting that "this news [had] naturally frightened other would-be informers."²⁷ Two other

²⁶ GDPA 95-1-637, Letter from Superintendent to Kowloon Commissioner, 9 Aug. 1937.

²⁷ GDPA 95-1-1052, Swatow SR, Mar. 1933.

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informants, both steamship crew members, suffered similar fates when their treacheries were uncovered. One was thrown overboard. The other was locked away in a cabin by the ship's compradore (who was the actual smuggler) and later disappeared without a trace.²⁸ Reports also abounded in the popular press that "snitches" (*xianmin*) were targets of reprisals. The *Shen Bao* reported on how several informants had been murdered at the hands of smugglers who were furious that their activities had been uncovered.²⁹

The channels of intelligence were also compromised in less violent ways. Officials often expressed exasperation at being inundated with information of dubious quality. One raid executed at a shop supposedly having a significant stash of illicitly-imported medicines uncovered instead only one account book with some questionable records: "As has occurred on previous occasions, the information which seemed to come from a very reliable source was grossly exaggerated."³⁰ Misinformation was also a problem. After a few successful raids were executed in Tianjin, for instance, the *Shen Bao* reported on instances of "vagrants" feeding the Customs false or misleading information to help divert the attention of authorities elsewhere.³¹ In addition to the time and resources unnecessarily consumed, misinformation certainly exacerbated tensions with various local communities already wary of cooperating with an ever-more intrusive agency.

Smugglers also found ways to undermine the other end of the preventive process. To help recoup the costs of operations and pay informants, the Customs often held auctions to dispose of seized goods. To generate the widest possible range of interest,

²⁸ GDPA 95-1-74, Confidential SO from Kowloon Customs to Amoy Customs, 16 Jan. 1934.

²⁹ *SB*, 17 Sept. 1936, 10.

³⁰ GDPA 95-1-1056, Swatow SR, Dec. 1937.

³¹ *SB*, 14 Apr. 1936, 7.

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auctions were often publically announced or advertised. An advertisement placed by the Shantou Customs in a local newspaper serves as one example of the agency's public outreach efforts. (See Figure 3-1.) Presented as a traditional public notice (*qishi*), the advertisement announces a weekly auction of seized goods at the customhouse. It also makes an appeal to profit: "Those who are interested and would like to bid, do not let this opportunity slip away."

Whatever the actual efficacy of these notices, Customs officials quickly learned that their auctions attracted a host of interested parties. Some provinces imposed surtaxes on commodities and sent their tax agents to attend auctions unofficially "and make their own arrangements with purchasers concerning the payment of provincial taxes after the goods leave Customs premises."³² More problematic were the smugglers who sometimes participated in the auctions and colluded to keep bids artificially low. One commissioner avoided holding public auctions in his area due to "the tendency of local bad characters to form a ring to bid low and to intimidate those outside the ring from taking part." Instead he sent seized goods to Shanghai for disposal due to the city's bigger market.³³

The system of rewards could also be exploited by those willing to play both sides. One low-level Customs employee recalled how certain enterprising individuals served as both smuggler and informant, depending on which role was more profitable in a given situation.³⁴ Such forms of manipulation probably did not make a significant dent in the financial resources dedicated to fighting smuggling, but they did have other deleterious consequences. Officials were concerned that long delays and smaller-than-expected rewards discouraged would-be informants. One commissioner urged his counterpart at

³² GDPA 101-1-671, Canton SO No. 651, 9 Aug. 1937.

³³ GDPA 95-1-1054, Amoy SR, Mar. 1935.

³⁴ Deng 1963: 80.

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another port to issue the rewards due to his informant (“one of our few reliable informers”): “He is becoming very discouraged by the delay in receiving his fees and I fear that unless he is given something on account he will cease to give valuable information.”³⁵ It is difficult to measure the overall impact of these efforts, but they are nonetheless tangible evidence that elaborate and organized measures could be effectively, cheaply, and asymmetrically deployed to counter the build-up of interdiction capabilities.

Despite the abundant and technologically sophisticated resources marshaled by the state, merchants, runners, and assorted organizations could clearly marshal resources of their own, frustrating repeated efforts to compel compliance with trade regulations and the payment of duties. The common theme running through these examples, to borrow the metaphor employed by the historian Eric Tagliacozzo, is the “waltz” between state and smuggler—the dialectical relationship where each measure adopted is in turn met with a countermeasure in a seemingly endless cycle.³⁶

Smuggling as Tax Resistance

Liturgical Governance and the Logic of Local Accommodations

In addition to being a tactic of business, smuggling in other cases was also an expression of tax resistance. One centralizing imperative of the Nationalist state was to tax commerce more directly and efficiently. To this end, the Nationalists sought to reform a legacy of Late Imperial China that, in some ways, benefitted local governments and merchants at the expense of the central state—tax farming. As Susan Mann explains, the limits of bureaucratic control, surveillance, and reach—combined with the Confucian ideological reluctance to actively intervene in the affairs of local markets—compelled the

³⁵ GDPA 95-1-74, Confidential SO from Kowloon Customs to Amoy Customs, 13 May 1933.

³⁶ Tagliacozzo 2005: 373.

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Qing state to practice a form of “liturgical governance,” whereby it delegated responsibility for market regulation and tax collection to merchants, commercial organizations, or gentry elite with commercial interests.³⁷ Scholars such as Max Weber have viewed tax farming as a practice exclusive to “traditional” polities and antithetical to a modern and rationalized bureaucracy. Yet it has been widely practiced by states of all persuasions throughout history.³⁸ Tax farming’s primary appeal was its compelling economics, at least in the short-run. For the government, outsourcing tax collection within a specified timeframe for a fixed fee meant up-front cash along with a reliable and steady stream of income but without the need to create a cumbersome administrative apparatus to actually collect taxes.³⁹ This practice, however, also meant the loss of fiscal control by the government, who could not take advantage of rising revenues if production or trade increased. Moreover, tax farming has been almost universally notorious for its abuses, since tax farmers had every incentive to maximize taxes collected once they paid their flat fee to the state for this privilege. In the long-run, therefore, tax farming constrained the finances of the central state and damaged its legitimacy, since tax farmers received official sanction to pursue their private gains.

As part of its state-building program, the Nationalist government planned to abolish two institutions that had practiced tax farming in commerce since the late imperial era—the lijin barriers and the Native Customs (*Changguan*) stations. The former were established in the mid-nineteenth century by provincial leaders who would collect—and retain a significant portion of—the revenues generated. The former, by

³⁷ Mann 1986: 12.

³⁸ See Copland and Godley 1993 for an excellent summary and overview of tax farming in history.

³⁹ For a discussion of tax farming’s relative strengths and weakness for the state and monarch in the case of early modern England, see Brewer 1988: 92-3.

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contrast, had been responsible for collecting duties on maritime and continental trade for the Qing court until the mid-nineteenth century, when their jurisdictions became limited to junk-borne trade after the newly-created Maritime Customs assumed management of the foreign steamship trade at the treaty ports.⁴⁰ The Qing court later in 1902 transferred Native Customs stations within an 18-mile radius of treaty ports to the Maritime Customs to help pay the crushing indemnities after the Boxer Uprising (1900-01).⁴¹ With the fall of the Qing, the successor Republican government should have assumed management of the remaining Native Customs stations outside the 18-mile radius, but local merchants and warlords were able siphon or even expropriate their revenues. A 1924 government report estimated that \$6.7 million *yuan* in duties had been collected by these Native Customs stations during the previous year, but barely one-tenth of that amount was actually remitted to the central government.⁴²

While origins and management of lijin barriers and Native Customs stations differed, their functions were similar in that their standards of assessment and collection of duties were localized and varied greatly from one station to another. Duties were sometimes collected like tolls. Other times they were assessed on the basis of volume or value of cargo. Other times still they were assessed on the destination or origin of shipment. One writer called such practices “diverse, complicated, confusing, and impossible to cross-reference; determining the amount of duties collected and preventing

⁴⁰ See Zhu in Jiang 1931, Chp. 8: 1.

⁴¹ 18 miles was roughly equivalent to 50 *li*. The Native Customs stations within the 50-*li*-radius were known as the “intra-50-*li*” stations. Funds from the “extra-50-*li*” stations (i.e. stations outside the 50-*li*-radius) nominally went straight to the central government’s coffers. Tsai 2008 provides an excellent detailed discussion of the first takeover of the Native Customs and the conflicts it engendered.

⁴² CYB 1924, 738-9. The revenues from the extra-50-*li* stations were not pledged to service the Boxer indemnity and had thus never been transferred to the Maritime Customs.

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smuggling were thus extremely difficult.”⁴³ Speaking of the Native Customs, one critic observed:

The methods of collection and the tariff rates themselves are quite inconsistent across every station. Except for Native Customs stations administered by the Customs, whose methods of assessing duties are somewhat more uniform, every station does things in its own way (*gezi weizheng*). Therefore, according to merchants, the Native Customs hinders the circulation of goods just like lijin taxes do—they achieve the same results by different routes (*shutu tonggui*).⁴⁴

A similar view was expressed by another writer: “With respect to the substantive functions of the Native Customs and lijin barriers, there are truly no differences.”⁴⁵

The Nationalists planned to eliminate the lijin barriers but tasked the Maritime Customs to take over the remaining Native Customs stations, further leveraging the agency’s organization and reach to help the regime tighten control over fiscal resources. In the fall of 1929, at the request of then Finance Minister T. V. Soong, the Maritime Customs detailed two of its highest-ranking Chinese officers to serve as superintendents at the Fengyang and Yangyou Native Customs. In February 1930, the Ministry officially transferred their formal management to the Maritime Customs.⁴⁶ Both were among the largest Native Customs stations that nominally remained under the control of the central government from the Qing through the Republic.⁴⁷ Like other Native Customs stations, however, the Fengyang and Yangyou stations had long fallen under local control. The takeover of the two Native Customs illustrates the persistence and pervasiveness of the many practices from the late imperial era that contributed to the problem of “smuggling.”

⁴³ Ch.: *fanza fenyun, buke jiujie; gu shoushui jihe, jicha shen nan.*

⁴⁴ Wu 1930: 70.

⁴⁵ See Zhu in Jiang 1931, Chp. 8: 1.

⁴⁶ IG Circular No. 4069, 2 May 1930. The order, in fact, came directly from Soong to Maze. See Chen 1999b.

⁴⁷ The Yangyou office had fifty-eight stations and substations clustered around Yangzhou in central Jiangsu, while the Fengyang office had nineteen stations and substations centered on Bengbu in northern Anhui.

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It also highlights the intensity of resistance from local merchants and officials to their abolition or reform.

One problem of the Native Customs stations was the “corruption” among its staff. Many Native Customs employees purchased or even inherited their positions and, like Qing magistrates, were given a nominal operating budget that did not realistically cover administrative or personal expenses.⁴⁸ To meet revenue quotas, some stations practiced a variation of tax farming.⁴⁹ Many stations, Hart observed, only had to “surrender fixed sums to the Government chest annually and were authorized to appropriate and divide whatever they collected above that amount.”⁵⁰

Antipathy against Native Customs stations and calls for their reform were widespread, but they were far from universal. Many local mercantile communities, in fact, benefitted from the stations’ inconsistencies in assessing and collecting duties. In some cases, they reached accommodations with stations that, while seemingly inefficient or “corrupt” from an outsider’s perspective, were beneficial in meeting the needs of parties involved. On Hainan Island, for instance, Native Customs stations collected two tiers of duties: a lower rate for members of local junk guilds—who were better able to guarantee steady payment and thus negotiate more favorable rates—and a higher rate for all non-members.⁵¹ At Sandu off the coast of Fujian, the “irregular” fees were “voluntarily subscribed by traders to purchase partiality of treatment, clearance at night,

⁴⁸ See Reed 2000 for a general discussion of insufficient resources allocated for local administration.

⁴⁹ Not all Native Customs stations or lijin barriers collected taxes via the farming method, but as Luo 1936 and Mann 1986 note, it was prevalent in provinces such as Guangdong and Zhejiang where strong guilds were able to more effectively collect taxes from its members.

⁵⁰ IG Circular No. 993, 11 Nov. 1901.

⁵¹ *Native Customs Trade Returns* 1907: 111.

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or quick dispatch.⁵² Some merchants, in other words, willingly purchased preferential regulatory treatment for the sake of business expediency.

Localization, moreover, had other virtues: arrangements might have better accommodated economic and social realities on the ground. Native Customs stations sometime granted preferential treatment to local merchants and guilds that offered expedited passage of cargo in exchange for guaranteed payment of duties. In such instances, both merchants and stations benefitted. Dealers of live pigs around Xiamen, to cite one example, combined to pay an annual tax to the local Native Customs since transportation delays due to detention or examination at stations could lead to the death of their livestock. For the stations, such deals were struck, as one report notes, “not so much to facilitate business, but because the officials had not the means or the will to keep a sufficient watch over these trades.”⁵³

Tariff uniformity and standardization, in effect, threatened to upend these ad hoc and locally-negotiated deals. Resistance from these deals’ beneficiaries naturally ensued. The inhabitants a county near Xiamen, for instance, had secured certain preferential rates with local Native Customs stations and objected to any attempts by the Maritime Customs to standardize fees and examination procedures, despite overall support for reform from other mercantile communities in the region.⁵⁴ Merchants in Shantou who sold piece goods produced by “widows and females of poor families” in the countryside petitioned the Customs to maintain the prior practice of paying an annual flat fee when

⁵² *Native Customs Trade Returns* 1907: 67.

⁵³ *Report on Working of Amoy Native Customs*, 10.

⁵⁴ *Native Customs Trade Returns* 1907: 83.

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officials sought to introduce more standardized methods of assessment and collection.⁵⁵

The old practice was labeled as “smuggling” since duties were not assessed or collected after payment of the lump sum, but it is clear in this and many other cases that the dispute centered less on the intent to completely evade state exaction and more on differing views on what constituted proper taxation.

Fengyang: “Malpractices” and their Defenders

Operations at the Fengyang station, which sat at a strategic railroad juncture, had been severely disrupted by the fighting and chaos arising from the Central China War (1929-30).⁵⁶ Serious though it was, however, the military threat proved to be comparatively ephemeral. By late 1930, the Nationalist army defeated its rivals in Central China and began consolidating control over the region. Customs officials were able to successfully appeal to the Ministry of Finance, as well as to local military leaders loyal to Nanjing, to help recover seized stations. The more persistent challenge, by contrast, was institutional in nature: the endemic “malpractices” that were largely responsible for the leakage of revenues from central government coffers.

Despite their harmful effects, these malpractices proved difficult to rectify because they nonetheless benefitted certain interest groups. At Fengyang, tax farming

⁵⁵ GDPA 101-1-463, Shantou Native Customs Dispatch No. 168, 17 Apr. 1922. The merchants offered to pay an annual flat fee that was effectively higher than official rates. Citing inconvenience, the merchants also resisted reporting to the head office at Shantou for payment of duties. Further investigation revealed that with the introduction of more stringent regulations, the merchants broke into two opposing factions: one that wished to deal “fairly” with the Customs (i.e. pay duties at designated stations) and one that “wished to carry on as before” (i.e. advance a fixed lump-sum payment).

⁵⁶ Military interferences came in various guises. One was the struggle over personnel: local military leaders—opponents and allies of the central state alike—appointed their own men to manage some of the stations and refused to vacate for Customs officials. Another was the threat of force: a local commander, to cite one case, seized a station and arrested the Customs officer in charge when he refused to appropriate any revenues for the army. SHAC 679-1-17695, “Transfer of Fengyang Native Customs to Maritime Customs Control, 1930,” Fengyang Dispatch No. 9, 17 Feb. 1930 and No. 10, 18 Feb. 1930. SHAC 679-1-17696, “Transfer of Fengyang Native Customs to Maritime Customs Control, 1930,” Fengyang Dispatch No. 35, 20 May 1930.

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was a serious and long-standing problem: stations had been auctioned off to the highest bidders who agreed to meet specific revenue quotas but otherwise treated the surplus collected as private gains. To move transactions off official records and avoid reporting proceeds to the central government, stations engaged in a practice euphemistically called “collection without receipt.” Merchants were offered the option to pay a lower unofficial “entry tax” (*tu li*) and received provisional as opposed to official receipts. Some stations, in fact, even entered into reciprocal arrangements with neighboring counterparts to recognize these provisional receipts they issued. These practices, in effect, created parallel and highly localized fiscal and regulatory regimes at the expense of central authority and revenue. As one Customs officer remarked regarding tax farming: “This is really an excellent way to achieve private means, but the total revenue for the Central Treasury dwindles to an insignificant sum.” Moreover, as these stations were being employed to generate private wealth, “the original idea of preventing evasion and protecting revenue has ever since become a matter of historical reminiscence.”⁵⁷

The change in management at Fengyang elicited a wide range of responses. Customs officers were explicitly instructed to take great care in effecting any reforms: “It may be assumed that the present procedure is the outcome of local experience and doubtless suits local conditions; you should not, therefore, be in too great a hurry to modify it.”⁵⁸ While such initial discretion did not go entirely unappreciated,⁵⁹ local

⁵⁷ SHAC 679-1-32658, “Fengyang Semi-official, 1929-1931,” Fengyang SO No. 17, 19 Apr. 1930.

⁵⁸ SHAC 679-1-17695, “Transfer of Fengyang Native Customs to Maritime Customs Control, 1930,” IG Dispatch No. 125105, 13 Feb. 1930.

⁵⁹ SHAC 679-1-32658, “Fengyang Semi-official, 1929-1931,” Fengyang SO No. 37, 12 Aug. 1930. Local merchants at Bengbu, for instance, presented inscribed silver shields to two senior Customs officials as tokens of their gratitude during the uncertain times of the Central China War. The inscription on one shield read: “One who sympathizes with the hardships of us merchants” (*xu wo shang jian*). The other inscription read: “All merchants sincerely grateful (*qun shang min gan dai*). The inspector general offered his own

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mercantile communities in general expressed concerns that the favorable arrangements they struck with Native Customs stations under prior management would be modified or nullified outright. As officer He Zihui (Ho Chee-fai) reported upon taking charge of the Fengyang office in August of 1929: “On arrival I had been informed that the staff and merchants here were very suspicious of our presence for they had wind long ago that we were from the Customs and were afraid that the Customs procedure would be introduced here to their disadvantage.”⁶⁰

Merchants were also concerned that strong supervision and control of stations by the center would increase the tax burden. One petition, submitted to the Ministry of Finance by twenty-one representatives of chambers of commerce in northern Anhui, contained some fairly typical complaints regarding the takeover. First, the petitioners challenged the jurisdictional expansion of the Maritime Customs, which, they argued, was a foreign-operated institution that should operate only at coastal treaty ports and not in the interior. Second, continued collection of Native Customs duties ran counter to repeated promises by the government to abolish the lijin and other domestic taxes that harmed merchants and the people.⁶¹

Regardless of initial intent, friction and conflict between new management and local merchants invariably arose as the loss of revenues from duty evasion proved too frequent to ignore. One hotspot was the Mingguang substation, some forty miles east of Bengbu. First, the remittance of duties was frustratingly slow: Mingguang merchants often paid duties on credit for a period of ten days to two months without incurring

⁶⁰ “hearty congratulations” to the officers. See: SHAC 679-1-32659, “Fengyang Semi-official, 1929-1931,” IG/Fengyang SO, 29 Aug. 1930.

⁶¹ SHAC 679-1-32658, “Fengyang Semi-official, 1929-1931,” Fengyang SO No. 1, 1 Sep. 1929.

⁶¹ Ministry of Finance Dispatch No. 3604 in SHAC 679-1-17698, “Transfer of Fengyang Native Customs to Maritime Customs Control, 1930,” IG Dispatch No. 130786, 17 Oct. 1930.

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interest—a privilege not commonly accorded. Second, payment was often selective: merchants, for instance, refused to pay an “unloading duty” (*lou di shui*) charged on products consumed locally on the grounds that they were in fact destined for export. Yet it was widely known that many of these goods never actually left the area. Finally, what duties were paid came not directly from individual merchants but from the chamber of commerce, which collected them on behalf of its members. Maritime Customs officials estimated the chamber retained one-third of proceeds it collected before forwarding the rest.⁶²

Merchants at Mingguang had long resisted attempts by the central state to streamline revenue collection. In 1917, the then-superintendent “experienced almost insurmountable difficulties” in his negotiations with local merchants to implement a set of modest reforms—despite the full backing he enjoyed from both the old Ministry of Finance (then under the Beiyang regime) and the Anhui provincial military governor. More than a decade later, Maritime Customs officials—“aware of the strong influence of the local chamber of commerce”—again encountered similar resistance to proposed reforms that would have required merchants to report to the substation when shipping their goods and pay the stipulated duties. Merchants subsequently threatened violence against the substation, and the Ministry of Finance had to request the provincial military and local police to offer assistance and protection if the need arose.⁶³ Several months after the takeover in late 1930, a stalemate of sorts emerged: merchants finally agreed to

⁶² SHAC 679-1-17701, “Mingkuang Sub-Office, Fengyang Native Customs, 1930,” Fengyang SO No. 67, 2 Aug. 1930.

⁶³ The Ministry of Finance supported the efforts at reform at Mingguang despite objections of local merchants. See Ministry of Finance Dispatch No. 3284, 19 Aug. 1930 in SHAC 679-1-17701, “Mingkuang Sub-Office, Fengyang Native Customs, 1930,” IG Dispatch No. 129752, 25 Aug. 1930.

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report to the substation in accordance with the new procedures but refused to pay duties in arrears.⁶⁴

Yangyou: “Troublemakers” and their Local Allies

While the takeover of the Yangyou Native Customs proved smoother since local military threats were not as serious, existent practices that encouraged duty evasion were no less endemic. One anonymous critic in 1923, wrote to the *Shen Bao* to complain about ongoing abuses and the onerous levels of taxation that “paid no heed to the people’s livelihood and did not sympathize with merchants’ hardships.”⁶⁵ Like others elsewhere, the merchants dealing with the Yangyou Native Customs sought ways to evade paying duties. The change in management, of course, did not immediately result in a reciprocal change in attitudes on the part of merchants already reluctant to pay more taxes.

One particular episode provides a stark illustration of the resistance to the assertion of authority by the central state. To prevent local smuggling by circumventing Native Customs stations, officials erected a collection barrier in late 1928.⁶⁶ Almost immediately, local merchants protested its establishment and looked for ways to slip goods past the outnumbered and overextended officials. Initially conducted covertly in the middle of the night, such attempts steadily became more brazen, and officials reported repeated interference in assessing and collecting duties. In one case, more than two hundred “ruffians” and thirty local policemen and soldiers escorted a fleet of ten junks laden with cotton to successfully push their way past the barrier. A number of

⁶⁴ SHAC 679-1-32658, “Fengyang Semi-official, 1929-1931,” Fengyang SO No. 52, 20 Nov. 1930.

⁶⁵ *SB*, 19 Dec. 1923.

⁶⁶ The barrier was located in Tanhekou in Dongtai County east of Yangzhou. It was set up by prior management but was ratified and supported by the Customs and the Ministry of Finance after takeover.

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“riots” also erupted. One such incident on November 1, 1930 saw a hundred “ruffians” attacking the barrier and smashing furniture at the office in the course of helping four more junks slip through.

The dispute was also fought out on another register. The Ministry of Finance had sided with Customs officials in establishing and operating the barrier but experienced considerable difficulties in obtaining the cooperation of local authorities. The local magistrate, for instance, not only refused to arrest the suspected “troublemakers,” but was also accused of helping junks force their way through the barrier. The Jiangsu provincial government, for its part, took the position that the barrier should be dismantled and ignored repeated orders from the Ministry to help enforce the collection of duties. Financial considerations might well have undergirded such local recalcitrance: Customs officials pointed out that the barrier not only prevented smuggling via nearby canals but also threatened the revenues collected by neighboring lijin barriers managed by the provincial government and other local tax offices.⁶⁷ The bureaucratic war over a seemingly minor incident highlights the limited reach of the central state and the sustained efforts required to assert its authority over local organs even after the Nationalists’ success on the battlefield.

Fortunately for all sides, the many protracted disputes at Fengyang and Yangyou came to a sudden and anticlimactic end. In January 1931, the Ministry of Finance—with national revenues bolstered by higher import duties—sought to fulfill the long-standing government promise by ordering the abolition of all lijin barriers and most Native

⁶⁷ SHAC 679-1-17706, “Transfer of Yangyu Native Customs to Maritime Customs Control, 1930,” Yangyu Dispatch No. 150, 17 Nov. 1930. In addition to a long report on the November riot, the dispatch also contains summaries of sixty-seven correspondences between the ministry, the magistrate, Customs officials, and other parties in the drama.

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Customs stations.⁶⁸ While the new policy was implemented haltingly and unevenly across China, it was carried out with breathtaking swiftness at Fengyang and Yangyou, with both offices closing by the spring of 1931. The last-minute push to wind down affairs and settle outstanding cases produced mixed results. At Fengyang, long negotiations between Customs officials and Mingguang merchants regarding payment of duties in arrears finally yielded some success: the latter agreed to repay the money owed to the former, albeit at a 10% discount.⁶⁹ At Yangyou, matters were resolved less successfully. In the final orders issued by the Ministry of Finance concerning the dispute over the barrier, the provincial government was (again) instructed to pursue the rioters and recover the back-duties they owed.⁷⁰ The documentary trail ends there, with no additional evidence available to ascertain whether the provincial government ever acted on the order.

The takeover of the Native Customs was a protracted process with significant regional variations. Yet the general result was that by taking over and reorganizing existent Native Customs stations, the Maritime Customs came into conflict with local merchants and governments over jurisdictions and the right to collect duties. These conflicts illustrate how “smuggling” could be a by-product of endeavors such as tariff uniformity and standardization.

⁶⁸ IG Circular No. 4158, 31 Dec. 1930.

⁶⁹ SHAC 679-1-32658, “Fengyang Semi-official, 1929-1931,” Fengyang SO No. 61, 7 Jan. 1931

⁷⁰ See Ministry of Finance Dispatch No. 4472, 13 Feb. 1931 in SHAC 679-1-17707, “Transfer of Yangyu Native Customs to Maritime Customs Control, 1930-1931,” IG Dispatch No. 133161, 24 Feb. 1931.

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Smuggling as Political Independence

Past experience shows that foreign aggression has been made use of [by the Central Government] as the means for crushing political rivals. With such experience fresh in memory, the [Shandong] Provincial Government cannot but view the present request for assistance of the local military and police in the suppression of smugglers with grave suspicion.

—Shandong General Han Fuqu to
Customs Chinese Secretary Ding Guitang (1936)⁷¹

The quote from General Han Fuqu above captures the ambivalence and even hostility with which local leaders and warlords viewed the Nationalists' war on smuggling. As the Maritime Customs was a central-level government organ collecting and protecting central-level duties, local officials were naturally less motivated and less incentivized to cooperate and expend their own resources in clamping down on smuggling. Personal interests were also at stake in some cases—General Han himself, for instance, was said to receive a cut of the fees his army collected for escorting goods into Shandong duty-free.⁷²

But objections to the central government's campaign against smuggling were also tied to other geopolitical concerns. As previously noted, despite its nominal status as China's central government, the Nationalist regime experienced considerable difficulties in asserting authority beyond its base in the Lower Yangzi region. Rival warlords, some of whom viewed Nanjing's centralization of political authority and fiscal control as a threat to their own interests or even survival, were reluctant to protect revenues that enriched another regime. The suppression of smuggling more often than not also antagonized other foreign powers, and Nanjing's rivals were understandably loathe to

⁷¹ SHAC 679-6-1226, "IG Confidential Correspondence with Kuan-wu Shu, 1936," "Confidential report of trip to Tsinanfu," 28 June 1936 in IG to DG, 30 June. 1936.

⁷² See for instance Xue, Wang, and Li 1987: 31.

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place themselves in vulnerable positions. Moreover, if monopolizing the legitimate use of force was the most important criterion or manifestation of sovereignty, then the Customs' nationwide enforcement of trade regulations and suppression of smuggling could be viewed as simply backdoor attempts by the center to project its reach and authority into its rivals' domains. This section focuses on one regime—the Guangdong Southwest Political Council (SWPC)—that engaged in extensive duty evasion during the 1930s as part of its assertion of political independence from the center to highlight yet another dimension of smuggling.

“Official Smuggling”: Logic and Practices

From 1931 until late 1936, Guangdong had been effectively ruled by General Chen Jitang and the SWPC, a southern faction of the Nationalist party opposed to Chiang Kai-shek.⁷³ The *de facto* political independence of the rich southern province had been a continual irritant to Nanjing. While the SWPC maintained some degree of cooperation with Nanjing, it often defied central directives as it too maintained a formidable military force and asserted its own claims as China's legitimate national government.⁷⁴ The SWPC also pursued an ambitious economic program under the banner of “economic reconstruction” (*jingji jianshe*). Mirroring the policies of its rivals in Nanjing and elsewhere, the SWPC initiated a series of crash industrialization projects and created

⁷³ In May of 1936, Hu Hanmin, the most senior Nationalist member opposed to Chiang Kai-shek's rule, suddenly died. Chiang used the opportunity to deliver an ultimatum to leaders of the SWPC to submit to central government authority. When the SWPC refused and mobilized troops northward into Hunan for a possible invasion of the Lower Yangzi, Chiang employed a combination of threats and inducements to secure the mass defection of key military units and civilian leaders. The SWPC dissolved and the rebellion subsequently collapsed. See Eastman 1974: 252-62.

⁷⁴ Shortly after declaring itself to be China's true national government, the SWPC in mid-1931 telegraphed Inspector General Maze to report to Guangzhou and henceforth accept orders from its own Ministry of Finance. Anticipating that Maze would refuse, the SWPC also made overtures to other local commissioners to see if they would assume the inspector generalship under the new national government. None accepted and the scheme quickly collapsed by 1932. See IG SO Circular No. 83, 23 Sept. 1932.

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official monopolies for a number of commodities. The industrialization projects and official monopolies were envisioned to be mutually reinforcing: government monopolies would provide much-needed funds for the construction of new factories and the goods produced by the newly-built factories would be sold through official channels, thereby feeding the virtuous cycle of provincial economic development. Another important goal of the program was import-substitution: the goods to be produced by the new factories included both industrial products (cement, sulfuric acid, fertilizer) and consumer products (sugar, textile, paper) that all enjoyed strong market domestic demand but had long been imported.⁷⁵

Although one of the goals of “economic reconstruction” was to create a modern and autarkic economy, the proposed projects nonetheless required the significant import of foreign machinery and raw materials. The SWPC initially sought to claim all Customs revenues collected in Guangdong. After it was unsuccessful, it sought instead to circumvent the regulations and duties imposed by the central government by demanding that certain goods earmarked for provincial economic development or military use be imported at reduced duties or duty-free. Such disputes were intricately tied to the phenomenon of “official smuggling,” whereby provincial authorities imported goods without paying import duties or securing permission from Nanjing. What constituted “official smuggling,” of course, was a matter of perspective. In a meeting with the Guangzhou Customs commissioner, for instance, both General Chen and Provincial Chairman Lin Yun’gai asserted that the duties imposed by the central government on articles required for Guangdong’s industrialization projects and weapons, munitions, and

⁷⁵ For more on the SWPC’s provincial development plans and the conflicts between Nanjing and Guangzhou, see Hill 2010.

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other items designated for military use were all “illegal.” Despite the fact that such duties had been ratified by the Executive Yuan, nominally the country’s highest legislative body, the SWPC did not recognize its authority and repeatedly threatened that certain import duties would not be honored in Guangdong.⁷⁶

The trafficking of one commodity—oil—illustrates the contested nature of official smuggling. To circumvent duties on refined oil such as kerosene, a number of merchants established factories that imported crude oil—assessed at a lower tariff—to distill into kerosene.⁷⁷ The cheaper kerosene threatened not only to undersell domestic kerosene producers and retailers but adversely impact tariff revenues. To close this arbitrage opportunity and nurture a burgeoning oil industry, the central government’s Internal Revenue Administration (Shuiwu Shu) pressed for higher tariffs on all imported crude oil.⁷⁸ The new duties were to be introduced in early 1933, but the SWPC—mindful that many distilleries were located in Guangdong and aware of the vehement resistance against higher duties—passed a resolution that the older, lower tariff should continue to be enforced. As if to underscore the strong local support the resolution enjoyed, four hundred demonstrators appeared in front of the Guangzhou Customs at one point to demand an audience with the commissioner to express their discontent.⁷⁹ Lower import duties also provided provincial authorities more latitude to impose their own surtaxes without further adverse impact on demand.

⁷⁶ GDPA 94-1-750, Canton Dispatch, 5 Feb. 1936.

⁷⁷ As of early 1933, duties on kerosene were G.U. 43.90/ton compared to

⁷⁸ The Internal Revenue Administration labeled the actions of domestic distillers as “obtaining wealth through trickery” (*quqiao yi yu*). See IG Circular No. 4548, 5 Jan. 1933.

⁷⁹ In a confidential letter to Minister of Finance T. V. Soong, Inspector General Maze admitted that the domestic distillation of crude oil “is spreading with rapidity and affords employment and profit for an increasingly large number of people[.]” SHAC 679 (6) 1218, “IG Confidential Correspondence with Kuan-wu Shu, 1933,” Confidential Letter from Inspectorate General to Ministry of Finance, 4 Feb. 1933.

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In any event, after failing to convince the SWPC to rescind its proclamation and unable to forcibly compel compliance, the central government ordered the Customs to “provisionally” permit oil imported into Guangdong for refining to pay the old lower duty but insisted that all other refined liquid fuels such as kerosene pay the new higher duty. The SWPC, however, continued to push the limits imposed by Nanjing by adopting alternative standards that classified any liquid fuel containing 99% or less kerosene as crude oil. The provincial government’s goal for resisting the introduction of higher duties in the case of the liquid fuel dispute was “to encourage native industry in oil production and to increase the purchasing power of the people.”⁸⁰

In addition to challenging tariffs, provincial authorities sought to limit the jurisdictional footprint of the Customs. For instance, the Ministry of Finance in early 1933 authorized the Customs to expand its presence in Guangdong with additional stations in response to the outbreak of smuggling. The SWPC, however, blocked the move, retorting that the Customs’ jurisdiction was limited to the coast and that additional inspection stations in the interior would invariably burden the people.⁸¹ Such resistance to central directives had another basis. As stated previously, the increasingly strict and invasive searches of maritime vessels by the Customs from the early 1930s frequently led to disputes with many segments of society. Protecting passengers, especially the influential Overseas Chinese, was a useful tactic for the SWPC to burnish its credentials as China’s “true” national government. During a visit to Guangdong to discuss the problem of official smuggling with provincial authorities in early 1934, Customs Chinese

⁸⁰ SHAC 679-6-1225, “IG Confidential Correspondence with Kuan-wu Shu, 1936,” “Memorandum re duty treatment of fuel oil imported into China through ports in Kwangtung and Kwangsi,” 6 Jan. 1936, in Confidential Letter from Inspectorate General to Kuan-wu Shu, 8 Jan. 1936.

⁸¹ SB, 11 Jan. 1933, 8. From the SWPC’s announcement: “The Customs can only inspect [shipments] along the coast, and to now thus intrude into the interior is especially not suitable.”

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Secretary Ding Guitang received numerous complaints about Customs officers “squeezing and extorting money from passengers” on steamships. On another occasion during a dinner hosted by two chairmen of the Shantou Chamber of Commerce, Ding again received an earful of complaints that “passengers passing through or landing at [Shantou] have often been made to suffer greatly.” In his letter to the Inspector General reporting on his trip, Ding confessed that the Customs did not necessarily occupy the moral high ground in dissuading provincial leaders from practicing “official smuggling”:

Some of the local officials may have been interested in smuggling but I absolutely do not believe that the whole lot [has] been doing so and I don't think that their complaint[s] [against the Customs] are altogether groundless. So far as I have heard here the reputation of our Outdoor Staff in South China has been far from being desirable and this is a very weak point in our part when we ask [Guangdong officials] to stop smuggling.⁸²

Indeed, local officials cited the poor reputation of the Customs among the Cantonese public as one of the many justifications in blocking the agency's expansion in the province. Whatever the truth of the accusations (and as we have already seen, they were not without their merits), the point here is that resistance against central-level authority drew on multiple grievances.

But if political independence and the protection of local economic interests were the stated objectives in evading import duties and defying central-level regulations, other forms of official smuggling were motivated less by ideological and more by practical considerations. This was the more notorious side of official smuggling. The *de facto* immunity from many tariffs that provincial governments enjoyed quickly encouraged various bureaucratic organs—with or without the sanction or knowledge of local leaders—to exploit their official status to import a range of goods duty-free. Along with

⁸² GDPA 95-1-1206, Letter from Chinese Secretary to Inspector General, 16 Jan. 1934.

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numerous tax bureaus and tax farmers, the navy actively participated in this trade. Its gunboats shuttled up and down the Pearl River, bringing goods such as opium and tungsten south to Hong Kong and returning with white sugar and other assorted goods north to Guangzhou. One naval officer recalled how the navy and the provincial Anti-Opium Suppression Bureau (the local opium monopoly) collaborated to reap enormous profits, with the latter effectively serving as a supplier of and an investor in the former's ventures.⁸³ Customs officials filed monthly reports on the movements of provincial government vessels in the delta and provided detailed accounts on the cargo unloaded duty-free on the docks of Guangzhou. One such report—sent to the Inspectorate and brought to the attention of the Ministry of Finance—described the deleterious impact of official smuggling, still in its relative infancy in late 1932:

Gunboats and salt revenue vessels, particularly the latter, are plying regularly between [Guangzhou], [Huangpu], and Hongkong or Hongkong waters. They load and/or tow in full cargoes of high duty articles and are now beginning to extend their activities to the smuggling on a large scale of motor cars and gasoline, not to speak of their well established activities in regard to the smuggling of sugar which amount almost to a monopoly on the river. It is significant that goods so smuggled in, while they escape paying Maritime Customs duty, are known to be covered by provincial tax receipts.⁸⁴

Indeed, so widely and openly official smuggling was practiced that the Customs had little difficulties in maintaining a constant surveillance on the traffic.

In addition to the use of provincial government vessels, another common avenue of official smuggling involved the aggressive use of transit passes, or *huzhaos*, which permitted the holder to import specific commodities or shipments duty-free or at reduced

⁸³ Xu 1987: 194.

⁸⁴ SHAC 679-1-28159, "Smuggling Reports, Canton, 1932-1935," Canton SR Dec. 1932. Excerpts forwarded to T. V. Soong himself at the Ministry of Finance. See SHAC 679-6-1218, "IG Confidential Correspondence with Kuan-wu Shu, 1933," Inspectorate to Ministry of Finance, 8 Mar. 1933.

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rates for military use, educational purposes, or famine relief.⁸⁵ Issued by the Ministry of Finance (as a concession to local demands) or by provincial officials themselves, *huzhaos* quickly expanded beyond their intended purpose. In using these permits, organizations and individuals effectively sought to expand, as widely as possible, the categories of goods that could be imported duty-free.⁸⁶ In a confidential letter to the Inspector General and forwarded to the Guan-wu Shu, the Guangzhou Commissioner complained of *huzhaos* being issued to Zhongshan University and other provincial educational institutions to import building materials, cars, trucks, and gasoline duty-free.⁸⁷ Although it could not be fully substantiated, the implication was that many of these goods were being imported for purposes other than education.

Another episode illustrates the decentralized use and widespread abuse of *huzhaos*. In February 1933, a Customs launch stopped five junks with the following cargo: airplane parts (enough for four planes), high-quality shark fins, assorted piece goods, and a new Ford coupe. The shipment for airplane parts, covered by a military *huzhao*, was allowed to proceed, but the other goods, uncovered by any documents, were duly confiscated. Almost immediately thereafter, a succession of individuals dropped by the Customs office to claim the remaining cargo. The coupe was released duty-free to a young air force officer who openly admitted that while no duty was paid, the car would be employed only for personal use. The piece goods and some of the shark fins were released, also duty-free, to a military commander who produced a document stating that

⁸⁵ *Huzhao* technically means “passport,” but it should not be confused with documents held by travelers.

⁸⁶ As one commissioner reported, *huzhaos* were “shoveled out blank to the Military and filled out by them at their own sweet will[.]” See GDPA 101-1-43, Letter from Swatow Customs to Canton Customs, 25 Aug. 1935.

⁸⁷ SHAC 679-6-1225, “IG Confidential Correspondence with Kuan-wu Shu, 1936,” Confidential Letter from Canton Customs to Inspectorate General, 29 Jan. 1936, in Confidential Letter from Inspectorate General to Kuan-wu Shu, 3 Feb. 1936.

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“goods for personal use were not the same as those that are smuggled.” The rest of the cargo remained under detention when a Chinese clerk from the British Consulate General and a shark fins merchant failed to produce any official documents during their respective visits.⁸⁸ *Huzhaos* were also profitably employed in other ways. Private individuals and companies, for instance, purchased *huzhaos* from provincial authorities to import an array of products at significantly reduced rates or even duty-free. One Guangzhou merchant, for instance, reported to the Customs “that he had been approached by an intermediary who offered to import radio sets for him at half Customs duty, under military [*huzhao*].”⁸⁹

Nanjing’s overall losses from all abovementioned forms of official smuggling were difficult to fully quantify but were clearly significant. One estimate placed losses from official smuggling of sugar, oil, and other assorted articles by the SWPC at around CN\$14 million for the year ending mid-1936. (See Table 3-1.) To place this figure in perspective, stations in the Pearl River Delta collected approximately CN\$18.8 million in duties and assorted surtaxes during 1935.⁹⁰ Nanjing’s loss, of course, represented Guangzhou’s gain. The trafficking of sugar, one of the most highly-valued and heavily-taxed commodities in the years after tariff autonomy, best illustrates this dynamic. Before and after it introduced provincial monopolies and began operating its factories in 1934, the SWPC imported, repackaged, and resold sugar from Hong Kong as “native” sugar. The practice was ostensibly a stopgap measure designed to satisfy local demand until new sugar factories were completed, but the profits from “smokeless sugar” (*wuyan tang*)—so-called because the sugar was not locally produced but simply relabeled—were nonetheless substantial. A CN\$6 bag of sugar illicitly imported, for instance, could be

⁸⁸ SHAC 679-1-28159, “Smuggling Reports, Canton, 1932-1935,” Canton SR Feb. 1933.

⁸⁹ GDPA 94-1-750, Canton Dispatch, 5 Feb. 1936.

⁹⁰ Figures tabulated from Guangzhou, Kowloon, Gongbei, and Jiangmen stations. *TC*, 1935, 90-1.

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resold in Guangzhou for about CN\$22—a more than threefold increase in the original price and roughly competitive with sugar licitly imported and inclusive of duties.⁹¹ As one Customs report notes: “Of the enormous profits, half were turned over to General [Chen Jitang] and half were devoted to the purchase and erection of provincial sugar [factories]. It is therefore apparent that the provincial sugar [factories] were very largely, if not entirely, paid for out of Customs revenue diverted from the Central Government.”⁹²

Customs officials in Guangdong had a difficult time enforcing tariffs and other central-level directives in the face of official smuggling.⁹³ Some officials sought to uphold the authority of the central state by insisting that *huzhaos* be transmitted via the Ministry of Finance or another central-level representative before they would be recognized. Yet many others nonetheless accepted *huzhaos* issued by the provincial government.⁹⁴ Other tactics proved more effective. For instance, while the Customs could not enforce the higher tariff on crude oil within Guangdong, it was authorized by the Ministry of Finance to slap additional tariffs on any kerosene refined locally from crude oil shipped out for sale at other ports outside the province, thereby nullifying any

⁹¹ An American-educated engineer working at one of the province-owned factories during the 1930s had a slightly different estimate for the “smokeless sugar” sold during 1934. According to this engineer’s estimate, based on a provincial report, each ton imported from Hong Kong cost approximately 148 yuan and was sold for as much as 300 yuan (Cantonese currency). The magnitude of profits differed from the Customs’ own estimate but was nonetheless substantial. See Xian 1987: 260-1.

⁹² GDPA 101-1-47, Memorandum from Canton Customs to Swatow Customs, 3 Aug. 1936.

⁹³ Reflecting the fluid political situation during the 1930s, the Guangzhou Commissioner L. K. Little urged caution in a letter to his counterpart in Shanghai: “In the event of renewed civil warfare, the integrity of the Service may well depend on the relations between the Commissioners and the southern leaders, and I feel strongly that it would be unwise to [antagonize] them at this juncture unless we have reasonable hope of success.”

⁹⁴ In practice, the Guangzhou Customs accepted many provincial *huzhaos* “without question” as long as they were transmitted through a representative of the central state. See GDPA 101-1-43, Letter from Canton Customs to Swatow Customs, 30 Aug. 1932.

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price advantages Cantonese distillers might have enjoyed.⁹⁵ Also, as many provincial factories were completed and began selling their goods outside of Guangdong, the central government and the Customs were able to extract concessions from provincial officials to crack down on official smuggling. Moreover, to fight duty evasion through substitution, Customs offices at other ports often detained shipments of “native sugar” produced by Cantonese provincial factories upon suspicion that they contained foreign sugar.

Conclusion

This chapter has illustrated how “smuggling” involved more than simply evading the eye and arm of the state. With respect to “smuggling” as a form of business, we find many motivations underpinning the practice, the various countermeasures employed against growing state power and surveillance, as well as a blurry line dividing licit and illicit economic activities. Moreover, merchants, runners, and other would-be smugglers not only successfully countered the state’s impressive and seemingly insurmountable technological advantage—they also skillfully exploited the fragmented sovereignties of 1930s China to find legal protections in their resistance against interdiction efforts.

In the case of the Maritime Customs’ takeover of the Native Customs, we should recognize that “smuggling” was a byproduct of shifting expectations of what constituted the proper mode of tax assessment and collection as the Customs expanded its jurisdiction to cover more individuals and communities. Deviations from tariff uniformity and standardization were labeled as “smuggling” despite the fact that past practices, while certainly creating room for abuse and exacerbating the inability of the central state to properly see and control its finances, had some of their logic bound to

⁹⁵ While the Ministry of Finance permitted Guangdong to import crude oil at a lower duty (citing “special circumstances”), it did order the Customs to levy additional duties for kerosene or any other liquid fuel from the province shipped to other areas. See IG Circular No. 4824, 11 Apr. 1934.

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local conditions. State-building vis-à-vis the implementation of tariff uniformity represented projects of “state simplification” that sought to reverse imperial China’s legacy of “liturgical governance” whereby certain official functions—policing, infrastructure construction, and tax collection—had been delegated to local elites.

Disputes between Nanjing and its rivals centered on one question: Who had the legitimate power to set and enforce China’s tariffs? The stakes were high. Ownership of trade revenues was critical to the operations of all regimes, whether they were based in Nanjing or elsewhere. The seemingly mundane fights over tariff rates, classification standards, and trade regulations were simply warfare by other means, practiced by all sides to deny competing regimes access to important financial resources. But beyond such practical considerations was both the prerogative of the central state to regulate and police China’s trade. “Official smuggling” as practiced in Guangdong and elsewhere challenged and undermined central authority, and Nanjing’s efforts to compel compliance of trade regulations and monopolize the collection of import duties certainly fell under the umbrella of state-building.

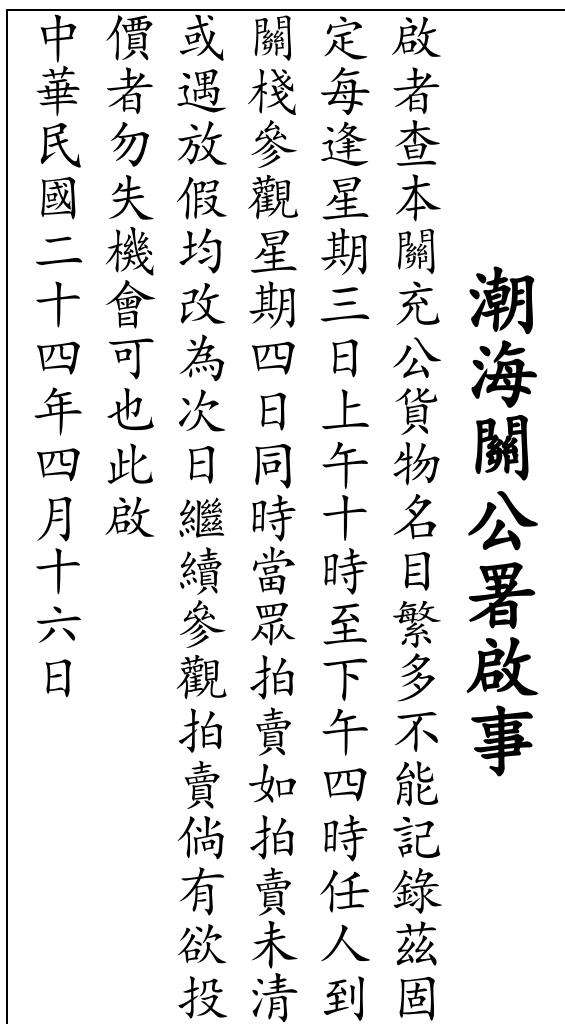


Figure 3-1

Advertisement for Public Auction by Shantou Customs

The text, from right to left, reads:

“Shantou Customs Office Announcement:

We have the honor to inform [the public] that the goods confiscated by the Customs are too numerous and cannot be enumerated. Every Wednesday from ten o'clock in the morning to four o'clock in the afternoon, [the public] is invited to view [the items to be auctioned] at the Customs godown. Thursday during the same time, a public auction will be held. If goods are not entirely auctioned off or the date of auction falls on a public holiday, the auction and public viewing will continue the following day. Those who are interested and would like to bid, do not let this opportunity slip way.

Sixteenth Day, Fourth Month, Twenty-Fourth Year of the Republic of China”

Source: *XR*, 20 Apr. 1935, 2.

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Table 3-1

Estimated losses in duties from “official smuggling” by the Southwest Political Council (CN\$ million)

Items	Duties Evaded
Cargo on the Gunbaot <i>Yongfu</i>	6.4
Liquid Fuel	3.0
Rice	3.0
Other Cargo with <i>Huzhao</i>	2.0
Total	14.4

SOURCE: GDPA 101-1-47, Memorandum from Canton Customs to Swatow Customs, 3 Aug. 1936.

FOUR

Constructing and Evading Economic Blockades

Wartime Trade under Competing Sovereignties

In June of 1942, the newly-formed American intelligence agency, the Office of Strategic Services (OSS), issued a confidential research report entitled, “Trade between Occupied China and Free China.” Frequently and interchangeably employing the terms “smuggling” and “trade,” the report details the extensive, flourishing, and even regularized commercial intercourse between the two sides. Chronic shortages in foodstuffs, manufactured goods, and raw materials behind both sides of the frontlines were oftentimes alleviated through smuggling, despite nearly five years of warfare and a series of economic blockades. Nationalist officials—depending on the commodity and locale—reportedly adopted a range of responses from fighting to tolerating to even abetting this trafficking. Under such circumstances, the line separating “smuggling” from “trade” was understandably blurry. At the end of one copy of the report is a handwritten comment: “There is so much confusion in the above as to what ‘smuggling’ really is.”¹

The reader’s scrawled note neatly captures the ambiguities surrounding the practice of smuggling during the Second Sino-Japanese War (1937-45). As we shall see, confusion was not limited to this reader alone. All sides constructed “economic blockades” (*jingji fengsuo*) that were designed to isolate one another and restrict the flow of supplies needed for their respective adversaries’ war effort. In addition to evading

¹ OSS 1-5, “Trade between Occupied China and Free China,” 16 June 1942.

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duties, smuggling during the war was also nominally defined as the penetration of these blockades. But a scan of the historical evidence quickly reveals the complex dimensions and conflicted meanings of this practice. Beyond the untold death and destruction it wrought, the war fractured, disrupted, and displaced existing sources of authority and patterns of exchange. Moreover, the territorial bounds of authority—already contested—were blurred or even erased as the Nationalists, the Japanese, the Japanese-sponsored puppet regimes, and countless other parties (e.g. the Communists, local governments, and guerilla armies) fought on an off the battlefield. In this fluid and uncertain environment, wartime realities made the clear-cut categorization of legality and illegality difficult, if not impossible. Indeed, who was the ultimate arbiter of legality in the face of multiple, overlapping, and competing claims to legitimate authority? And what did “smuggling” really represent in this context? Trading with the enemy, resisting occupying forces, or simply connecting supply and demand for desperately-needed commodities?

To answer these questions, this chapter will chronicle how wartime economic blockades were constructed, defined, and defied. Using sources such as intelligence reports and popular press accounts to chronicle the ways prohibitions were promulgated, enforced, and violated, this chapter shows how the definition of “smuggling” changed many times over as the Nationalists adjusted policies in response to the vicissitudes of war. While smuggling was certainly fueled by wartime disruptions, pervasive attempts at control, and even official connivance, this chapter shows that many of its manifestations were in fact continuities of prewar practices. Finally, this chapter complements prior research on the wartime economy, which primarily focused on the development of heavy

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industries, by looking at the quotidian ways smuggling linked centers of supply and demand.²

As was true prior to the war, the Nationalist regime expended considerable efforts at centralizing its authority to delineate and enforce the boundaries of legality—both in the abstract and physical sense. Unsurprisingly, as the war strained the coercive powers of the state to regulate and police trade, the regulatory spaces that the regime had painstakingly expanded or constructed during the Nanjing Decade shrank steadily or were eliminated outright. The Nationalists’ claim to a monopoly on law-making and legitimate violence was weakened not only by the establishment of rival puppet regimes in North and Central China but also by the decentralization of authority. As the regime retreated westward, it conceded significant latitude to guerrilla armies and local governments to wage war.

In accounting for wartime smuggling, contemporary observers frequently pointed to greed, treachery, and other personal moral failings. Epithets such as “treacherous merchants” (*jianshang*) or “traitors to China” (*Hanjian*) permeated popular and official discourse. Later scholars, who measured efficacy of governance through the character of political leadership, pointed to wartime smuggling as yet another manifestation of the endemic corruption that foreshadowed the Nationalists’ loss of legitimacy and eventual collapse.³ While this chapter does not deny that corruption or personal venality were pervasive at many levels, it is more interested in looking at the institutional incentives and constraints that shaped wartime smuggling and its suppression.

² See, for instance, Kirby 1991.

³ Eastman (1980: 283) argues that the wartime Sino-Japanese trade was “a pernicious practice” that corrupted officers that should have been engaged in fighting the enemy and “weakened the already frail moral fiber of the Chinese army.”

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An important aim of this dissertation is to place the Chinese experience in its comparative context. This chapter takes the same approach in looking at Chinese wartime smuggling. In examining conflicts going back five hundred years, political scientists Jack Levy and Katherine Barbieri show how trading with the enemy and wartime smuggling were fairly common historical phenomena. Juggling other priorities in addition to achieving victory, belligerents have rarely been willing or able to completely sever economic ties with their adversaries. In some cases, the costs of cutting off trade with the enemy exceeded the benefits. In other cases, third-party considerations—avoiding alienating potentially helpful neutrals or other non-belligerents—complicated efforts at closing holes in wartime blockades. Also, state capacity to monitor and interdict illicit trade typically degraded during wartime when resources and attention were diverted to meet more pressing threats. This was especially the case for weak states or poorly-organized armies that relied on external sources for arms, food, and supplies. In such conditions, the emergence of a “clandestine political economy of war” that involved trading with the enemy across frontlines has been all but inevitable.⁴

As this chapter will illustrate, such characterizations apply accurately to the Nationalists’ war effort. Changing conditions on the battlefield, shifting alliances in the diplomatic arena, and the deteriorating domestic economy all forced Nationalist leaders to continually adjust policies governing Free China’s blockade against the outside world. Wartime shortages stimulated demand for all sorts of smuggled goods. Unreliable support from Chongqing encouraged Nationalist armies in warzones to trade with their ostensible enemies—the Japanese and their puppet regimes—to feed and equip their

⁴ Levy and Barbieri 2004

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ranks. Smuggling was also clandestinely adopted as a tactic for the Nationalists themselves when Chiang Kai-shek's spymaster Dai Li, for instance, began operating an extensive smuggling network that satisfied multiple—and sometimes competing—priorities. That gaping holes appeared in the blockade owed as much to wartime exigencies and stresses on central authority as to venality or incompetence.

In chronicling smuggling and its suppression in wartime China, several caveats should be noted. First, this chapter does not claim to comprehensively capture the diversity of experiences of this conflict, given its complexity. Moreover, many of the phenomena this chapter describes did not unfold synchronously or evenly across China. Finally, although I examine, where possible, the policies of competing regimes, the majority perspective of this chapter is the Nationalists'.

Constructing the Economic Blockade

Ad Hoc Restrictions in the Fog of War

The first phase of the Second Sino-Japanese War erupted with the Marco Polo Bridge Incident on July 7, 1937 and culminated with the Nationalists' retreat to Chongqing in late 1938. During this one-and-a-half-year period as the Japanese overran North China, secured major coastal ports, and ejected the Nationalists from Central China, the battle lines separating the two sides proved ephemeral and shifted constantly. As many scholars have already noted, neither the Nationalists nor the Japanese originally anticipated a protracted conflict, let alone eight years of brutal warfare.⁵ Reflecting such expectations and the uncertainties produced during the initial fog of war, both sides haphazardly and provisionally promulgated many economic policies regulating the movement of commodities during this first phase of the conflict.

⁵ For more details, see Peattie, Drea, and van de Ven 2011.

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The restrictions the Nationalists introduced varied in scope, but they all shared one general purpose: limiting the movement of goods that could potentially “aid the enemy” (*zidi*)⁶—a category that became ever more expansive as the war dragged on. Of particular concern was security of the nation’s food supply. In the first weeks of the war, the government prohibited the export of wheat abroad and to Manchuria and ordered the Customs to report any coastwise shipments—especially shipments to six northern ports that “appear[ed] excessive” or seemed “unusual” in any way.⁷ Regulations were repeatedly adjusted and expanded in the following weeks until the government finally introduced a more comprehensive ban on the export of foodstuffs—the Provisional Code Governing Punishments for Supply of Foodstuff to the Enemy (Shiliang zidi zhizui zanxing tiaoli)—on August 31, 1937 as the battle of Shanghai raged. During the ongoing “period of emergency,” the sale of foodstuffs to the enemy was punishable by death. Even the export of food was classified as smuggling and would be considered akin to aiding the enemy.⁸ (See Table 4-1.)

Other commodities quickly came under similar restrictions. Scrap metal, the movement of which had already been regulated prior to the war, was prohibited from export or even being shipped coastwise.⁹ Resin, mercury, bamboo, hemp, ramie, and even seaweed—commodities deemed essential to both the domestic and the enemy’s war industries—were likewise prohibited from export.¹⁰ With the promulgation of these ad hoc policies, the definition of “smuggling” was slowly but steadily enlarged to

⁶ The “enemy” in question for the Nationalists, of course, referred to Japan.

⁷ IG Circular No. 5545, 26 July 1937. The six ports were: Tianjin, Qinhuangdao, Qingdao, Zhifu, Weihaiwei, and Longkou.

⁸ KZFG, 1: 185. The regulation was directed at large-scale export at 100,000 *jin* or more.

⁹ IG Circular No. 5582, 13 Sept. 1937.

¹⁰ Resin: IG Circular No. 5567, 24 Aug. 1937. Mercury: IG Circular No. 5593, 2 Oct. 1937. Bamboo, hemp, ramie, and seaweed: IG Circular No. 5597, 7 Oct. 1937. This list is by no means exhaustive.

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encompass the movement across enemy lines of goods deemed vital to the domestic war effort—even as those lines and categories were still fluid and inchoate during the opening stages of the war.

Counterbalancing the effort to tighten trade restrictions was the government's desire to contain the economic and social disruptions arising from the conflict and thereby retain popular support at home and abroad. Even as they tightened the movement of foodstuffs, for example, the Nationalists specifically exempted rice and wheat from the new domestic interport duty introduced to raise revenues during the war since these commodities were all deemed to be important to the livelihood of the people.¹¹ Other exemptions were made in the name of supporting the economy. The Shanghai Lace and Embroidery Merchants' Guild, for instance, successfully appealed to the Ministry of Finance to exempt its goods from interport taxation to "protect the handicraft industry."¹² Proposals to "improve the balance of payments by curtailing imports which can be dispensed with in time of war" were entertained but ultimately shelved. Officials expressed concerns that such policies would deal another blow to already fragile business confidence and might alienate other foreign powers whose support China was desperately seeking during the conflict.¹³ As Levy and Barbieri note in the case of other conflicts, uncertainties during the opening phase of hostilities tempered policy responses. The Nationalists were no different in this regard. Rather than introducing restrictions wholesale, the government initially built the economic blockade commodity by

¹¹ IG Circular No. 5609, 22 Oct. 1937.

¹² IG Circular No. 5650, 24 Feb. 1938.

¹³ SHAC 679-6-1232, "IG Confidential Correspondence with Kuan-wu Shu, 1937," Letter from IG to Guan-wu Shu, 8 Nov. 1937.

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commodity and carved out various exemptions or favorable duty treatment to balance a range of competing priorities.

The Contracting Geography of Enforcement

As the Customs was charged with shouldering more responsibilities, ongoing hostilities steadily curtailed its anti-smuggling capabilities. Its status as a foreign-operated institution continued to shield it from outright seizure by the Japanese until the outbreak of the Pacific War (1941-45), but the agency nonetheless suffered serious constraints on its operations. Stations were shuttered and patrols suspended as open warfare made many areas too dangerous for regular operations.

Especially detrimental to the Customs' enforcement capacities was the deterioration of its material assets. With the outbreak of hostilities, many preventive vessels and stations were inevitably caught in the crossfire between both sides. The overwhelming majority of actions against the Customs, not surprisingly, came from the Japanese, who viewed the agency's assets on the battlefield as fair game. Wartime reports are replete with accounts of Customs patrols and vessels being fired upon by the Japanese. One of the more spectacular incidents of hostility occurred in November of 1937. As it was tightening its encirclement of Shanghai in the wake of the Nationalists' retreat, the Japanese military also seized ten Customs vessels docked in the Huangpu River.¹⁴

Changes in the composition of fines and confiscations data reflect the adverse impact of the war on trade patterns and preventive strength. (See Table 4-2.) After the explosion of smuggling in North China in 1936, the Customs intensified its preventive

¹⁴ SHAC 679-6-232, "IG Confidential Correspondence with Kuan-wu Shu, 1937," Letters from IG to Guan-wu Shu, 16 Nov. 1937; 17 Nov. 1937; and 18 Nov. 1937. The incident was also reported in *SB*, 17 Nov. 1937, 7.

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efforts in the region, particularly along the Great Wall and in Tianjin. Fines and confiscations in the region held steady through the first half of 1937 and were on pace to match the levels of prior years. But hostilities “completely shattered” the gains made during the year.¹⁵ The Chief Inspection Bureau (C.I.B.), which was formed in 1936 specifically to combat smuggling on major railways and highways in North and Central China, also suffered restrictions on its activities in 1937 and was completely shuttered by the end of the following year. Fines and confiscations in Shanghai, long the highest amongst all ports, fell dramatically after mid-1937 as many parts of the city and its vicinity became virtual battlegrounds. In addition to its adverse impact on trade, the war seriously constrained local Customs operations and “all active preventive work came to an end except on the pontoons and at the wharves along the International and French Bunds.”¹⁶ Preventive work in Guangdong proved comparatively more resilient. As patrols at sea became more restricted, stations in the province turned to other venues. The Shantou Customs, for instance, intensified its crackdown on smuggling onboard steamships.¹⁷ Land patrols in the Pearl River Delta, despite increasing dangers from the twin threat of war and banditry, continued apace. As a result, fines and confiscations from stations in the province during 1938 fell by only a third from their average levels during 1932 to 1936—a modest decline compared to other regions during the same years.

By late 1939, the preventive secretary reported that the Japanese had shut down the Customs’ entire wireless coastal network and “immobilized, destroyed, or seized”

¹⁵ “Resume of Smuggling Conditions in Tientsin 1937,” in TJMA W1-1-2658, Tientsin SR, Dec. 1937, Appendix No. 2, 10.

¹⁶ “Annual Resume of Preventive Work at Shanghai for 1937,” in SHAC 679-1-28140, “Smuggling Reports, Shanghai, 1936-1937,” Shanghai SR, Dec. 1937, 5.

¹⁷ So successful was the Shantou Customs in its efforts, in fact, that it racked up almost CN\$325,000 in fines and confiscations during 1938. This amount was lower than the average of CN\$424,000 from 1932 to 1936 but ranked second-highest amongst all ports in 1938.

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much of the agency's fleet. One official's remarks neatly summarize the new constraints under which the agency was operating:

With the occupation of large tracts of territory including the main coast ports and the blockade of the remainder, the fiscal zone under Chinese Government control is now virtually bordered by one vast land frontier which stretches the entire length of China and which constantly fluctuates according to the progress of hostilities. The Customs task of protecting such a frontier would be difficult enough in peace time but is made infinitely more so by war conditions...Furthermore, the Customs have [sic] not only to protect revenue interests but to endeavor to enforce a number of new prohibitions and restrictions on imports and exports which have been introduced as war measures to maintain China's economic stability.¹⁸

Ongoing hostilities and the deterioration of technical assets made effective enforcement of regulations extremely difficult, if not impossible. If the Customs was steadily expanding its geography of enforcement during the Nanjing Decade, then the war slowly pushed the agency back to its traditional jurisdiction at treaty ports.

Defining the Economic Blockade

From Restrictions to Blockade

With the fall of Wuhan and the Nationalists' subsequent retreat to Chongqing in October 1938, the conflict entered its "war of attrition" phase. Entrenched in western China, the Nationalists began to fight a decentralized war instead of directly engaging superior Japanese forces. New fronts were opened with the establishment of guerrilla armies and ten war zones throughout China. A campaign of terrorism and assassinations was launched in major urban centers such as Shanghai against the Japanese and their Chinese collaborators. For their part, the Japanese initiated limited land campaigns that focused on capturing "points and lines" (i.e. strategic locales or routes). Lacking sufficient manpower to hold their territorial gains, however, the Japanese relied heavily

¹⁸ "Memorandum to Mr. A. H. Forbes, Preventive Secretary," in SHAC 679-1-27757, "Preventive Secretaries, Handing Over Charge Memorandums, 1935-1946," 23 Oct. 1939, 7.

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on unrelenting aerial bombardment in Nationalist China to break morale and force a settlement. The air raids resulted in considerable devastation but failed to achieve their stated objectives. While this phase of the war still saw significant violence, neither side was able to make any major breakthroughs until the massive Operation Ichigō of early 1944.

With major military offensives now deemphasized in favor of decentralized warfare, the Nationalists turned to another tactic: economic warfare. On October 27, 1938, less than a week after the fall of Wuhan, the Nationalists instituted a comprehensive economic blockade by promulgating two sets of regulations designed to further limit both the inflow and outflow of goods between Free China and Occupied China. The Regulations Governing the Prohibition of Enemy Goods (*Chajin dihuo tiaoli*) outlawed the import all enemy goods—defined as products originating from the enemy, its colonies, or factories and occupied areas under its control. The corresponding Regulations Governing the Prohibition on the Transport of Goods to Aid the Enemy (*Jinyun zidi wupin tiaoli*) outlawed the export of goods that could be “sufficient to increase the enemy’s strength” (*zuyi zengjia diren zhi shili zhe*). Punishments for offenders include fines, penal servitude (six months to life), and even death in certain circumstances.¹⁹ In addition to limiting contact with the enemy, the blockade also served other important goals. First, it was aimed at depriving newly-established Japanese-financed “development companies” in occupied areas from accessing raw materials.²⁰

¹⁹ For the Regulations Governing the Prohibition of Enemy Goods, see JG Vol. 1, No. 19: 850-1. For the Regulations Governing the Prohibition on the Transport of Goods to Aid the Enemy, see JG Vol. 1, No. 19: 851-2.

²⁰ Two companies were the North China Development Company (*Hoku Shi kaihatsu kaisha*) and the Central China Development Company (*Kachū shinkō kaisha*). Both were holding companies that organized and financed subsidiary firms. For more details, see Boyle 1972: 102-3, 116-9.

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Second, it was aimed at stemming the hemorrhaging of specie and Nationalist currency (which could be exchanged for specie on international capital markets) that were needed to fund ongoing civilian administration and military operations.

Rulings by the Judicial Yuan (the Constitutional Court) reaffirmed the regulations' broad definitions of smuggling and their harsh punishments. In response to queries from a provincial high court and the Military Commission, for instance, the Judicial Yuan ruled that merchants, soldiers, and inspectors who sold prohibited goods to the enemy or even abetted their transport could be thrown in prison for life or executed.²¹ Reports of smugglers or soldiers being executed were common,²² but the harshness of such punishments proved limited in their deterrence. Indeed, despite the sweeping nature of the new blockade, smuggling remained vibrant during this relative lull of what scholars have termed “the middle years” of the war. As economic conditions on both sides deteriorated, shortages of almost every commodity—from daily necessities to luxury products and industrial components—proved increasingly acute. War severed trade routes and disrupted commerce; crossing battle lines in some places was a hazardous undertaking.²³ Yet even more so during this period of chaos, great profits could be earned by those who were willing to exploit emerging arbitrage opportunities. As the war’s stalemate stabilized the fronts between Free China and Occupied China, opposing forces straddling battle lines in some cases reached tacit arrangements that permitted the flow of goods regardless of their ultimate use, destination, or origins.

²¹ SJ 4:1755, Sifayuan Yuanzi No. 2053, 22 Aug. 1940. SJ 4:1802, Sifayuan Yuanzi No. 2113, 15 Jan. 1941. Both interpretations cited article 6 of the Regulations Governing the Prohibition on the Transport of Goods to Aid the Enemy.

²² One commander, for instance, telegrammed the Committee on the Economic Blockade against the Enemy that he would adopt a policy to execute all suspected smugglers. See GMD 3 107-950: Enclosure in letter from Weng Wenhao to the National Defense Supreme Commission Secretariat, 13 July 1940.

²³ Illicit trade was also initially adversely affected by war. Many Customs reports noted a significant drop in smuggling activity during the first months of the Second Sino-Japanese War.

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Opportunities for enterprising individuals and organizations to traverse the divide became increasingly numerous. As one observer of smuggling between Free and Occupied China commented: “The trade over the lines was constant, with rice, salt, and various raw materials going out; cloth, cigarettes, and luxuries coming in. A shrewd trader could make a profit of four to five hundred per cent by one trip across the front and back.”²⁴

One reason why the blockade proved so porous was that the definition of “smuggling” shifted continuously. Just as it did during the pre-1938 phase of the war, for instance, the government was still exempting certain goods from the regulations in the face of wartime exigencies. In response to a query from inspectors in the Hunan-Hubei area, for instance, the Ministry of Finance ruled that goods such as razors, scissors, hair clippers, and rubber solution for tires could be imported regardless of origins.²⁵ The exemptions were also made in restricting the enemy’s access to goods from Free China. Upon the receipt of intelligence that the Japanese were purchasing large amounts of charcoal along the coast and in occupied areas, for example, the government resurrected a temporary ban on the exportation of charcoal to Zhejiang.²⁶ Prohibitions were, understandably, promulgated or rescinded in response to the vicissitudes of war, but the lack of consistency complicated the meaning of smuggling.

More importantly, the blockade’s efficacy rested primarily on defining the categories of “occupied areas and factories,” “enemy goods” (*dihuo*), and “goods to aid the enemy” (*zidi wupin*) from lists issued by the Bureau of Economic Affairs. Updated irregularly, such “enemy goods lists” (*dihuo biao*) cataloged the growing number of commodities whose movement across enemy lines were prohibited. The lists also

²⁴ Peck 2008 [1950]: 573.

²⁵ CIS No. 16, 16 Feb. 1942.

²⁶ CIS No. 61, 10 Mar. 1942.

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enumerated the provinces, prefectures, and other localities that had “been forcefully controlled by the enemy” (*bei diren baoli kongzhi*). Transportation of goods to or from such areas was also strictly banned.

Not surprisingly, identifying a prohibited commodity or what constituted an occupied area proved to be a difficult task. One major obstacle confounding effective enforcement was the ever-changing geography of the war. Maps of wartime China often show static frontlines with shaded occupied areas, but the reality on the ground was more complicated and fluid. Consider the lists cataloging occupied areas prohibited from trading with Free China. (See Table 4-3.) In addition to its sheer volume, the number of counties on the lists fluctuated with the changing fortunes of war. Some occupied localities such as the northeastern provinces in Manchuria were restricted entirely from commercial intercourse with Free China, but other localities were added to and deleted from the lists within a relatively short period of time. Further complicating the definition of occupied areas, some trade was permitted with counties on the list that bore notations such as “county seat excluded” (*xiancheng chuwai*) to reflect that they had not completely fallen to the enemy.

Other exemptions were explicitly carved out to protect economic activities in strategic locales. Shanghai, for instance, was classified as an occupied area by late 1938, but the city and its foreign concessions continued to serve as major nodes in Free China’s economic lifeline. Merchants who depended upon the Shanghai market quickly petitioned officials to relax regulations blockading the city.²⁷ In response, the government introduced a new law in March of 1939—less than five months after

²⁷ See, for instance, *SB*, 4 Feb. 1939, 14. Appeals by Zhejiang cotton merchants pointed to the fact that the city’s foreign concession remained unoccupied and stressed how the blockade adversely affected the livelihood of merchants and farmers alike.

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instituting the economic blockade—that permitted limited commercial intercourse between Free China and Shanghai. Measures to Inspect the Transport to Shanghai of Prohibited Goods to Aid the Enemy (*Jinyun zidi wupin yun Hu shenhe banfa*) exempted from the blockade Shanghai's foreign concessions and permitted the export of goods from Free China used by the city's factories and businesses of “friendly nations” (*youbang*) or required for its denizens' everyday livelihood. Businesses or factories that wished to purchase prohibited goods to sell to their counterparts in Shanghai must obtain a certificate (*zhengming shu*) from their local chamber of commerce or the Shanghai Municipal Chamber of Commerce.²⁸

These exemptions were expanded further. Whatever their status, ports like Shanghai and Hong Kong were critical to the Nationalists' war effort since they served as major sources for manufactured goods and foreign commodities—both prohibited and permitted. As a result, the government was reluctant to shut down Free China's remaining tenuous links to the coastal economy and global markets. Such reluctance persisted even after December of 1941, when Hong Kong and all of Shanghai fell to the Japanese. In response to a query submitted by officials for an update on the status of goods from the newly-occupied ports, the Ministry of Finance responded:

Since the outbreak of the Pacific War, Shanghai, Hong Kong, and other areas have fallen to the enemy. Unavoidably, factories and business in these areas have been hijacked by the enemy. Yet at the present, goods in the rear areas are in short supply. For the sake of stabilizing prices and supplying the needs of the military and the people, all goods from factories and business in Shanghai, Hong Kong, and other areas—other than those already specified by this bureau as "enemy goods"—may be imported [into Free China].²⁹

²⁸ JG Vol. 2, No. 7: 164-5. The law effectively ratified the new policy that had been adopted the month before. See SB, 28 Feb. 1939, 9.

²⁹ CIS No. 82, 26 Mar. 1942.

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In another ruling, the Ministry of Finance ordered officials to continue permitting goods carrying national products certificates (*guohuo zhengming qingdan*) issued by the Shanghai Chamber of Commerce to pass—even after the city’s fall to the Japanese.³⁰ Unfavorable wartime circumstances forced the government to adopt pragmatic measures that met desperate needs but created (and enlarged) more holes in the blockade.

Tracing goods from enemy-controlled factories was a harder task still. The government publicized the identities of enemy-controlled businesses and issued lists that included the brand names or trademarks of products from those firms.³¹ In theory, such lists were compiled to help inspectors identify enemy goods. In practice, their efficacy was limited. First, some products from enemy-controlled factories did not actually have a brand or trademark. As a result, the enemy goods lists simply listed the trademark (*shangbiao*) of these products as “unknown” (*buxiang*), which, one could imagine, was of very little help to inspectors. Second, the dizzying array of brands produced by a single company or factory made it difficult for anyone to keep track of what came from where. For instance, the China Match Company (Da Zhonghua huochai gongsi)—once state-owned but now Japanese-controlled—alone produced more than seventy brands of matches from its Shanghai factories.

Further compounding the confusion was the fact that certain products or brands had multiple points of origin. Guben, a popular brand soap owned by the Five Continents’ Company, was such a product. While the Guben soap produced by the Japanese Fats and Oils Company’s (Nippon yushi kaisha) factory in Shanghai’s Xujiahui district was strictly banned, the Guben soap produced by the Five Continents’ new

³⁰ CIS No. 102, 14 Apr. 1942.

³¹ See, for instance, the government’s announcement in *SB*, 11 July 1939, 10.

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temporary factory in the city's foreign concession was specifically excluded from the prohibition. Products from the Shenxin Cotton Spinning Company (Shenxin fangzhi gongsi) were another case. Fifty-two of the company's brands produced by five Shanghai mills under enemy control were prohibited from import. Yet the brands produced by the company's other mills were permitted for import.³²

Not surprisingly, these complex and ever-changing classifications proved difficult to enforce, and problems with the blockade became quickly apparent. A government investigation team visiting the frontlines, for example, reported the problems of local inspectors faced in identifying goods from enemy-controlled factories. Cotton textiles or fabric were especially vexing for inspectors since they often did not carry a trademark or brand name identifying their origins.³³ In a special issue on “eradicating enemy goods” (*genjue dihuo*), the government-sponsored publication *Zhan Di* (“Battlefield”) presented a series of articles that laid out the rationale behind the new regulations as well as ongoing problems with their compliance. The articles made an appeal to nationalist sentiment by pointing out the harm done by smuggling to the war effort and exhorting: “Compatriots, wake up! Everybody, don’t buy enemy goods for now!” Directing their ire primarily at “treacherous merchants” (*jianshang*), the articles also warned of the draconian punishments for evading the blockade by reprinting the prohibitions on trade with Occupied China in their entirety. Despite the tough talk, however, the articles betray a sense of anxiety in their descriptions of the blockade’s inability to stem the tide of smuggled goods. One author who visited the frontlines in northern Henan witnessed

³² JG Vol. 2, No. 22-21: 541-2.

³³ Duidi jingji fengsuo weiyuanhui 1941: 56, 63.

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case after case of ordinary people (“blind to righteousness”) trafficking smuggled goods and admitted that enforcing the blockade was “truly one of the most difficult [tasks].”³⁴

Indeed, the new restrictions stimulated a number of creative ways to circumvent the blockade. One practice that particularly confounded inspectors was misrepresentation, a long-time problem that became more widespread after the outbreak of hostilities.³⁵ Enemy goods or goods from occupied areas were oftentimes simply repackaged or relabeled to fool inspectors who already labored under the difficult task of keeping track of the ever-growing list of prohibited products. As soon as a commodity entered the enemy goods list, one warzone commander noted, “it was also not difficult for the enemy to make superficial changes [to the packaging] as the situation demanded.”³⁶

So common was the practice, in fact, that whole industries emerged and thrived in repackaging goods from abroad or Occupied China for sale in Free China. Many repackaged goods came from Shanghai and Hong Kong, which retained links to foreign markets as well as the industrial capacity to repackage high volumes of goods during most of the war. Regulatory loopholes made Hong Kong a particularly attractive venue for this business since Customs regulations did not require importers from the colony to declare their products’ true origins. Already a longtime transshipment hub between China and the rest of the world, Hong Kong during wartime experienced a sizeable influx of goods manufactured in Japan and other prohibited areas that were eventually

³⁴ ZD, No. 4, 1940: 25-42.

³⁵ See Gerth 2003.

³⁶ GMD 3 107-942.6: “Opinion on the blockade against the smuggling of enemy goods” (*Chajin dihuo zousi yijian*) from Gu Zhutong to Weng Wen-hao, undated. Enclosure to letter from Weng Wen-hao to Chiang Kai-shek, Chairman of Committee on Military Affairs, 30 Mar. 1940.

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repackaged and re-exported to Free China.³⁷ Prohibited goods were laundered through Hong Kong in other ways too. Japanese cotton yarn, for instance, was repackaged in Shanghai and shipped to factories in Hong Kong. Manufacturers obtained national products certificates verifying the “Chinese” origins of their piece goods before shipping them to markets in Free China and Overseas Chinese communities in Southeast Asia. After such practices came to light, local guilds temporarily suspended issuing the certificates, although a chairman admitted: “Currently, because sources of cotton yarn are mixed up, distinguishing [their origins] is truly not an easy task.”³⁸

The repackaging industry was not confined to the two coastal ports, given the potential for profit. Examples from other parts of China abound. In the interior, areas near the frontlines hummed with this activity. Counties around Wuhan, for instance, repackaged goods from the occupied city and shipped them up the Yangzi for sale at Shashi and beyond.³⁹ Along the Anhui-Henan border, goods from occupied areas were stamped with labels such as “Jardine, Matheson & Co.” to take advantage of the exclusion of English goods in the blockade. Such goods were themselves smuggled into central and southern China.⁴⁰ Along the coast, smuggling was also active with the retreat of the Customs’ preventive fleet. The island of Shenjiamen off the coast of Zhejiang, for instance, emerged as a major transshipment center during the war. A longtime haven for

³⁷ As Cheng (1956: 71) notes, Hong Kong’s share of imports into Free China increased from 4.7% in 1938 to 13.8% in 1939, 40.2% in 1940, and 58.3% in 1941. This increase, of course, was overdetermined by the fall of many coastal ports to the Japanese as well as disruptions from the hostilities.

³⁸ SB, 18 Mar. 1939, 5. “National products” (*guohuo*) were classified on a sliding scale depending on the national identity, source, or ownership of capital, management, raw materials, and labor. For more details, see Gerth 2003: 196-7.

³⁹ GMD 3 107-950: Enclosure in letter from Weng Wenhao to the National Defense Supreme Commission Secretariat, 19 Apr. 1940.

⁴⁰ DJQB No. 3, 1 July 1939, 1: 195. “Jardine, Matheson & Co.” was stamped in the company’s Chinese name, *Yingshang Yihe yanghang*. An investigation team would report a few years later that the Henan-Anhui border was “full of repackaged enemy goods.” See GMD 3 107-950: Enclosure in letter from Weng Wenhao to the National Defense Supreme Commission Secretariat, 13 July 1940.

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pirates and smuggled goods, the island did a thriving business repackaging cigarettes, piece goods, and sugar. Various products were purchased from Shanghai's "fish market" (the euphemistic label applied to this illicit bazaar for fishermen), relabeled on the island to disguise their origins, and shipped onboard fishing vessels heading to parts of Free China.⁴¹

The widespread nature of these cases suggests that, while the blockade was often circumvented, it was effective enough to warrant all the effort in repackaging goods for transport to Free China. Nonetheless, while some traffickers made just enough effort to obfuscate their products' true origins, they stopped short of completely erasing their products' foreign appeal. One brand of soap, bearing the Chinese characters "*Bayā'er xiangzao*" and featuring two fashionable Chinese women, for instance, was classified by the Bureau of Economic Affairs as an enemy good and subsequently prohibited from import into Free China. While there were no indications of its factory's name and address, each bar of soap carried an advertisement—in English—declaring that it was made with unadulterated minerals selected through the latest foreign artisanal and scientific methods. Further raising suspicions, the advertisement also noted that the soap was "most suitable for use in Japanese climate and waters."⁴² Businesses in China have long had to balance competing market demands by highlighting the indigenous origins of their products while "tap[ping] into the allure of the foreign, with its associations of power and superior quality at a lower price."⁴³ The continued popularity of products like

⁴¹ SB, 27 Jan. 1940, 8. The "fish market" is also referenced in SB, 20 Jan. 1940, 10. For the island's role as "main maritime entrepôt in the coastal smuggling trade," see also Schoppa 2011: 270-1.

⁴² CIS No. 48, 28 Feb. 1942.

⁴³ Gerth 2003: 179-80.

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Bayā’er soap shows that the “allure of the foreign” remained a potent selling point even in wartime.

Redefining the Blockade

Effectively conceding that the blockade was impractical and the shortages of everyday commodities too urgent, the Nationalists gradually relaxed restrictions before revamping them altogether. In June of 1939, the government announced new regulations that limited contraband imports to 168 items (mostly luxury or semi-luxury goods).⁴⁴ Almost two years later in May of 1942, the government further simplified the categories of prohibited goods. The Regulations Governing the Control of Importation and Exportation of Cargo during Wartime (*Zhanshi guanli jinkou chukou wupin tiaoli*) limited a much smaller category of goods from transport while permitting the rest to be imported or exported under license or without restrictions altogether. Cotton, silk, and foodstuffs including sugar, fruit, and meat were removed from prohibited lists and could now be imported freely upon payment of duties. Raw materials such as tungsten, wood oil, and tea—which the Nationalists had offered as payment-in-kind for a series of foreign loans—were permitted for export under the direction of government agencies. Luxury goods that wastefully consumed precious foreign exchange—foodstuffs such as sea cucumbers, birds’ nests, shark fins, or Japanese products such as sake and porcelain (*Satsuma ware*)—remained banned from import. Meanwhile, items deemed critical to funding and sustaining the war effort—precious metals, machinery, and foodstuffs such as rice, wheat, and cereals—remained banned from export.⁴⁵

⁴⁴ Cheng 1956: 128.

⁴⁵ JG Vol. 5, No. 13-14, 1942: 352-63.

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Most significantly, the new measures made no mention of the origin or destination of products and effectively reflected a more permissive stance by the government in trading with Occupied China. Restricting the enemy's access to critical commodities remained a priority, but the primary concern now was to relieve Free China's own dire shortages. The new policy, according to a confidential government report, was designed to deal with the shortcomings of past policies by simultaneously encouraging the import of "sorely lacking" (*qique*) civilian and military commodities while eradicating the import of luxuries and narcotics. In fact, the report goes on to note, if trading with the enemy becomes unavoidable, better to trade wood oil, hog bristles, and timber—the exchange of which would "not hurt our side or benefit the enemy"—rather than necessities such as grains, precious metals, and strategic raw materials.⁴⁶

The definition of smuggling was thus transformed once more. As Felix Boecking argues, "the distinction between licensed and unlicensed trade is more meaningful than that between trade and smuggling" when analyzing the nature of Sino-foreign trade.⁴⁷ With the promulgation of these new, more permissive policies, this distinction became further blurred. More than ever, smuggling was now a function of a complicated calculus that had to consider the category of the commodity, payment of duties, and the identity of the buyer and seller.

The about-face in official attitude towards smuggling could be seen in a 1941 article "Developing the Work of Counter-Smuggling" ("Zhankai fan zousi gongzuo"). The article came from none other than the magazine *Zhan Di*, which had published the abovementioned special issue with articles denouncing smugglers and "treacherous

⁴⁶ Zhongyang diaocha tongji ju 1943: 77-8.

⁴⁷ Boecking 2011b: 294.

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merchants” a mere year earlier. Opening with the rhetorical question, “What is counter-smuggling?”, the article proceeded to explain how the new government policy was designed to mobilize the “patriotic feelings” (*aiguo xin*) of merchants and smugglers and thereby break the enemy’s blockade. Aroused, the people and “patriotic merchants” (*aiguo shangren*) of occupied areas would help guerrilla forces “rescue” (*jiu*) urgently-needed materials for transport into Free China. Aware that counter-smuggling and smuggling “employ the same methods and take the same form,” the article takes great pains to differentiate the two by pointing out how the latter is primarily conducted by “merchants who wish to satisfy their selfish demands and go against the interest of the nation’s people.” After ruminating on the efficacy of various tactics to break the enemy blockade (e.g. bribing soldiers) and warning of the need to strictly supervise existing smugglers in conducting counter-smuggling activities, the article concludes with the following statement:

At present, the air of smuggling has filled the entire country. Supposing we can genuinely make use of smugglers to break through the enemy's blockade and execute counter-smuggling activities, not only can we obtain essential goods and trade non-essential goods for foreign exchange, we can also solve the serious problem of smuggling currently affecting public finances.⁴⁸

In other words, given the prevalence of smuggling already, the government might as well turn the problem into a potential solution to solve widespread shortages and thereby help the war effort.

Not coincidentally, during this phase of the war, factions within the Nationalist government also expanded their own smuggling operations. Chiang Kai-shek’s spymaster Dai Li, in particular, operated an extensive smuggling network through official

⁴⁸ *ZD*, No. 27, 1941: 21-3.

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agencies such as the Transport Control Bureau (*Yunshu tongzhi ju*), the Supervisory Office (*Jiancha chu*), and the Smuggling Prevention Bureau (*Jisi shu*). These organs in turn collaborated with businesses in Occupied China—including those with ties to the Japanese—to move sorely-needed commodities into Free China. The profits earned from this traffic lined the pockets of its operators, but they also funded the Nationalists' intelligence and military operations.⁴⁹ The government's entrance into the clandestine trade further underscores how the boundaries between the legal and the illegal were blurred or even erased during wartime.

Finally, changes in policies also coincided with the breakup of the Customs. Again, the agency had already suffered serious constraints on its operations since mid-1937, but its institutional integrity came under severe stress when the outbreak of the Pacific War in December of 1941 removed all implicit Western protection it enjoyed. Japanese forces quickly captured many stations at major ports including Shanghai, Guangzhou, and Tianjin. The so-called “Bogus Customs” (*Wei Haiguan*) was now staffed with Japanese officials at key senior posts and reported to the Wang Jingwei government. Meanwhile, Customs officials who were able to make their way to Free China or stations that had not fallen to the Japanese formed the core of the reconstituted Customs that reported to Chongqing. The Nationalists charged the Customs to open new stations in the interior and collect the wartime consumption tax (*zhanshi xiaofei shui*), effectively reviving the *lijin* tax that was abolished nearly a decade prior. Combined with

⁴⁹ For more details on Dai Li's wartime smuggling networks, see Wakeman 2003: 320-9 and Wakeman 2004: 116-49.

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its breakup and the rise of competing agencies, the Customs “lost its primacy among revenue-policing and anti-smuggling organizations during the war.”⁵⁰

Defying the Economic Blockade

Protecting and Releasing

In addition to exploiting the confusion over the ever-shifting ontology of enemy goods or definitions of occupied areas, would-be smugglers defied the economic blockade in other ways. The Committee on the Economic Blockade against the Enemy (*Duidi jingji fengsuo weiyuanhui*), upon dispatching teams of investigators to various warzones to ascertain the efficacy of the blockade on behalf of the central government, uncovered numerous instances of regularized commercial traffic crisscrossing the frontlines. Investigators still pointed to “treacherous merchants” as the major culprits of this illicit trade, but as they discovered, the primary facilitators were actually local inspectors and soldiers charged with enforcing the blockade.

According to the writer Wu Yuxuan, the smuggling problem in warzones could be broadly classified into several categories, including what he called “protecting” (*hu si*) and “releasing” (*fang si*). Often overlapping or even indistinguishable, these practices had their prewar antecedents, but according to Wu, they became especially widespread and common with the retreat of central governmental authority and the emergence throughout China of local armies, puppet regimes, and other bandits that filled the resulting power vacuum. “Protecting” referred to the practice of armed groups escorting smuggled goods heading in or out of Free China. The deterioration of public order and

⁵⁰ Boecking 2011b: 298. For more on the Customs’ breakup, see Bickers 2008.

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attendant uncertainties during wartime necessitated armed protection for transport,⁵¹ and many groups including guerilla armies, demobilized soldiers, local bandits, and village defense teams were able to offer such protection. A government intelligence report commented, in fact, that large-scale smuggling (*da guimo de zousi*) during such chaotic conditions was possible only with armed escorts.⁵²

Even Nationalist soldiers jumped into the business. Numerous pronouncements from the government warning of harsh punishments were directed against “unworthy government soldiers” (*buxiao guanbing*) who employed their weapons and leveraged their official status to collude with smugglers.⁵³ Such redoubtable convoys were well-equipped with weapons ranging from small arms to machine guns to even cannons. Not surprisingly, clashes with Customs patrol teams, soldiers, or other officials trying to enforce the blockade were not unheard of. In one instance, Chiang Kai-shek himself had to issue an order to commanders in the Four Counties area (Siyi) near the Pearl River Delta to crackdown on government soldiers working with smugglers.⁵⁴

An episode relayed by a reporter vividly illustrates the increasingly brazen nature of smuggling during wartime. To counter bandits stationing themselves along roads forcibly collecting “transit fees” and to protect their people from harassment, a village north of the Hong Kong border sent its self-defense teams to guard certain passages and look out for smuggled Japanese goods. One day, a team saw an approaching group of thirty shouldering heavy loads of goods accompanied by two men in police uniforms. When the self-defense team stopped the caravan, one of the policemen roared: “You dare

⁵¹ Stories of merchants or travelers being attacked by pirates or other bandits were not uncommon. See, for example, *HZ*, 18 Dec. 1940, 2:1.

⁵² DJQB No. 5, 1 Dec. 1939, 2: 64-5.

⁵³ See, for instance, *SB*, 6 June 1939, 6; 24 June 1939; and 22 Aug. 1939.

⁵⁴ *HZ*, 25 July 1940, 2:1.

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to come inspect my stuff? I'll tell you—this is all smuggled goods!” Whereupon the thirty carriers pulled out their guns and began firing. Completely outnumbered, the team retreated with one member killed and two seriously injured.⁵⁵

Threatening violence helped ward off would-be challengers, but actual violence was costly in resources and manpower and also attracted unwanted attention. Some smugglers thus looked to other methods to manage and protect their businesses. Consider the case of Huang Keng. Once a “hoodlum without an honest profession,” Huang eventually rose to become the head of a major syndicate in Guangdong during the war. Employing more than a thousand carriers and almost five hundred armed men, Huang’s organization trafficked a litany of prohibited commodities between Guangdong, Guangxi, and the French concession of Guangzhouwan—from valuable bullion to desperately-needed foodstuffs to strategic raw materials. Guangzhouwan was a particularly important pivot in Huang’s far-flung operations. A smuggling haven even before the war, the concession enjoyed some relief from hostilities due to French neutrality and, like Shanghai and Hong Kong, served as an important conduit for foreign trade.

Huang eliminated many rivals in his rise to the top, but like other enterprising smugglers, he also partnered with other parties to leverage each side’s comparative advantages and add a veneer of legitimacy to his operations. Partners from mercantile and gentry circles, for instance, provided business connections as well as capital, including a three-story hotel that served as the organization’s headquarters and place of entertainment (complete with gambling and prostitution) for “guests” who filled orders for smuggled goods. Huang’s business partners even supplied a steamship (*Da baoshi* or “Big Jewel”) that shuttled between Hong Kong, Guangzhouwan, and India loaded with

⁵⁵ SB, 19 Dec. 1938, 3.

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goods. Meanwhile, local government officials and military officers offered political cover as well as legal sanction, such as transit passes that permitted unfettered movement of goods across the region and effectively “legalized” the organization’s activities. “By day, they were a government army,” recalled one official familiar with the case, “[but] by night they were a smuggling protection convoy.” The scale of Huang’s operations became so notorious that Chongqing finally issued secret orders in late 1941 to a local military commander to put an end to them. Although Huang was eventually arrested and executed, some of his business partners emerged from his fall unscathed, and smuggling in the region continued unabated.⁵⁶

In contrast to “protecting,” which sometimes led to unwanted clashes, “releasing” required the full cooperation of authorities. Referring to the practice of inspectors, soldiers, or others who controlled checkpoints permitting the passage of smuggled goods, releasing exemplified the devolution of the central government’s authority during the war. As the Customs was being progressively pushed back to its traditional jurisdiction at treaty ports at the same time that the war’s frontlines moved into the interior, enforcement of the blockade and responsibility for inspection fell to local governments, chambers of commerce, and guerrilla armies.⁵⁷ Without direct control over inspection, the government was well aware of the potential for abuse. The 1938 regulations creating the blockades contained several clauses reflecting this awareness. Releasing, “harboring”

⁵⁶ Chen 1980: 234-46.

⁵⁷ See the laws creating the 1938 blockade.

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(*baobi*), or any type of fraud committed by a local official responsible for inspection was declared punishable by life imprisonment or even death.⁵⁸

The most common manifestation of releasing was bribery of inspectors. In some instances, the practice of paying off inspectors became so routinized that it might be more accurate to label it a form of taxation rather than as bribery. Government investigators reported on soldiers stationed at checkpoints along the Yellow River who were accepting payment from fishermen in exchange for passage of their cargoes of prohibited goods.⁵⁹ An American official reported that certain Nationalist military officers stationed on the quiet frontlines had become wealthy by taxing smugglers who were shuttling between both sides.⁶⁰

In some cases, inspectors issued or sold various types of official passes. In addition to the aforementioned transit passes, other permits include domestic sales permits (*neixiao zheng*) and disbursement permits (*shusan zheng*). Domestic sales permits were issued to facilitate the sale of commodities that could earn foreign exchange.⁶¹ Disbursement permits were issued by local governments to ostensibly help scatter and store goods that might otherwise be bombed or seized by the enemy. But they often ended up in the hands of smugglers who used them to import, export, or re-export prohibited or restricted commodities.

⁵⁸ See Article 15 of the Regulations Governing the Prohibition of Enemy Goods and Article 7 of Regulations Governing the Prohibition on the Transport of Goods to Aid the Enemy. It should be noted that “harboring” (*baobi*) was a broad category that was sometimes used to refer to protecting.

⁵⁹ GMD 3 107-950: Enclosure in letter from Weng Wen-hao to the National Defense Supreme Commission Secretariat, 13 July 1940.

⁶⁰ Peck 2008 [1950]: 573.

⁶¹ Wu (1941: 30) employs the example of the southern Guangdong village of Meilü to illustrate his point. The village obtained permission and domestic sales passes from the Ministry of Finance to export its timber, and nearby localities quickly sent their timber to Meilü for export.

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Low-level venality was not the only driver behind the practice known as releasing. As noted in previous chapters, preventing smuggling had always been a low priority for many local governments, given that import duties accrued to the central government. The devolution of fiscal authority during the war, however, recasted the fight against smuggling as an opportunity for local governments to alleviate their own dire financial conditions. One province, piggybacking on the national government's regulations prohibiting the import of enemy goods, promulgated its own rules regarding the inspection of imports and exports. Ostensibly implemented to "stamp out smuggling and ensure that no military or consumer products flowed to the enemy," the inspections served another purpose. The province levied an "inspection fee" on all goods to create a new income stream and make up for the wartime loss of tax revenues on behalf of its counties.⁶² Elsewhere, in response to acute food shortages, local military officials permitted smuggling as long as smugglers included grain in their shipments.⁶³

The fight over revenues was intense. One county chamber of commerce reported to a visiting investigation team that the coast of Guangdong was full of inspection or tax collection stations established by various agencies vying for a share of revenues—an Excise Tax Bureau, Business Tax Bureau, provincial Anti-Smuggling Bureau, Special Tax Bureau, and local military checkpoints.⁶⁴ The predation became so bad in certain instances that calls emerged for the central government to reassert its taxing monopoly. One Customs station in an unoccupied part of Guangdong reported that local merchants

⁶² Lu 1940: 40-1.

⁶³ GMD 3 107-950: Enclosure in letter from Weng Wenhao to the National Defense Supreme Commission Secretariat, 29 July 1940. Such initiatives echoed policies adopted by the early Qing court, when Siamese merchants (or their Chinese partners) were permitted to offer "tribute" as long as they included rice in their shipments so as to relieve food shortages along the southeast China coast. See Viraphol 1977.

⁶⁴ Duidi jingji fengsuo weiyuanhui 1941: 48.

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had expressed interest in the agency reopening one of its stations because “all sorts of ‘Inspection Parties’ and soldiers [were] making prey on goods coming in as smuggled goods.”⁶⁵

The problem became so pervasive that the Military Commission (and Chiang Kai-shek) had to order both the Ministry of Finance and the Ministry of Military Administration to introduce new regulations forbidding the practice. Promulgated in 1942, the Rules Prohibiting the Release of Smuggled Goods on Payment of Duty (Jinzhiduiyu zousi huowu zhengshui fangxing banfa) stipulated that seized contraband was not to be passed in lieu of payment under any circumstances. Other commodities that were supposed to be under government control—such as foreign exchange, narcotics, and materiel—were to be handed over to agencies responsible for their disposal in accordance with existing regulations. Instructions accompanying the rules from the two ministries stated that while evading restrictions on trafficking contraband was considered to be far more harmful than evading duty, both categories of smuggling “violated the government’s decree on the economic blockade against the enemy and produced an enormous harmful effect on wartime finances.”⁶⁶

Smuggling and Prevention under Competing Sovereignties

As the Nationalists adapted their economic policies to meet wartime exigencies, their rivals engaged in similar endeavors. The Japanese instituted their naval blockade of coastal China in 1937, while the puppet regimes in North and Central China implemented their own economic blockades by late 1941. The puppet regimes’ policies were similar to the Nationalists’ in that responsibility for enforcement was vested in local puppet

⁶⁵ SHAC 679-1-32566, “Luichow Semi-official, 1943-1945,” Luichow SO No. 242, 23 Apr. 1943.s

⁶⁶ Caizhengbu daidian, No. 60163, 6 Mar. 1942 in CIS No. 70, 16 Mar. 1942.

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provincial and county governments. These local governments, in turn, established their own “economic blockade committees” (*jingji fengsuo weiyuanhui*). Generally, food and material vital to the (Japanese) war effort were prohibited from export to Free China, but luxury items, narcotics, and anything else that would be exchanged for Nationalist currency were permitted.⁶⁷

Differences in regulations and enforcement—combined with shifting battle lines and conflicting claims to legitimacy among the belligerents—blurred the definitions of legality. Some merchants sought diplomatic protection for their businesses. Some Chinese steamship companies, for instance, relied on a prewar practice to secure safe passage: paying hefty fees to their Western counterparts to help them register their vessels as foreign. “Able then to fly a foreign flag, the ships would have some presumed immunity from seizure and detention by the Japanese navy.”⁶⁸ Other merchants employed more primitive tactics. To advertise different allegiances, vessels flew the national flag in Free China but flew the five-colored puppet regime flag in Occupied China.⁶⁹ Others deftly exploited competing sovereignties to move their goods. Fishermen and coastal merchants, for instance, purchased transit passes from the puppet Shanghai municipal government, which meant they had legal sanction to dock at other occupied ports. In addition to tapping a new revenue stream, the sale of passes also helped the new government legitimize its authority. Nationalist military officials, meanwhile, reported that these merchants were the primary carriers of smuggled goods

⁶⁷ For policies by North China puppet government, see Zhongyang diaocha tongji ju 1943: 54-62. For policies by the Central China puppet government, see Zhongyang diaocha tongji ju 1943: 62-5. According to the report, controls in North China were more effective than those instituted in Central China.

⁶⁸ Schoppa 2011: 261-2. Such protection, of course, became more difficult to secure after the outbreak of the Pacific War in 1941.

⁶⁹ SB, 26 Apr. 1940, 10.

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between Free and Occupied China due to their unfettered mobility.⁷⁰ Smugglers who had long been active in the Pearl River Delta also obtained transit passes from Japanese military authorities in Guangzhou or consular officials in Hong Kong and rerouted supply networks through occupied areas.⁷¹

Intelligence reports were replete with cases of merchants being subcontracted by the Japanese or their proxies to procure raw materials and foodstuffs. For violating the blockade by trading with the enemy, such merchants were accordingly labeled as smugglers or even traitors by the Nationalists. Merchants rushed to meet the military needs of the enemy by purchasing tungsten, scrap metal, hemp, and precious metals from the interior and shipping them to Hong Kong for sale to Japanese buyers. This pattern of goods moving between battle lines only grew more extensive as the war dragged on and economic conditions deteriorated. In fact, the Japanese came to rely more and more on the services of commercial agents to procure essential commodities for their troops and occupied areas. In the port of Shantou in Southeast China, for instance, acute shortages and limited military reach forced the Japanese to hire local merchants to purchase grain and tungsten from nearby counties.⁷² Further north around occupied Xiamen, merchants did brisk business purchasing grain from the unoccupied rural interior in exchange for high-value narcotics. To protect their shipments, the merchants engaged the services of the local military and police.⁷³ Besides foodstuffs, the Japanese also hired Chinese merchants to purchase from the interior raw materials such as resin, quicksilver, and

⁷⁰ SB, 13 July 1939, 10.

⁷¹ SB, 18 Mar. 1938, 5.

⁷² DJHB No. 58, May 1944, Qingbao 2.

⁷³ DJHB No. 63, Oct. 1944, Qingbao 4.

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tungsten—all of which were important components in war industries but whose export was prohibited without explicit permission from the Nationalist government.

One group that proved particularly adept at playing all sides of the conflict and exploiting China's competing sovereignties during wartime were the “puppet pirates” along the Zhejiang-Fujian coast. So-called for their collaboration with the Japanese and puppet regimes, the puppet pirates were a diverse lot who performed a variety of interrelated functions in governance and commerce. One role they played was tax collector. The pirates were deputized by the Japanese and the Wang Jingwei regime to collect taxes on goods destined for Free China at several designated stations on islands off the coast. In addition, they operated their own profitable trade in narcotics and other commodities.

The puppet pirates also played the role of armed escort for merchants who needed to move their goods past battle lines. When the Japanese naval blockade early in the war severed direct transportation routes between Shanghai and Ningbo, merchants turned to the pirates for assistance to smuggle cigarettes and sugar.⁷⁴ When the puppet regime imposed new restrictions on trade with Shanghai, merchants from Zhejiang and Jiangsu fanned across the city's suburbs and hinterlands to purchase cotton. To ship their goods to Wenzhou, they engaged the services of the pirates despite the high cost of transport.⁷⁵ Finally, pirates collected tolls to facilitate the passage of shippers, travelers, and merchandise along the coast. Steamers from Shanghai loaded with consumer goods

⁷⁴ SB, 24 Dec. 1938, 11. Such shipments, of course, paid no duties. In one instance, a convoy of more than twenty ships each unloaded a thousand bags of sugar at Ningbo. Losses in revenues were estimated to be in the hundreds of thousands of yuan.

⁷⁵ DJHB No. 54, Jan. 1944, Qingbao 1-2.

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called regularly at islands like Shenjiamen, where they were met by Fujianese merchants from the south who paid a hefty fee to the pirates for the passage north.

The line separating protection from predation was quite thin, of course, given that the pirates certainly contributed to creating the demand for their services. Yet as the social scientist Charles Tilly reminds us, the definition of a racketeer—“someone who creates a threat and then charges for its reduction”—applies with equal accuracy to the definition of a state. States, as Tilly contends, also effectively behave as rackets by protecting their citizens from both external threats of war and internal threats of coercion that they themselves create. Indeed, states seek to “monopolize the concentrated means of coercion” by eliminating competing sources of authority and offering protection in exchange for taxes.⁷⁶ As the Nationalists’ monopoly on regulating, taxing, and policing trade was shattered by the war, the pirates and other parties effectively filled the void created by this retreat of central authority. The historian Alan Karras has rightfully sought to rectify the conflation of smugglers with pirates in the popular imagination. The former frequently employed violence (or at least the threat of violence) in challenging the existing socioeconomic order. The latter worked clandestinely, seeking to elude discovery and refraining from any violence to call attention to their activities.⁷⁷ With the absence of central state authority, however, the distinction became quite blurred, as smugglers needed to employ violence to protect their business.

In any case, despite their collaboration with the enemy, the puppet pirates and other smugglers held more ambiguous attitudes regarding the significance of their actions. As one American observer reported on his conversations with them:

⁷⁶ Tilly 1985.

⁷⁷ Karras 2010.

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The trade affects the view of the people engaged in it. Some frankly hope the war will continue so that their trade will not be interrupted. Others are in the business because the Chinese Government has asked them to go into it. Most consider themselves loyal Chinese, trying to help get needed materials into China. They feel that China gets more benefit from Japan and that they are playing Japan for a sucker.⁷⁸

It is tempting to dismiss such testimonies as self-serving justifications, but the attitude of these traders—"they don't like to be called smugglers," wrote the observer—also highlights the complex moral calculus of smuggling during wartime. As we have already seen, wartime shortages and economic deterioration adversely affected everyday life and the overall war effort. Regulations were steadily relaxed until "smuggling" effectively meant only unlicensed trade in a handful of commodities or evasion of duties. Moreover, smuggling was no longer viewed exclusively as a social menace, acquiring new meanings in the popular imagination and official discourse. Trading with the enemy, while still offensive to nationalist sensibilities and potentially harmful to the war effort, was practiced by almost everyone—guerrilla armies, merchants, peasants, and the Nationalist government itself. Trading with the enemy was practiced even by the Communists, whose wartime behavior has often been favorably compared to the Nationalists' by contemporary observers and historians alike.⁷⁹ Was it really "smuggling" when everyone was doing it?

Conclusion

Wartime exigencies and uncertainties led the Nationalists to adopt a range of inconsistent and contradictory policies that produced a host of unintended consequences

⁷⁸ State Department, doc. 893.00/15300, encl., 26 Feb. 1944, "General Report on the Fukien Province," 5-7.

⁷⁹ Lai (2011), for instance, shows how the CCP in Shandong during the war traded with the Japanese army and navy under favorable terms through exchange rate manipulation. So important was this trade that it came to constitute the primary source of the CCP's income and laid the fiscal foundations for the CCP's postwar victory.

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for smuggling and its suppression. Tighter central control over the wartime economy, designed to make better use of scarce goods, exacerbated the shortages that only smuggling could alleviate. Extensive economic blockades aimed at severing ties between belligerents created new gaps for everyone to exploit—which in turn created tighter interdependence between Free China and Occupied China. Depending on the time, place, and commodity, trading with the enemy might be strictly banned, tacitly permitted, or actively encouraged. Under such conditions, smuggling underwent so many redefinitions that it lost its signifier as a crime altogether.

Wartime smuggling was more than just a product of ineffectual political leadership or corruption. Trading with the enemy, after all, was a common practice in conflicts throughout history, and the Nationalists' wartime experience was no different in that regard. Moreover, the smuggling that we have seen in previous chapters exploded during the war with the retreat of central authority and competing sovereignties that made smuggling difficult to define, much less regulate.

Finally, this chapter has illustrated the ways smuggling mediated the destruction and disruption wrought by war. Although he was referring to the impact of war on the coastal economy of Zhejiang, Keith Schoppa's observation is applicable to many parts of China: "War displaced and transformed the prewar trading system's space, making proximate areas in reality 'hinterland' and distant areas 'near.' War destroyed the regional urban hierarchy, making small fishing villages more essential to the continuation of the system than cities and county seats[.]"⁸⁰ War did indeed remake the Chinese economy, but as this and previous chapters have shown, smuggling continued to connect

⁸⁰ Schoppa 2011: 281.

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supply and demand in ways that mapped onto channels and extended practices from before the war.

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Table 4-1
Major Wartime Trade Regulations

Date of Promulgation	Regulation
August 1937	Provisional Code Governing Punishments for Supply of Foodstuff to the Enemy (Shiliang zhidi zhizui zanxing tiaoli): Sale of foodstuffs to enemy punishable by death. Large-scale export of foodstuffs to be considered as smuggling and punishable by death.
October 1938	Regulations Governing the Prohibition of Enemy Goods (Chajin dihuo tiaoli): All goods originating from the enemy—including its colonies as well as factories and areas under its control—prohibited from import.
October 1938	Regulations Governing the Prohibition on the Transport of Goods to Aid the Enemy (Jinyun zidi wupin tiaoli): Goods “sufficient to increase the enemy’s strength” prohibited from export.
March 1939	Measures to Inspect the Transport to Shanghai of Prohibited Goods to Aid the Enemy (Jinyun zidi wupin yun Hu shenshe banfa): Exempted goods to and from Shanghai’s foreign concessions and “friendly nations” from embargoes.
May 1942	Regulations Governing the Control of Importation and Exportation of Cargo During Wartime (Zhanshi guanli jinkou chukou wupin tiaoli): Reduced number of contraband. Permitted wide range of goods to be imported and exported under license or without restrictions altogether.

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Table 4-2
Fines and Confiscations by Region, 1932-38
 (in CN\$, thousands)

Region	1932-36 Average	1937 1 st Half	1937 2 nd Half	1937 Total	1938 Total	1938 / 1932-36 (%)
North China Ports	1,935.2	975.6	560.1	1,535.8	427.9	-77.9
Yangzi Ports	181.1	35.3	40.2	75.6	159.4	-12.0
Shanghai	1,316.8	504.1	109.2	613.4	401.2	-69.5
Mid-Coastal Ports	1,026.5	182.9	64.9	247.8	187.1	-81.8
Guangdong Ports	1,700.6	879.6	554.6	1,434.2	1,224.7	-28.0
Interior Land Stations	54.8	21.9	17.8	39.7	71.2	29.9
Chief Inspection Bureau (C.I.B.)	307.8*	188.4	44.6	233.0	43.2	-86.0
Total	6,461.3**	2,787.8	1,391.5	4,179.3	2,514.7	-61.1

SOURCE: Calculated from PN (various).

* C.I.B. not established until 1936. Data from 1936 only.

** Data the average of totals from 1932-36, not the total of 1932-36 averages.

North China Ports: Great Wall Stations (1934-36), Longkou, Qingdao, Qinwangdao, Tianjin, Weihaiwei, Zhifu

Yangzi Ports: Changsha, Chongqing, Hangzhou, Hankou, Jiujiang, Nanjing, Shashi, Suzhou, Wanxian, Wuhu, Yichang, Yuezhou, Zhenjiang

Mid-Coastal Ports: Fuzhou, Ningbo, Sandu, Wenzhou, Xiamen

Guangdong Ports: Beihai, Guangzhou, Jiangmen, Kowloon, Lappa, Leizhou (1936), Nanning, Qiongzhou, Sanshui, Shantou, Wuzhou

Interior Land Stations: Longzhou, Mengzi, Simao, Tengyue

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Table 4-3

Number of Prefectures, Counties, and Municipalities by Province Classified as Occupied Areas and Prohibited from Trading with Free China, 1938-41

Province	Dec-38	Apr-39	Jun-39	Aug-39	Jan-40	Nov-40	Sep-41
Anhui	32	31	24	19	27	28	31
Fujian	2	2	2	3	3	3	6
Guangdong	9	7	10*	10*	15*	18*	23*
Guangxi	—	—	—	—	1	8	N/A**
Hebei	70	70	70	60	126	126	126
Henan	33	32	32	32	33	37	40
Hubei	28	27	30	29	29	33	33
Hunan	2	2	2	2	2	2	2
Jiangsu	43	52	52	51	51	58	59
Jiangxi	7	7	13	12	13	11	10
Shandong	52	65	65	65	73	75	77
Shanxi	57	57	58	58	66	69	83
Suiyuan	12	12	12	12	14	14	14
Zhejiang	14	14	14	15	15	17	23

SOURCE: Tabulated from JG (various).

NOTE: Dates refer to when lists from the Bureau of Economic Affairs were issued.

* Includes all counties on Hainan Island (not enumerated).

** All counties along the Sino-Vietnamese border from Longzhou in Guangxi to Lang Son in French Indochina (not enumerated).

Other occupied provinces (entire): Chahar, Heilongjiang, Jilin, Liaoning, Rehe.

Other occupied municipalities: Nanjing, Peiping, Qingdao, Shanghai.

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FIVE

Reasserting Control

State-Rebuilding and Geographies of Smuggling in Postwar China

On May 7, 1948, Customs officers boarded the steamship *Shengking* (Shengjing), which had just arrived in Shanghai from Hong Kong. A routine inspection uncovered an assortment of ordinary consumer products hidden throughout the ship's cabins—nylon stockings, woolen socks, and construction nails. None of the items had paid the required duties. Nor were they listed on the ship's manifest or even permitted for import. While no one witnessed the goods being stashed away prior to docking, suspicion quickly centered on two sailors who purportedly had access to the cabins where the goods were discovered. The officers detained the pair and transferred them with a full report of their investigation to the Shanghai Local Court. The suspects faced imprisonment if they were convicted, but the prosecutor released them less than three weeks later on May 25th after they had been further interrogated. The prosecutor's justification for the release: the absence of direct evidence and the relatively minor value of the smuggled goods involved.¹

Around the time of this incident in early 1948, the outcome of the Chinese Civil War still hung in the balance. The decisive military campaigns in North and Central China were still months away, but international and domestic attention already focused on the escalating conflict between the Nationalists and the Communists. The smuggling

¹ SHMA Q186-2-28241. For description of the incident, see Shanghai Customs Gonghan No. 3670, 8 May 1948. For prosecutor's decision, see Shanghai Municipal Court Prosecutor Non-Prosecution and Disciplinary Citation No. 3015, 25 May 1948.

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onboard the *Shengking*, by contrast, was a routine affair that merited little attention from the public. Almost every facet of the incident was pedestrian, from the goods trafficked to the suspects arrested. So too was the vector of the trafficking: steamships plying the Hong Kong-Shanghai route had been longtime carriers of smuggled goods.

Yet while the case was unremarkable, it was not altogether insignificant in shedding light on the postwar economy of smuggling. The incident encapsulates the economic currents, trade regulations, and legal framework that once again made the smuggling of ordinary consumer products profitable. This confluence was a product of forces old and new. Smuggling during the postwar era followed similar patterns from smuggling during the Nanjing Decade. On water, goods still made their way into coastal ports by steamships, motorboats, and junks. On land, they made their way into cities and villages by foot and trains. Smuggling's scale, however, was magnified by conditions carried over from wartime—namely, a shattered economy, civil strife, and fragmented authority. Moreover, the new postwar geopolitical order further complicated state efforts to crackdown on smuggling. As legal international trade in theory could only be conducted with the sanction of states, the ambiguous relations Nationalist China enjoyed with the governments of a defeated Japan and an independent Korea created opportunities for merchants unconstrained by diplomatic fictions to (re)connect supply and demand. In the face of these new challenges, the Maritime Customs—assuming its usual role policing and taxing trade—emerged from the war considerably weakened, with material assets destroyed by years of conflict and staff discipline eroded by the deteriorating economic and political situation. The agency struggled to adapt during a period when it

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was badly handicapped and had to shoulder heavy responsibilities in enforcing more expansive state strictures.

Research on the period from 1945 to 1949 has long sought to account for Communist victory or Nationalist failure.² By focusing on diplomatic intrigues and military vicissitudes, however, it is easy to overlook the ways the Nationalist regime tried to reassert its authority with the daunting challenges of reconstruction it faced. It is also easy to overlook how consumers and merchants managed to go about their everyday business and weather the economic and political uncertainties that, only in retrospect, were leading to Communist victory in 1949. In turning our attention to the Nationalists' ongoing campaign against smuggling during this period, we can capture both perspectives from above and below to explore enforcement and evasion of trade regulations in the politically and economically fluid postwar environment.

What were the drivers of smuggling during this era? How did state and merchant alike respond to shifts in domestic needs, geopolitics, and global economic currents? To answer these questions, this chapter will first examine the macroeconomic context in the years following the Second Sino-Japanese War that made smuggling a necessity for consumers and merchants and its suppression an imperative for the Nationalist government. It then turns to the contradictory picture of state control over trade through an examination of the Customs' postwar experience. One the one hand, wartime

² Historical research on the 1945-49 period could be roughly divided into three schools. Eastman (1974, 1984) is the leading scholar of the “seeds of destruction” thesis that traces the Nationalists’ eventual defeat back to the party’s inability to modernize Chinese political, social, and economic institutions during the Nanjing Decade. Johnson (1962) and Selden (1971), despite differing interpretations, both agree that Communist victory began in the countryside. Others pinpoint the postwar years as the turning point for the Nationalists. Pepper (1978) provides a political history of how the party lost its legitimacy during this period. Levine (1987) and Westad (2003) both stress the importance of battlefield contingencies. They emphasize how the scales of victory could have tipped in either direction at critical junctures of the war and how the Communists’ path to victory was neither inevitable nor smooth, given the Nationalists’ initial military superiority.

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destruction degraded the agency's postwar enforcement capabilities and limited its reach.

On the other hand, the legal reforms undertaken as part of the war on smuggling during the Nanjing Decade finally reached their fruition, permitting the agency to move into new legal spaces with support from local official and unconstrained by diplomatic arrangements such as extraterritoriality. Before concluding, this chapter will look at the postwar geography of smuggling, which was created in part by an emergent geopolitical order superimposed on existent patterns of exchange.

The Postwar Economy

Reconstruction and Revival of Wartime Controls

The end of the Second Sino-Japanese War in August 1945 was almost a pyrrhic victory for the Nationalists, who faced the daunting task of rebuilding a China devastated after years of unrelenting warfare. In addition to the many political and social challenges, the Nationalist government also faced formidable economic challenges at war's end—reconnecting the economies of Free and Occupied China, reviving war-torn agricultural and industrial production, alleviating shortages, and asserting control over territories such as Manchuria and Taiwan that were once under Japanese rule. In the war's immediate aftermath, the Nationalists adopted policies liberalizing the economy by abolishing wartime regulations rendered unnecessary by peace, including the economic embargos and other trade restrictions with Occupied China. Except for luxury goods and products from countries that did not have official diplomatic relations with China (e.g. Korea and Japan), the government permitted industrial materials for rebuilding the economy and daily necessities to be imported without prior approval. Foreign aid offered by the United Nations Relief and Rehabilitation Administration (UNRRA) was funneled into

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China by the Chinese National Relief and Rehabilitation Administration (CNRRA) duty free. By all accounts, the government believed that relaxing import restrictions would help ease shortages of consumer goods and thereby relieve inflationary pressures that have been building throughout the war.

The war-ravaged economy, however, required substantial imports to satisfy its needs. In the words of one senior-level Nationalist official, “the economy of China had been so thoroughly disrupted during war and occupation that large-scale imports of all kinds were needed to effect a postwar readjustment.” Moreover, wartime austerity created pent-up demand for consumer goods that could not be satisfied solely by domestic production. The transportation infrastructure linking coastal metropoles with their hinterlands suffered serious damage during the war and were still not operating at full capacity after the war. As a result, demand for imports had “swollen enormously” and quickly depleted the government’s foreign exchange reserves.³ Most importantly, an escalating civil war with the Communists and a still-recovering tax base forced the government to resort to deficit financing and meet revenue shortfalls through the printing press.

Together, these policies eventually created a vicious cycle that quickly led to runaway inflation, and cities throughout China experienced breathtaking leaps in prices. In Shanghai, for instance, wholesale prices surged 545% during 1946 and another 1367% during 1947.⁴ Hyperinflation eroded buying power at an alarming rate and encouraged desperate consumers to find ways to dispose of their increasingly worthless currency. While economic volatility might have benefited an “irresponsible” cohort of profiteers,

³ Chang 1958: 303.

⁴ Data calculated using wholesale price indices from Wu 1958: 160-1.

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speculators, and high-level government and military officials who leveraged their connections for personal gain, inflation's deleterious impact was felt keenly across class lines. The poor were naturally hard-pressed to keep pace with rising prices, while the middle class saw the value of its hard-earned savings erode. Shopkeepers suffered losses as profits from goods sold could not cover the cost of replacing their inventory. Civil servants, teachers, and others who lived on fixed salaries were also hard-hit by inflation.⁵ Even the rich were not immune, for they experienced "relative hardships" in buying food and indulging in leisure. "People therefore raced to buy goods—any kind of goods—before their money lost what little value it still retained. This rapid circulation of the currency added fuel to the inflation[.]"⁶

In response to the deteriorating economic situation, the government reversed course starting from 1946 by reasserting control over the economy to halt inflation. (See Table 5-1.) Besides laws punishing speculators and hoarders, the government also promulgated a series of Emergency Economic Measures (*Jingji jinji cuoshi fang'an*) in February 1947 aimed at regulating foreign trade. One measure targeted the flow of capital by prohibiting private transactions of foreign exchange and precious metals. Limiting the availability of foreign exchange, the government believed, in turn restricted the currency to purchase non-essential imports.

Another measure targeted the flow of goods by tightening permissive import policies. The Temporary Foreign Trade Regulations (*Jinchukou maoyi zanxing banfa*)—promulgated in March 1946, revised in November the same year, and made permanent in August 1947—revived wartime economic controls by reestablishing a classification

⁵ Chang 1958: 65-6.

⁶ Eastman 1984: 173.

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scheme to distinguish between different classes of imports. Machinery and other industrial equipment badly needed for postwar reconstruction could be imported with few restrictions. Some luxury goods were permitted for import provided that a 50% surtax above existing tariffs was paid. Other luxury goods such as sea delicacies, silk piece goods, and cosmetics—virtually the same items enumerated by wartime regulations—were strictly prohibited. Everything else in-between these categories—from raw materials to everyday consumer products—could be imported within quotas established by the government. The regulations established the Board for the Temporary Regulation of Imports (later renamed the Export-Import Board) to oversee imports, issue permits, and adjust quotas. The permits themselves were often allocated to various trade associations such as guilds or chambers of commerce, who in turn distributed them among different firms within their respective industries. Firms had to register with the board, apply for permits, and submit their receipts and contracts for inspection before their goods were released. To compel participation in this scheme, the government barred firms that did not register from applying for permits.⁷

The government would further shrink the channels of legitimate trade by reducing import quotas. As its supply of foreign exchange reserves was steadily exhausted, the government correspondingly reduced import quotas from US\$172 million during February to July 1947 to US\$42 million during September 1948 to March 1949—a decrease of more than 75%.⁸ Lower quotas, of course, already made importing by legal means more difficult. Yet even if import permits were available, their method of top-down allotment exacerbated imbalances in supply and demand. Large firms held a surfeit

⁷ For full text of the November 1946 regulations, see IG Circular No. 7095, 25 July 1947. For full text of the August 1947 regulations, see *CH* 1950: 516-23. For summary of the regulations, see *CH* 1950: 513-4.

⁸ Chang 1958: 333.

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of licenses that often exceeded their actual needs. Small firms and petty traders, by contrast, proved reluctant to register with the government or apply for import permits. This was especially the case for small-time merchants, like farmers who sold produce and livestock along border regions as well as owners of general stores (*zahuodian*) who stocked a general line of merchandise and did not require large volumes of any one particular import to resupply their inventories.

The Economics of Smuggling, New and Old

Nationalist officials strongly believed that preventing smuggling and stemming capital flight were critical to arresting the economy's downward spiral and reasserting state authority. A senior Central Bank of China official, for instance, commented that the "key to success or failure" (*chengbai dishi guanjian*) of the new economic regulations rested on controlling the illicit flow of goods and capital, particularly from South China.⁹ The government, however, had a difficult time enforcing the complex regulations as it struggled to contain the structural driver of inflation—i.e. deficit financing to fund the ongoing civil war with the Communists. High duties continued to drive smuggling; tariffs stayed at prewar levels until August 1948, when the government doubled or even tripled existing rates to further protect domestic industries.¹⁰ Yet it was the new controls on trade—combined with chronic shortages of goods and an unstable economy—that truly created opportunities for profit during this period. Every observer quickly detected this new shift in the economics of smuggling. As the Kowloon commissioner reported: "The main incentive to smuggling was not the evasion of payment of duty but the evasion

⁹ SB, 29 Nov. 1946, 2.

¹⁰ CH 1950: 515-6. The 1934 tariff was the last prewar revision.

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of trade controls.”¹¹ One writer noted how quotas and other restrictions on imports made the application process onerous and smuggling relatively attractive. Under such market conditions, merchants were naturally “unwilling to suffer losses” (*buyuan chikui*) and dumped their rapidly-worthless Chinese currency for badly-needed imports, thus accelerating the vicious cycle of inflation.¹²

Small or large, businesses that wanted to circumvent the restrictions had many options. One option was to purchase surplus permits that were openly traded on the market. Customs officials along the Sino-Hong Kong border, for instance, discovered that permits issued to facilitate local “traditional petty trade” quickly became “valuable negotiable documents” that were being “freely sold at a high premium and made use of in lieu of Import Licenses to cover the importation of large quantities or commercial goods[.]”¹³ Another option was to contract with small-time smugglers shuttling to and from ports such as Hong Kong.¹⁴ Merchants pooled their buying power in order to achieve economies of scale. The Guangzhou Customs, for instance, uncovered a scheme with 30 passengers on a single steamship altogether carrying 2,000 kg. (roughly 4,400 lb.) of foreign goods declared as personal luggage. Officials became immediately suspicious of the passengers’ outsized luggage and detained the goods. A subsequent investigation revealed that the entire ship was chartered by two local firms who divided the foreign goods into smaller lots disguised as personal luggage in order to evade import restrictions.¹⁵

¹¹ GDPA 95-1-1065: Kowloon SR, 1947 Annual.

¹² DB, 20 July 1948, 5.

¹³ SHAC 679 (1) 28210, Canton SR, Sep. 1947, 4, and Mar. 1948, 1.

¹⁴ Lam 1982: 34.

¹⁵ SHAC 679 (1) 28210, ‘Smuggling Reports, Canton, 1947,’ Canton SR, Sep. 1947, 2.

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Another option still was to exploit holes in the new regulatory net's geographical coverage. The new restrictions primarily targeted Shanghai, China's industrial center and the biggest consumer of foreign imports. Importers who wanted to obtain licenses had to apply directly with the Central Bank of China in Shanghai—an inconvenience (if not an impossibility) for many merchants elsewhere. Exporters meanwhile were required to surrender any foreign currencies they earned to government-appointed banks in return for Chinese *fabi*, which was rapidly depreciating in value owing to hyperinflation. To accommodate the needs of merchants, the Central Bank of China later amended regulations, permitting satellite branches in Southeast Chinese ports to issue import licenses for merchants unable or unwilling to apply in person at Shanghai.

In the meantime, many merchants conducted their business in ports exempted from the regulations or where formal state presence was limited. Importers shipped foreign goods to one port not covered by the regulations before reshipping them to another port covered by the regulations as "domestic" goods. In one instance, a group of Hong Kong merchants chartered a wartime landing craft, the *Guoquan* ("National Sovereignty"), to transport cotton yarn, radios, refrigerators, and other electrical appliances to Qinzhou, a port at the Gulf of Tonkin's northern end and not covered by the regulations at the time. The goods were then transported by land to the interior city of Nanning, where they were sorted for distribution further inland. Buoyed by the venture's success, the merchants launched another expedition by chartering the *Guoquan*'s sister-ship, the *Guochu* ("National Foundation"). This time, however, the merchants failed to evade being detected, as a Customs patrol boat caught the *Guochu*, towed it back to Hong

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Kong, and detained its entire cargo.¹⁶ So pervasive were such practices, in fact, that the government had to ban transshipments of imported goods from ports such as Guangzhou to Shanghai.¹⁷ Exporters, meanwhile, shipped their goods to frontier regions or other sparsely-populated areas without a government-appointed bank to avoid losses that came with surrendering foreign currencies for increasingly worthless Chinese *fabi*.¹⁸

These strategies of evasion were neither easy nor cheap. The Customs reported that some merchants grudgingly adhered to the regulations due to the time and cost consumed in circumventing them. Sometimes, merchants actually requested the formal presence of the Customs in their localities to affirm the legitimacy of their business activities. One firm in Dongguan (located mid-way between Guangzhou and Hong Kong), for instance, petitioned the Customs in early 1946 to reopen a local station that had been shuttered since the war. The station's closure was making legitimate trade costly. "By force of circumstances some merchants have resorted to smuggling or have acted in contradiction to law. Instances of irregularities are numerous, which are detrimental to the interest of proper merchants, who are now awaiting immediate relief."¹⁹

In other instances, local merchants whose businesses were battered by rampant smuggling actively sought the assistance of the Customs. Domestic cigarette manufacturers and guilds in Guangzhou, for example, responded to the alarming illicit influx of foreign cigarettes by organizing "temporary raiding parties" in July 1946 to raid stores and stalls peddling smuggled cigarettes. The parties were headed by Customs

¹⁶ Yeh 1987: 59-60.

¹⁷ CR, 23 Aug. 1947, 344.

¹⁸ SHAC 679 (1) 28209, Canton SR, Aug. 1946, 6, and Feb. 1947, 2.

¹⁹ SHAC 679 (1) 28209, "Smuggling Reports, Canton, 1945-1946," Canton SR, May 1946, Appendix 1.

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officers and included representatives from the local police, the provincial chamber of commerce, and the domestic cigarettes and matches guilds. The raids initially yielded “considerable” amounts of smuggled cigarettes, although their efficacy waned in the following weeks after dealers became more “clever” in evading enforcement by placing a few smuggled cigarette packets in their shops or stalls while storing the rest of their illicit inventory off-site.²⁰ Initiatives such as the “temporary raiding party” enjoyed short-lived success, but they nonetheless exemplified the increasing prevalence of cooperation between the Customs and local authorities, which too often was difficult to secure during the Nanjing Decade.

Yet despite such considerations, the calculus of smuggling still paid off, particularly from mid-1946 onwards, as inflation accelerated and encouraged Chinese consumers to spend their depreciating *fabi* for relatively more valuable imports. For many, the costs of evading trading restrictions were high, but the profits to be earned proved higher still. The impetus behind smuggling—pecuniary motivations aside—also rested on another logic. As one journalist observed in his investigative report on merchants engaged in smuggling:

Those who smuggle raw materials or even those who join armed smuggling organizations in resisting the Customs’ preventive efforts do not acknowledge they are engaged in smuggling. Instead, they call it “underground trading” (*dixia maoyi*). What they are saying is that they are not unwilling to pay customs duties. Rather, they are saying that even if they paid customs duties, the government would still not permit them to import [their goods].²¹

The interviewees’ justification for their actions could correctly be interpreted as self-serving; the same journalist who reported the incident, in fact, dismissed “underground

²⁰ SHAC 679 (1) 28209, “Smuggling Reports, Canton, 1945-1946,” Canton SR, July 1946, 1, and Aug. 1946, 2.

²¹ SB, 29 Dec. 1947, 5.

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trading” as *de facto* smuggling. Nonetheless, their attitude also highlights how strict controls once again created conflicting notions of legal trade between state and merchant. Moreover, “smuggling” was a label that still carried enough moral connotations that these merchants justified their actions as circumventing what they viewed to be an unjust law.

The Postwar Customs

Degraded Material Assets

The Maritime Customs that emerged from the Second Sino-Japanese War was a changed institution. At the top, the agency was now headed by the Inspector General Lester Knox Little, an American, and Deputy Inspector General Ding Guitang (Ting Kui-t'ang), the highest-ranking Chinese in the service. British influence declined, Japanese influence eradicated, and the agency no longer enjoyed the implicit foreign support it had before the war and during the heyday of the treaty system.²² Finally, customs duties—while still sizeable—waned in relative importance, comprising approximately 20% of central government revenue during the postwar years versus the 50% it averaged during the Nanjing Decade.²³

More consequential to the fight against smuggling was the agency’s changing arena of control and the condition of its material assets. Resumption of control and surveillance over coastal trade unfolded unevenly across time and geography after Japan’s surrender. (See Table 5-2.) From December 1941 to August 1945, coastal Customs stations had been managed by the Japanese-sponsored “Bogus” Customs (*Wei Haiguan*). The Executive Yuan initially forbade the takeover of any puppet institutions without written permission from a newly-formed, high-level government committee. An

²² For more on the tepid foreign diplomatic support the postwar Maritime Customs enjoyed, see Bickers 2008.

²³ Chou 1963: 64.

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exception, however, was eventually made for organs such as the Customs, Salt Administration, and banks to resume operations as soon as possible. As a result, Customs officials were able to quickly initiate the recovery of many formerly-occupied stations. Stations at several major coastal ports, including Shanghai and Guangzhou, resumed operations by September 1945. Deputy Inspector General Ding, who spearheaded the takeover effort with a senior staff, found the Shanghai Customs on the Bund and other offices throughout the city in good condition, with archives and most properties undisturbed.²⁴ Conditions at other offices varied. The Shantou Customs, for instance, was in a similar condition as the Shanghai Customs, with archives still well-preserved and properties in good condition.²⁵ The Shanhaiguan station at the border of North China and Manchuria, by contrast, was in complete disorder, as looters invaded its office and warehouses and made off with bicycles and petty cash.²⁶

Stations elsewhere did not resume operations until late 1945, if at all. In North China, stations proved more difficult to reopen, given that the Nationalists had no military presence in the region at the end of the war. Oftentimes, Customs officials had to wait until Nationalists and American troops secured the area before they could move in. The Qinhuangdao Customs near Shanhaiguan, for instance, did not reopen until November 1945, when American marines finally reestablished order after the Japanese

²⁴ SHAC 679 (1) 31732, “Correspondence between I.G. Chungking and D.I.G. Shanghai, 1945,” Deputy Inspector General Letter SO No. 2 to Inspector General, 15 Sep. 1945.

²⁵ GDPA 101-1-114, Memorandum from Luk Wing-kue to Huang Chih-chien, 25 Sep. 1945. In Swatow Dispatch No. 7983, 25 Sep. 1945.

²⁶ Chan I-Kan, Chinwangtao SO No. 8 to Deputy Inspector General, 3 Nov. 1945. In SHAC 679 (4) 6, “D.I.G. I.G.S. Letters to Chungking (Vol.3), 1945,” Deputy Inspector General Letter No. 180 to Inspector General, 19 Nov. 1945.

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surrendered and Soviet troops and the Communist Eighth Route Army departed.²⁷

Meanwhile, stations at the Shandong Peninsular ports—Longkou, Zhifu, and Weihaiwei—fell under Communist control. Finally, stations at smaller ports—such as Jinjiang, Hangzhou, and Suzhou—were deemed too unimportant to reopen, given that their overhead costs were “hardly commensurate with [their] minor services” and their staff was urgently needed at larger ports such as Shanghai.²⁸

Officials estimated that if prewar tariffs were to remain in place preventive work after the war required at least the same level of resources available back in 1937.²⁹ In some places, particularly ports where heavy fighting was limited, the Customs’ material assets emerged relatively unscathed. In Tianjin, for instance, one officer reported during an inspection tour in late October 1945 that wharves, warehouses, and other navigational aids “remained in the same manner as before during the war until the Japanese surrender.”³⁰ In general, however, the technical infrastructure painstakingly built during the Nanjing Decade suffered a far less fortunate fate. The vaunted coastal system of lights and network of radio towers that coordinated interdiction on land and seas, for example, were severely damaged. The Customs’ maritime fleet of preventive vessels fell from 73 in 1937 to 22 in 1946—a decline of 70%.³¹ What vessels were still in operation

²⁷ Chan I-Kan, Chinwangtao SO No. 5 to Deputy Inspector General, 6 Oct. 1945. In SHAC 679 (1) 31732, “Correspondence between I.G. Chungking and D.I.G. Shanghai, 1945,” Deputy Inspector General Letter No. 105 to Inspector General, 19 Oct. 1945.

²⁸ SHAC 679 (4) 6, “D.I.G. I.G.S. Letters to Chungking (Vol.3), 1945,” Deputy Inspector General Letter No. 195 to Inspector General, 20 Nov. 1945.

²⁹ SHAC 679 (1) 25573, “Inspectorate General of Customs: Removal of to Nanking or Shanghai, 1945-1946,” Coast Inspector’s Office to Tso Chang Chin, 22 Jan. 1944.

³⁰ Wang Hua Min to Ting Kuei-t’ang, “Memorandum on the Sea-borne Facilities and Capacity of Transportation and Shipping in the Port of Tientsin,” 8 Sep. 1945. In SHAC 679 (9) 5, “D.I.G. I.G.S. Letters to Chungking (Vol.2), 1945,” Deputy Inspector General Letter No. 105 to Inspector General, 27 Oct. 1945.

³¹ TC 1946, 55.

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were initially dedicated to the comparatively more urgent task of rebuilding the economy than fighting smuggling.

The agency made many efforts repairing damaged infrastructure and reconstituting the maritime fleet by repurchasing and repurposing surplus wartime vessels, but the agency never fully recovered its prewar strength. Not surprisingly, this degradation of material assets hampered preventive work after the war. The shortage of vessels forced the agency to concentrate patrols in smuggling hotspots such as the Pearl River Delta and leave other areas less patrolled. The Fujian coast—despite the region’s own long history as an active smuggling frontier—was one such casualty of this neglect wrought by the agency rationing limited resources in the postwar era. The Xiamen commissioner, for instance, complained that his office was often “in the dark” regarding smuggling from Hong Kong and other ports due to the lack of preventive vessels to monitor and interdict such trafficking.³² The Fuzhou commissioner readily concurred with his colleague’s grim assessment. Despite widespread rumors of smuggling in his district, his landbound officers have been unable to take action and were “tied down as they have no craft for use in investigation.”³³ If the technologies of surveillance empowered the state to “see” during the Nanjing Decade, then their destruction certainly occluded official vision in the postwar era.

Even in ports where the Customs resumed operations, preventive efforts were often geographically circumscribed and limited to wharves. Stations at strategic chokepoints or far-flung commercial routes remained closed in areas even where the

³² Amoy Commissioner’s Comments on Preventive Department SO No. 14, 14 Nov. 1947, in SHAC 679 (1) 31788, ‘Semi-official, Preventive Department, 1948,’ 21 Oct. 1947.

³³ Foochow Commissioner’s Comments on Preventive Department SO No. 14, 30 Oct. 1947, in SHAC 679 (1) 31788, ‘Semi-official, Preventive Department, 1948,’ 21 Oct. 1947.

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main office had already resumed operations. More than a year and a half after the war, for instance, many Customs stations scattered throughout the Pearl River Delta remained closed, with preventive vessels in short supply.³⁴ Raids in remote villages so common during the 1930s become less frequent as limited resources constrained the agency from projecting its reach. Finally, even as the agency had its hands full combatting the usual smuggling on land and sea, it had to reckon with a new mode of smuggling. The growing prevalence of air travel after the war forced the agency to stretch resources further to monitor smuggling by air.

Eroding Staff Discipline

In addition to deteriorating material assets in the postwar years, the Customs also faced the problem of eroding staff discipline. Relaxing enforcement for monetary gain became an increasingly attractive option for many Customs employees, who were just as adversely affected by the economy's free fall and hyperinflation's pernicious effects as the general public. Their plight is documented in the many petitions they submitted to their superiors calling for financial relief. These petitions often found a sympathetic audience. Deputy Inspector General Ding, who received one such petition from his staff in late 1945, noted that many employees who once willingly endured "hardships of life" during the war for the sake of their country were now "rather restive" on account of the rising cost of living, from daily necessities to tuition for their children.³⁵ Even when the Customs introduced measures to alleviate financial hardships—e.g. raises, loans, subsidies—hyperinflation quickly negated their palliative effects. For instance, less than four months after receiving a raise, Customs employees in April 1947 petitioned yet

³⁴ Canton SR, 1946 Annual, 12.

³⁵ SHAC 679 (4) 6, "D.I.G. I.G.S. Letters to Chungking (Vol.3), 1945," Deputy Inspector General Letter No. 257 to Inspector General, 15 Dec. 1945.

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again for an immediate adjustment of their pay and loans to help tide them over ongoing difficulties. As the recipient of the request admitted: “It is unnecessary for me to say that their financial difficulties are genuine[.]”³⁶

Under such conditions, it should not be surprising that some employees turned to leveraging their official responsibilities for personal gain. In his survey of smuggling in world history, Alan Karras notes that the suppression of smuggling has frequently benefitted the enforcers of legal commercial restrictions.³⁷ While not an uncommon problem in the agency’s long history, corruption became especially problematic in the postwar years.³⁸ Questions of ethics aside, however, corruption could be viewed as a survival strategy for frontline employees to profit from the opportunities created by the combination of stringent trade controls and unrelenting demand for imports.

One spectacular case that sheds some light on this phenomenon involved four Customs officials and more than a dozen merchants caught circumventing import regulations. The origins of the case could be traced to August 1946, when the Yifeng Import-Export Company ordered some 400 tons of sheet metal from the United States on behalf of a client. Due to delays in transportation, however, the order only arrived in Shanghai on September 1947, almost one year after the Revised Temporary Foreign Trade Regulations went into effect. Technically, the sheet metal could have been legitimately imported given that the order was placed prior to November 1946. Taking advantage of the confusion, the Customs officers overseeing the import demanded a 15%

³⁶ SHAC 679 (1) 32240, “Shanghai Semi-Official Correspondence, 1947,” Shanghai SO No. 1966, 11 Apr. 1947.

³⁷ Karras 2010: 118-20.

³⁸ A 1933 Customs raid on a firm in the Shanghai International Settlement, for instance, uncovered an elaborate scheme whereby low-level clerks produced forged official documents certifying that goods have paid the required duties. See SHAC 679 (1) 28138, “Smuggling Reports, Shanghai, 1931-1933,” Shanghai SR, July through Sep. 1933. For popular press reports, see especially: *SB*, 22 July 1933, 15; 29 Sep. 1933, 11; and 9 Jan. 1934, 11 for court verdict.

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cut of the shipment's value (roughly US\$13,360), when Mao Fengxiang, the manager of Yifeng, applied to have the sheet metal released for import. Otherwise, the officers threatened, the goods would remain under detention.

Mao conferred with his client, Lu Genquan, owner of the Lugenji Construction Company to determine a suitable amount. When Lu asked to meet directly with the Customs officers, he was repeatedly rebuffed by Mao, who wanted to preserve his advantageous role as middleman. Unfortunately for Mao and the Customs officers, Lu was an extremely well-connected individual who built many high-profile private and public buildings in Shanghai and throughout Nationalist-controlled China. He was also friendly with the Shanghai Green Gang leader Du Yuesheng and Chiang Kai-shek's intelligence chief Dai Li. As the negotiations for the goods' release dragged on, Lu requested assistance from the Baomiju (Bureau for the Preservation of Secrets), successor to the Nationalists' redoubtable wartime intelligence agency, the Juntong. The Baomiju in turn organized a sting operation to catch the Customs officers and their accomplices by furnishing Lu the US\$13,360 as payment to have the imported sheet metal released.

The sting operation uncovered other schemes to defraud the government. At least another five companies, in fact, paid the officers to have their shipments cleared for import. Subsequent investigations revealed the many tactics companies employed to circumvent regulations. One firm, the Lifengyong Company, imported 100 tons of aniline, an amount that exceeded existing quotas. Another firm, the Minfu Company, not only used a permit that originally belonged to another company, but it also imported lye instead of dyes as specified by that very permit.³⁹

³⁹ Yu 2001: 113-26.

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The merchants who evaded regulations through bribery and fraud were sentenced to prison terms of various lengths. (Lu Genquan, the purported victim of the scheme who assisted the sting, was not one of them.) The harshest penalties, however, were reserved for the four Customs officials, who were punishable by the Law for the Punishment of Corruption (*Chengzhi tanwu tiaoli*). Zhang Baohui was sentenced to life in prison. Yin Lansun, Yue Xinmin, and Zhang Yuan were all sentenced to death and eventually executed by a firing squad on October 25, 1948.⁴⁰

The incident was exceptional in its drama, participants, and outcome. Few victims of smuggling and low-level venality were as well-connected as Lu Genquan in directing the fearsome machinery of the state to act on their behalf. That the transgressors were punished so severely was also exceptional. One former Customs employee familiar with the incident recalled how the government wanted to make an example of the culprits and hence applied the harsher Law for the Punishment of Corruption.⁴¹ While the incident could be viewed as an instance of an insecure state trying to discipline its employees, it also highlights how new regulations gave frontline enforcers considerable latitude in implementation and opened numerous opportunities for profit. State permission—in the form of import permits—was transformed into a commodity to be traded and sold. The efficacy of permits frequently rests on the willingness of inspectors to enforce the parameters of that permission—e.g. what and how much could be imported. We have already seen the many ways permits could be modified or used in ways differing from their original purpose. Again, growing state regulations on foreign trade combined with deteriorating economic conditions in the

⁴⁰ For the final letters the three left for their respective families, a description of the execution, and the last words of a defiant Yue Xinmin and a resigned Zhang Yuan, see *SB*, 26 Oct. 1948, 4.

⁴¹ Yu 2001: 125-6.

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postwar era exacerbated the problem by increasing opportunities and the incentives for Customs officials to relax enforcement for personal gain.

It is difficult, if not impossible, to determine how widespread corruption was among the rank and file and the measurable consequences it had on the suppression of smuggling. Yet what is clear is that the specter of malfeasance remained very much on the minds of senior-level officials in supervising their staff. Around the time when the Lu Genquan affair unfolded, for instance, senior Customs officials took care to recognize a low-level assistant examiner who turned down a bribe offered by an importer, who apparently had his paperwork in order but wanted speedier clearance for his cargo. The affair, however, was minor and the bribe he declined paltry, amounting to CN\$300,000 or a mere CN\$2.35 at 1937 prices.⁴² The commissioner who reported the incident to the Inspector General admitted that the incident's importance was perhaps more symbolic than real: "Although the amount of bribe money offered was insignificant it would seem that the action taken by [the examiner], especially at the present abnormal time, is commendable."⁴³ Senior officials were keenly aware of how the "present abnormal time"—a euphemism for deteriorating economic conditions—understandably compromised staff discipline. Indeed, the officials' congratulatory tone and the outsized praise offered for this minor instance of integrity betray their anxieties over the corruptibility of their staff.

New Legal Framework of Enforcement

In addition to eroding staff discipline, hyperinflation also dulled another weapon in the agency's arsenal of enforcement. Fines remained the primary tool of punishment

⁴² Converted at the January 1948 Shanghai wholesale price index of 127,474.

⁴³ SHAC 679 (1) 32242, "Shanghai Semi-Official Correspondence, 1947," Shanghai SO No. 2147, 13 Feb. 1947.

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for Customs officials, but in an economy where money was rendered meaningless at breathtaking speed, financial penalties quickly lost their putative function. The maximum fine of CN\$2,000 leviable under the Preventive Law remained unchanged since the law's introduction in 1934 and proved already inadequate after years of wartime inflation by 1945. The first adjustment in fines came in August 1945, when the government permitted agencies such as the Customs to levy fines of up to fifty times the rate stipulated by law, or CN\$100,000.⁴⁴ A subsequent adjustment came more than a year later in November 1946, when fines were ratcheted up one hundred times the official rate, or CN\$200,000.⁴⁵

Yet postwar hyperinflation easily outpaced these halting increases in penalties. The maximum fine of CN\$100,000 introduced in August 1945 translated to roughly CN\$289 at 1937 prewar price levels. The subsequent adjustment in November 1946 failed to even keep up with rising prices in the intervening months, as the new maximum fine of CN\$200,000 translated to a mere CN\$38 at 1937 prewar price levels.⁴⁶ (See Table 5-3.) Not surprisingly, commissioners up and down the coast continued to pepper the Inspector General with complaints about the inadequacy of fines even after the upward adjustments. They were also not mollified by the Inspector General's pledge to secure governmental permission to raise fines yet again—this time one thousand times the official rate. The Shanghai commissioner, for instance, dismissed the new penalties as “farcical” and called for fines to be raised to at least three thousand times prewar levels

⁴⁴ IG Circular No. 6711, 23 Aug. 1945.

⁴⁵ IG Circular No. 6937, 5 Nov. 1946.

⁴⁶ Calculations made dividing the fine by the Shanghai general wholesale price index of that month as the deflator. Prices indexed at 1 from the first half of 1937.

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in order to “have a salutary effect on would-be smugglers.”⁴⁷ The Shantou commissioner went further in his complaints, calling for fines to be raised six thousand times prewar levels, given the “armed and dangerous resistance” often encountered in the course of suppressing smuggling.⁴⁸ A final adjustment in August 1948, made on the eve of the gold yuan’s introduction, raised fines up to an astounding 200,000 times the official rate, or CN\$400 million.⁴⁹ This adjustment, however, translated to only CN\$81 at 1937 price levels, highlighting yet again how hyperinflation often stayed ahead of increases by government decree.

With slow-moving regulations failing to keep pace with fast-changing economic circumstances, pressures for more flexibility in levying punishments welled from the bottom-up. As a result, many commissioners began adopting more liberal interpretations of the law and taking expedient measures. The Shanghai commissioner, for instance, supplemented inadequate fines by confiscating vessels used in smuggling and “reselling” them immediately to their former owners for a nominal sum.⁵⁰ Implicitly acknowledging the agency’s inability to offer a more effective solution, the Inspector General approved this “tentative measure” after the fact and permitted commissioners at other ports to follow their Shanghai counterpart’s example.⁵¹ More significantly, the Inspector General also approved of a Guangzhou commissioner’s aggressive enforcement of the Preventive

⁴⁷ SHAC 679 (1) 32240, “Shanghai Semi-Official Correspondence, 1947,” Shanghai SO No. 1945, 12 Mar. 1947.

⁴⁸ SHAC 679 (1) 27723, “Queries Raised re. Chinese Preventive Law, 1931-1949,” Shantou Commissioner Telegram to Preventive Secretary, 26 Feb. 1947.

⁴⁹ IG Circular No. 7352, 10 Aug. 1948.

⁵⁰ SHAC 679 (1) 27723, “Queries Raised re. Chinese Preventive Law, 1931-1949,” Shanghai SO No. 1970, 15 Apr. 1947.

⁵¹ SHAC 679 (1) 27723, “Queries Raised re. Chinese Preventive Law, 1931-1949,” IG SO to Shanghai No. 476, 22 Apr. 1947.

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Law to levy fines of up to three times the value of smuggled goods in addition to the maximum fine for infraction on steamship operators.⁵²

As officials debated the proper size of fines, they also discussed levying other legal punishments that might adequately deter would-be smugglers. Once again, the discussions centered on making smuggling a criminal offense that would warrant more than just monetary punishments.⁵³ Smuggling had been temporarily criminalized back in 1936 when the government promulgated the Revised Provisional Code Governing Punishments for Evasion of Customs Duty.⁵⁴ The measure was renewed annually until 1944 when it was allowed to expire. As smuggling was increasingly viewed as an existential threat to state control and economic stability, the government criminalized the transgression yet again by promulgating the Regulations Governing the Punishment of Smuggling (Chengzhi zousi tiaoli) in March 1948. The new regulations called for penal servitude of up to five years for engaging in smuggling, defined as importing or exporting “goods over which the Government has decreed a special control, or goods which are liable to the payment of Customs duty[.]” The harshest penalties—life imprisonment or death—were reserved for smuggling ringleaders and those who employed armed resistance. Just as it did more than ten years ago in 1936 when it criminalized smuggling in response to the Japanese military-backed smuggling crisis, the government introduced the new regulations in another atmosphere of crisis to demonstrate its tougher line against violators. The wording of many articles from the 1948 law, in fact, is virtually the same

⁵² SHAC 679 (1) 27723, “Queries Raised re. Chinese Preventive Law, 1931-1949,” Canton SO No. 889, 1 May 1947. The Guangzhou commissioner Zhang Yongnian argued that confiscating vessels as the Shanghai commissioner advocated was more applicable to small junks or motorboats, rather than to large steamships. Article 21 of the Preventive Law permits fines of “a sum not less than the value and not exceeding three times the value of the goods concerned.”

⁵³ SHAC 679 (1) 27723, “Queries Raised re. Chinese Preventive Law, 1931-1949,” Memorandum from Preventive Secretary to IG, 9 Dec. 1946.

⁵⁴ See Chapter 2.

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as that from the 1936 law. (See Appendixes B and C.) Unlike previous laws against smuggling, however, these regulations dispensed with tying the degree of punishment to the value of the smuggled goods and duties evaded—a likely reflection of how hyperinflation rendered meaningless money as a measure of value.⁵⁵

Customs leadership urged officials to exercise care in applying the new regulations. Inspector General Little, for instance, instructed Shanghai Commissioner Zhang Yongnian shortly after the regulations were promulgated to avoid sending “trifling case or cases where the evidence against the smuggler is so weak that the Commissioner himself does not consider that there is a fair chance of conviction.” Other than fines or confiscations, Little ordered, penalties regarding penal servitude should be left to the courts’ discretion: “The decisions of the Courts will establish a body of precedent to guide us.”⁵⁶ With the promulgation of the new regulations in April 1948, Customs officials once again began transferring smugglers they apprehended to local courts for prosecution.

The cases are notable in providing examples of tighter cooperation between the Customs and local law enforcement agencies. The incident involving the two Cantonese sailors described in the beginning of the chapter, for instance, was a product of this new legal framework criminalizing smuggling. The cases are also notable in being processed after extraterritoriality’s abolition in 1943. With the shift from jurisdiction over *persons* to jurisdiction over *territory* complete, Nationalists law enforcement organizations could finally operate without formal territorial or diplomatic restrictions. The end of

⁵⁵ By contrast, the 1936 Revised Provisional Code Governing Punishments for Evasion of Customs Duty was explicit in tying the severity of punishment to the value of duties evaded.

⁵⁶ SHAC 679 (1) 32244, ‘Shanghai Semi-Official Correspondence, 1948,’ IG SO to Shanghai No. 712, 9 Apr. 1948.

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extraterritoriality and the promulgation of the Regulations Governing the Punishment of Smuggling meant that foreigners suspected of smuggling appeared as defendants in criminal cases for the first time. The prosecution of these cases reveals not just foreign connections to the hidden illicit economy of postwar China, it also highlights the relative efficacy of the Nationalist legal machinery in the regime's final days.

One such case would be that of Nicholas Panaitescu (aka Nick C. Pan, aka Pan Naide, aka Pan Naidisheng), which unfolded over the course of 1948. Shanghai Customs officials had been monitoring the Romanian national for some time after a seizure of smuggled medicines (antibiotics and adrenalin) onboard the steamship *Clovis Victory* from the United States on January 24, 1948. Panaitescu's name appeared on the telegrams discovered as part of the seizure—suggesting that he had been in touch with the importer of the smuggled goods, an Italian national. After months of investigation and tracking down Panaitescu, the Shanghai Customs finally sprang into action. At 3 p.m. on May 18, 1948, Customs agents together with local police officers appeared at the door of Salon du Nord (Shalong Hang), Panaitescu's women clothing store at the edge of the former International Settlement. After its repeated knocks, bell rings, and orders to open the door went unanswered, the raiding party finally entered the premises and found five individuals “all with extremely flustered expressions” trying to hide parcels in various places—Panaitescu, his French landlady Madam Hectman (née Desigaud), a White Russian merchant M. Greenadear, and two Chinese employees. In addition, the raiding party found thousands of small medicine vials in the store and Greenadear’s nearby office.

After collecting statements from all the relevant parties, the Customs determined that Panaitescu was primarily a clothing retailer who had lived in Shanghai since 1941

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but diversified his operations roughly a year before the raid. His new profitable side venture purchased smuggled Western medicine wholesale and resold it to other pharmacies in smaller lots at a considerable markup.⁵⁷ The case was then transferred to the Shanghai Local Court, where prosecutors cited evidence produced by the Customs in charging Panaitescu with violating the Regulations Governing the Punishment of Smuggling. Prosecutors called Madam Hectman and Greenadear as witnesses to testify.

During the trial, Panaitescu revealed that he purchased the medicine from a German-Jewish merchant Hans Hirsch and produced a receipt of the transaction. The court thereupon requested the Customs to verify both Panaitescu's account as well as the receipt. In its reply, the Customs noted that it could find no record of the original importation and pointed out several problems with the receipt itself. While listing 100 vials of medicine was sold to Panaitescu for US\$1,000 on June 2, 1946, the receipt did not have an invoice number or a revenue stamp. Moreover, the address listed on the receipt for Hans Hirsch—56 Tangshan Road—did not exist. Questions regarding its authenticity aside, the receipt offered no evidence that any taxes had been paid.⁵⁸ Despite efforts by Panaitescu's lawyers, Hirsch could not be located to corroborate the Romanian's testimony since he had already left Shanghai.

On August 4, 1948, almost three months after the raid, the Shanghai Local Court delivered its verdict. Panaitescu was found guilty of knowingly selling smuggled medicine. At the core of the Court's reasoning was the investigation conducted by the Customs and the trial testimonies of the merchant Greenadear—both of which provided the backstory on the timing of Panaitescu's foray into his side business as well as the

⁵⁷ SHMA Q185-2-27226. For description of the raid, see Shanghai Customs Gonghan No. 3774, 19 May 1948; and No. 3819, 25 May 1948. For press coverage of the incident, see *SB*, 21 May 1948, 4.

⁵⁸ SHMA Q185-2-27226, Shanghai Customs Gonghan No. 4109, 7 July 1948.

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source of his smuggled goods. (That Panaitescu was unable to provide proof that any taxes were paid on the medicines also did not help his case.) The Court also dismissed arguments by Panaitescu’s lawyer that the Regulations Governing the Punishment of Smuggling were inapplicable since the purchase of the smuggled medicine was made prior to the law’s promulgation. This decision effectively reaffirmed the principle—embodied in the Preventive Law—that authorities could prosecute based on when the smuggling was uncovered, rather than when the offense was committed. Panaitescu was sentenced to four months of penal servitude, although he accepted the option of paying a fine of CN\$10,000 for each day of the sentence and was eventually released in October 1948.⁵⁹

While the case of Nicholas Panaitescu reveals how foreigners in China tapped into illicit supply chains, the case of another would-be smuggler sheds light on larger global commodity flows of which China was but a node. On October 9, 1948, the steamship *California* arrived in Shanghai from San Francisco and Guam midway in its Pacific voyage to Korea and Japan. A routine search of the ship uncovered 81 boxes and 74 bags of saccharine hidden in the cabin of the deck engineer Martin J. Joyce. The saccharine was not listed on the ship’s manifest, and sugar was a commodity under the purview of government import regulations. Joyce himself did not deny ownership of the saccharine, admitting in his statement to the Customs: “I assume the responsibility of the [saccharine] which was concealed in the double lining of my cabin[.]” After further investigation, Customs officials confiscated the saccharine, levied a fine, and transferred the case to the Shanghai Local Court, where prosecutors charged Joyce with smuggling.

⁵⁹ SHMA Q185-2-27226, Shanghai Municipal Court Judgment No. 1416, 4 Aug. 1948.

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In a plaint submitted to the court, Joyce's legal counsel explained that the saccharine was entrusted to his client by a friend to bring to Japan and was never intended to be smuggled into China. In addition to demonstrating his client's intent, Joyce's counsel also argued that the Regulations Governing the Punishment of Smuggling were inapplicable in this case. Customs officials had already confiscated the saccharine and fined Joyce for the infraction, the plaint noted, but more importantly, Article 25 of the bilateral 1946 Sino-American Treaty of Friendship, Commerce, and Navigation permitted transshipment of goods by Chinese and American nationals through the United States and China, respectively.⁶⁰ Article 25 also exempted transshipments from Customs duties.⁶¹ In its judgment, the court determined that Joyce's actions fell under the purview of the 1946 treaty and ordered the deck engineer to be released. The court did, however, note that the Regulations Governing the Punishment of Smuggling would have certainly applied had smuggling been demonstrated to have occurred.

The cases of Panaitescu and Joyce show were prosecuted after the end of extraterritoriality in China. They illustrate how the Nationalist government realized its long-held goal of making the prosecution of smuggling on Chinese territory a domestic—rather than a diplomatic—concern. None of this, of course, meant that cases for Chinese nationals and foreigners were processed equally. My general impression, in fact, is that foreigners such as Panaitescu and Joyce both retained more effective counsels, since the quality of their plaints were quite high—both in the legal arguments they marshaled and even the fact that they were typewritten (very uncommon). Despite their different

⁶⁰ SHMA Q186-2-42898. For description of the incident and Joyce's confession, see Shanghai Customs Gonghan No. 4798, 9 Oct. 1948. For court's decision, see Shanghai Municipal Court Judgment No. 3024, 8 Nov. 1948. For press coverage of the incident, see *SB*, 10 Oct. 1948, 2.

⁶¹ For brief background and full text of the treaty, see *CH* 1950: 285-301.

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outcomes, the two cases were processed in a manner agreeable to Nationalist notions of Chinese sovereignty—they were both handled by domestic institutions (rather than diplomatic institutions) with a central government institution (the Maritime Customs) successfully coordinating with a local government institution (the Shanghai Local Court).

The Postwar Geographies of Smuggling

New Borders, Old Trades

In addition to tightening state strictures, new borders also exacerbated postwar smuggling. The collapse of the Japanese colonial empire in 1945 redrew the political geography of East Asia. Manchuria and Taiwan reverted to Chinese sovereignty. Korea gained its independence on paper but remained under international trusteeship and began fragmenting into two competing regimes. Trade between China proper and the newly-recovered territories—once international—would now be domestic. Trade between Japan and its former colonies—once intra-imperial—would now be international. Trade routes that once crisscrossed the East Asian continent and ocean were now bisected by newly-reconfigured national boundaries. The emerging battle lines in the escalating civil war between the Nationalists and Communists would further muddle this picture.

Diplomatic and commercial relations between China, an independent Korea, and a defeated Japan were still under negotiation in the war's aftermath. Hostilities ceased but relations had yet to normalize. (Japanese and Koreans, for instance, remained classified as enemy nationals by the Allies.) The byproducts of this postwar geopolitical reconfiguration were zones of illegal trade. In theory, international trade could only be sanctioned between states on a bilateral basis. Undermining this diplomatic fiction, however, were longtime patterns of commerce that did not reorient themselves as quickly

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as changes in political geography and could not be channeled through new boundaries. Thus, as official trade was haltingly reestablished, unofficial trade in the form of smuggling quickly flourished.

Korea: The Ambiguities of Independence

With respect to Korea, Nationalist China permitted only limited state-sponsored bartering until it established official relations with a new government that would presumably be formed after the period of international trusteeship concluded. Korea's problematic place in the former Japanese colonial empire and the new postwar East Asian order, however, made normalizing relations a complicated prospect. Before the war, Korea was a major source of smuggled Japanese goods, and Koreans were—both in public and official imagination—notorious traffickers, especially since they enjoyed extraterritorial privileges as Japanese colonial subjects. After the war, the Korean Peninsula remained a conduit for Japanese goods not only to Nationalist China but also to Communist-occupied areas in Manchuria and North China. A November 1947 memorandum from the Ministry of Finance, for instance, pointed to Korean “outlaws” (*youmin*) responsible for smuggling Japanese goods through North China and Shanghai.⁶²

Moreover, dire postwar economic conditions—particularly in South Korea—encouraged smuggling. Besides products such as rayon and lumber, Korean specialties such as ginseng and sea delicacies (e.g. shark fins, sea cucumbers) were among the few exportable commodities that could be quickly traded for foreign goods or currencies. The Allied occupation authorities consented to the provisional South Korean government to

⁶² Ministry of Finance to Guan-wu Shu Daidian No. 3773. In SHAC 679 (1) 20364, ‘General Considerations Concerning Smuggling and Preventive Work Throughout China, 1935-1948,’ IG Dispatch No. 195257, 15 Nov. 1947.

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issue export permits for these commodities.⁶³ These commodities, however, were the very ones classified by the Nationalist government as luxury goods and expressly banned from import under the Foreign Trade Regulations. Thus, despite limited approval granted by Allied occupation authorities for Korean business to export their products, private Sino-Korean trade remained largely illegal from the perspective of the Nationalists.

As one newspaper article noted: “Trade between the peoples of China and Korea—although still not officially permitted since the end of the war—has also never been really severed.”⁶⁴ Reports from the press and the Customs detailed these resilient economic ties. A Tianjin Customs official described one pattern of smuggling in the north, where vessels from Korea declaring themselves to be returning to China plied a profitable trade circling the Yellow Sea. Merchants brought goods from Korea and exchanged them along the North China coast at Tianjin as well as Communist-controlled ports on the Shandong Peninsula. After returning to Korea, these merchants would change their vessels’ name and registration before returning to Tianjin with more goods to ply the route anew.⁶⁵ Further south along the Zhejiang coast, where smuggling from the north had been common well before the war, a Ningbo Customs official reported a seizure of a vessel laden with sea delicacies “direct from Korea.”⁶⁶

Officials lamented that the Customs, badly handicapped by the shortage of patrol vessels and sufficient staff, had a difficult time cracking down on this traffic. Frayed as this net of enforcement was, however, it still caught many who supposedly traded with Korea in contravention of regulations. The Chinese-Korean community, whose

⁶³ *SB*, 20 Jan. 1947, 7 and 19 Mar., 6.

⁶⁴ *SB*, 1 Apr. 1948, 5.

⁶⁵ *GR*, 23 Jan. 1948, 3.

⁶⁶ Ningpo Commissioner’s Comment, 19 Feb. 1948. In SHAC 679 (1) 32243, ‘Shanghai Semi-Official Correspondence, 1948,’ Shanghai SO No. 2136, 27 Jan. 1948.

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livelihood was threatened by restrictions on commerce between China and Korea, made many appeals to the government and the public regarding their plight. In one petition submitted to the Nationalist government (and reprinted in the popular press), Chinese-Korean merchants complained of how trade restrictions bankrupted many of their members as the Customs refused to release their merchandise for export or import. Moreover, since the Customs treated all imports from Korea as smuggled goods, the petitioners confessed that their fellow merchants took desperate measures evading restrictions:

Some evaded inspections altogether [by unloading their goods] beyond the Wusong Harbor.⁶⁷ Some purchased transit passes and took advantage of the night to slip past the Customs. Some falsely listed Shanghai merchants as the cargoes' owners. Some transshipped their goods from another Chinese port to Shanghai—all in the hopes of avoiding punishment and protecting their cargo.⁶⁸

Meanwhile, other merchants bristled at the indiscriminate nature of enforcement. The owners of the junk Nee Cheng Hsing, for instance, formally protested the Customs' seizure of their vessel and cargo outside of Shanghai in early 1947 upon suspicion that they had sailed to Korea. The vessel itself, they averred, landed only at Zhuanghe on the Liadong Peninsula and never touched Korea. Moreover, they claimed they could not adhere to the requirements of the Junk Regulations to report its movements since no Customs stations or government offices were available in the vicinity. Finally, according to the petitioners, the only evidence that purportedly substantiated the vessel's journey to Korea—invoices prepared by Korean firms—had an understandable explanation. Zhuanghe then was “in a state of confusion” after the Nationalists ejected the

⁶⁷ The Wusong Harbor laid at the mouth of the Huangpu River in Shanghai, where ships entered before reaching the city's wharves.

⁶⁸ *DB*, 2 Apr. 1947, 2.

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Communists from the area, and the junk owners feared retribution during their return voyage: “[Any] true indication that the vessel sailed from [Zhuanghe] might cause immense trouble and difficulties to the owners on board if the vessel should be intercepted during the voyage by the communists.” As a result, the junk owners used invoices “purposely prepared” by Korean firms to disguise their cargoes’ origins.⁶⁹ In other words, to avoid potential harassment by the Communists, the junk owners held invoices to (falsely) demonstrate that they landed at Korea rather than Nationalist-controlled Zhuanghe.

Whatever the veracity of their claims, the petitioners revealed in their protest some interesting facets about the nature of Sino-Korean commerce at this time. In asserting how they were different from the many other merchants “charged with smuggling [and] unauthorizedly [sic] importing goods from Korea,” the appellants implicitly alluded to the widespread nature of this problem. In admitting to using fake invoices due to their fear being harassed by the Communists, the appellants also highlighted one strategy of self-protection. The merchants of the Nee Cheng Hsing—perhaps like so many of their brethren who plied the Sino-Korean trade—looked for ways to legalize their activities for multiple authorities, a form of insurance in doing business with shifting fortunes on the battlefield and diplomatic table during this era of uncertainty.

In their petition, the Nee Cheng Hsing owners asked the Customs to consider current reports in the newspapers that the government was relaxing restrictions on Sino-Korean trade. (Despite the fact that, the petitioners asserted, “our case should not have

⁶⁹ Ping Kung Law Offices to Inspector General, 3 Mar. 1947, in SHAC 679 (1) 32240, ‘Shanghai Semi-Official Correspondence, 1947,’ IG SO to Shanghai Customs No. 450, 21 Mar. 1947. Petition from Owners of the Nee Cheng Hsing, 9 Apr. 1947, in SHAC 679 (1) 32240, ‘Shanghai Semi-Official Correspondence, 1947,’ IG SO to Shanghai Customs No. 473, 16 Apr. 1947.

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fallen under this category [in the first place.]” The petitioners (rightly) sensed the political winds blowing in their favor. Indeed, while concerns over illicit trade with Korea were strong, desires to normalize relations proved stronger still. Chiang Kai-shek himself, for instance, supported plans for an independent Korea going back to at least the 1943 Cairo Conference.⁷⁰ Sympathy for Korea—which was viewed as another victim of Japanese imperialism—was also widespread among the Chinese public.

As a result of such considerations, the government gradually relaxed restrictions on private trade with Korea. First, vessels owned by Chinese nationals and Chinese-Koreans were permitted to return to China with Korean goods, provided that such imports did not violate the Foreign Trade Regulations.⁷¹ Later, the channels of legitimate trade were further widened in April 1948, when the Nationalists established formal diplomatic relations with the new South Korean state and permitted Korean vessels from South Korea to dock at Shanghai and Tianjin.⁷² The government soon opened two additional ports—Keelung and Kaohsiung—in response to acute shortages of fertilizer in Taiwan. An important driver of the decision was the island’s tight prewar economic ties with colonial Korea, which the government explicitly acknowledged in its orders justifying the relaxation.⁷³

Japan: The Ever-Present Menace

In contrast to normalizing Sino-Korean relations, normalizing Sino-Japanese relations proved far more difficult. As it did with Korea, Nationalist China sanctioned limited, government-to-government bartering but continued to prohibit private trade with

⁷⁰ CH 1950: 337-8.

⁷¹ IG Circulars No. 7113 and 7197.

⁷² IG Circular No. 7310, 21 May 1948.

⁷³ Guan-wu Shu Daidian No. 6629, 29 June 1948, in IG Circular No. 7356, 17 Aug. 1948. In 1939, Taiwan exported 50% of its sugar to Korea while it imported 70% of fertilizer from Korea.

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Japan. The government held firm to this position even after the Supreme Commander for the Allied Powers (SCAP) announced that it would lift restrictions on Japanese foreign trade in August 1947. Public opinion in China also overwhelmingly opposed normalizing trading relations with Japan. Reflecting the general public mood, an editorial in *Shen Bao* inveighed against China reopening trade with Japan before reparations were paid and a peace treaty ratified.⁷⁴ Aside from nationalist sensibilities and fresh memories of Japanese imperialism and wartime atrocities, opposition to Sino-Japanese economic rapprochement rested on another logic. Many worried that Japan would dominate the Chinese economy and flood the market with its goods—just as it did before 1945. One journalist spoke of the “Nipponophobia” (*kong Ri bing*) pervasive among a public that has not forgotten the outsized role of Japan in smuggling.⁷⁵ Chinese economists voiced concerns about a potential “economic invasion” (*jingji qinlüe*) from Japan.⁷⁶ A leading Shanghai businessman expressed fears that reopening trade with Japan would only make the ongoing problem of smuggling worse by making legitimately-imported Japanese goods difficult to distinguish from their smuggled brethren—even as he admitted that foreign trade controls have ineffective thus far.⁷⁷

Such fears were not entirely unfounded. The smuggling of Japanese goods remained a chronic problem that captured public attention even after the war. Again, Sino-Japanese trade was officially limited to government-to-government bartering the immediate postwar years. Imports from Japan made up less than 1% of total imports to China—a dramatic contrast to the Nanjing Decade when similar figures fluctuated in the

⁷⁴ SB, 21 July 1947, 2.

⁷⁵ *Gongshang yuekan*, Vol. 4, No. 9, 6.

⁷⁶ SB, 17 July 1947, 2.

⁷⁷ SB, 17 Aug. 1947, 1.

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high teens.⁷⁸ Unofficially, however, Sino-Japanese trade through smuggling was far more robust than the statistics suggested. One writer, for instance, noted how the public had but scan current newspaper headlines to be “startled” (*chumu jingxin*) by the scale of the problem. Reports from the government and media called attention to how Japanese products, from manufactures such as nylon to the popular medicine Jintan, were reappearing on the Chinese market after a long absence despite official sanctions against their import.⁷⁹

Although the Japanese military was expelled and Japanese nationals were repatriated from mainland East Asia, Japanese goods nonetheless continued to find their way into Chinese markets through several channels. As noted earlier, Koreans were high-profile carriers of Japanese goods, before and after Nationalist China relaxed its restrictions on trade with Korea and Korean goods. Another important conduit for Japanese smuggling was the Pearl River Delta, particularly Hong Kong. Like Nationalist China, Hong Kong limited trade with Japan on a government-to-government basis in the immediate aftermath of the war. Unlike Nationalist China, however, the colony reversed this policy in the fall of 1947 after SCAP’s announcement, permitting private trade with Japan. Just as it was the case for Korea, economic conditions during the immediate postwar years in Japan were dire. Japanese manufactures were still in demand throughout Asia and thus served as the currency with which to trade for badly-needed and expensive goods such as western medicine and sugar. As a result, Hong Kong and Japan quickly renewed their prewar commercial ties in late 1947. Trade between Hong Kong

⁷⁸ Both postwar and prewar figures might have been understated. After the war, the proportion of Japanese imports was low due to large-scale imports of relief items from the United States. Before the war, the Japanese takeover of Manchuria in 1931 removed from Chinese control ports that traditionally absorbed considerable amounts of Japanese imports.

⁷⁹ *JZ*, Vol. 5, No. 8, 1947, 3.

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and Japan quickly spilled over into China, whose government still maintained no formal relations with Japan yet whose consumers badly wanted Japanese goods.

South China: The Nexus of Regional and Global Supply Chains

The entry of Japanese goods into China through the Pearl River Delta once again highlights the region's pivotal role as China's smuggling entrepôt. By 1945, nearly all foreign concessions and colonies along coastal China had been abolished, leaving Hong Kong and Macau as the only remaining political spaces independent of direct Chinese government authority. Towards China, the two colonies were restricted in what they could legally import and export. Towards Japan, Korea, and other global markets, they traded with fewer constraints. (See Table 5-4.) This Janus-faced position—made possible by geographical proximity and tight connections to global market—has long made Hong Kong and Macau China's primary source and destination of smuggled goods, since would-be smugglers could profit from differences between regulatory regimes. New postwar regulations, combined with the Chinese economy's urgent demand for imports, only raised the profits to be earned through evading detection by authorities.

The nature and scale of smuggling were functions of proximity to Hong Kong and mode of transportation. On water, steamships that departed from Hong Kong were filled with passengers and crews bringing consumer goods of all sorts that fetched high profits due to ongoing trade restrictions and shortages in China. One journalist provided an estimate of the revenues earned and expenses incurred by individual smugglers trafficking ordinary consumer products such as cosmetics, nylon stockings, and woolen piece goods between Hong Kong and Shanghai. (See Table 5-5.) These figures, of course, are impressionistic and highly variable depending on general market conditions,

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such as fluctuations in the cost of goods and speed of turnover. Nonetheless, they are suggestive in highlighting the economics of petty maritime smuggling. The cost of goods made up the largest proportion of expenses. The cost of travel, by contrast, was comparatively low, given the regularized steamship traffic between Hong Kong and Shanghai that accommodated travelers of all kinds. Finally, the figures also suggest that petty smugglers earned profits sufficient to eke out a modest living. Using exchange rate and price data for May 1948, HK\$245 translated to just under CN\$15 million, enough to purchase a basket of goods in Shanghai, including flour (CN\$1.9 million for 49 lb.), salt (CN\$1.6 million for 110 lb.), and white sugar (CN\$9.3 million for 110 lb.).⁸⁰ Such calculations, of course, assume that the trafficking only takes a few days to complete and that fast-rising prices for the basket of goods do not exceed the profits earned by selling the smuggled goods.⁸¹

Vessels regularly plying the Hong Kong-Guangzhou route remained especially notorious for smuggling by their crews and passengers. The steamship *Wusueh* (Wuxue) was one such vessel. In three separate spectacular incidents during March, August, and October 1947, Customs search parties in Guangzhou uncovered an assortment of smuggled goods worth roughly CN\$106.7 million, CN\$122.8 million, and CN\$344.8 million, respectively, elaborately hidden in cabins throughout the vessel. Despite hyperinflation eroding the significance of large numbers, the outsized value of the seizures onboard the *Wusueh* still attracted attention from the public and the government. The illicit cargoes were a mishmash of ordinary consumer products, sharing no

⁸⁰ Calculated from market exchange rate of HK\$1 = CN\$60,497 during week of May 10-16, 1948. See YZ, Vol. 31, No. 26, 27. For market price of commodities in Shanghai during May 1948, see YZ, Vol. 32, No. 34, 31-4.

⁸¹ It is unclear whether these prices include commodity taxes and other levies. If not, then the profits earned from selling smuggled goods would buy a smaller basket of goods.

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similarities other than being prohibited from import by postwar trade regulations—cosmetics, nylon, woolen piece goods, western medicine, ginseng, dyes, among many others. Their diversity attests to the stringency of regulations in excluding a wide range of commodities from being imported through legitimate channels. They also show how strong demand for all foreign goods made the smuggling of virtually every commodity profitable.

The Customs confiscated all the smuggled goods and levied penalties of CN\$312.5 million, CN\$368.7 million, and CN\$1.12 billion, respectively—each fine equaled to roughly three times the value of each seizure, as an aggressive application of the Customs Preventive Law would warrant. Since the culprits could not be identified or had absconded, responsibility for discharging the fines fell to the *Wusueh*'s owner, the China Navigation Company, a subsidiary of the conglomerate Butterfield and Swire. The company appealed all the penalties to the Customs Penalty Board of Inquiry and Appeal, the same institution formed back in 1934 to adjudicate protests against the Customs. In all of the cases, the Board rejected the company's assertion that it should be absolved of responsibilities since it did not knowingly permit the smuggling. The Board upheld the penalties levied by the Guangzhou Customs and thereby reaffirmed the applicability of the Preventive Law in holding owners of vessels to account for the actions of their crew. In one of its judgment, the Board even scolded the appellant for lax oversight of its crew, noting: "This company can hardly absolve itself in neglecting its supervisory duty."⁸²

The case of the *Wusueh* and others illustrate how the legal machinery of the Nationalist government continued to operate even during this era of political and

⁸² GDPA 94-1-659, Guan-wu Shu Judgment, 25 May 1948. For decision regarding the March incident, see GDPA 94-1-655, Guan-wu Shu Judgment, 25 July 1947. For decision regarding the August incident, see GDPA 94-1-657, Guan-wu Shu Judgment, 29 Jan. 1948.

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economic uncertainty.⁸³ Moreover, the legal reforms from the Nanjing Decade not only formalized the processing of smuggling cases but also helped hold steamship companies to account for smuggling onboard their vessels. Penalties were also more punitive compared to those levied during the prewar years. Adjusted for inflation, the fines translated in terms of 1937 price levels to approximately CN\$28,300, CN\$10,500, and CN\$23,000, respectively—considerable sums compared to the maximum fines of CN\$2,000 levied then.⁸⁴ Finally, while hyperinflation dulled some of their sting, the financial penalties imposed by the Customs were still painful enough to encourage steamship operators to lodge appeals rather than write off the fines as some undesirable, but unavoidable, business expense. Indeed, despite the prevalence of steamship smuggling, Customs authorities were able to exercise some modicum of control and contain its scope. With its resources overstretched, the agency had to concentrate its enforcement and surveillance efforts at ports, thereby continuing the trend of contracting the geography of enforcement since the outbreak of the Second Sino-Japanese War.

In contrast to its efforts at interdiction on water, the Customs experienced considerably more difficulties containing the scale of trafficking through other vectors. On land, smuggling by foot remained as prevalent as ever, with farmers and villagers regularly crisscrossing the Sino-Hong Kong border carrying assorted consumer goods

⁸³ The *Fatshan* (Foshan) was another vessel plying the Hong Kong-Guangzhou route notorious for repeated incidents of smuggling uncovered onboard. In one case on July of 1947, for example, Customs agents uncovered more than 206 packages of medicines, ginseng, dyes, piece goods, film, etc. with a value of CN\$631 million hidden onboard. As the Guangzhou Commissioner noted: “The gravity of and magnitude of the case attracted the attention of the local authorities and the public[.]” The agency fined the owner, also the China Navigation Company, more than CN\$5.3 billion. The company subsequently appealed the decision to the Board, which again upheld the penalties. For report of the incident, see SHAC 679 (1) 28210, “Smuggling Reports, Canton, 1947, Canton SR, Jul. 1947, 5-6. For the Board’s judgment, see Guan-wu Shu Judgment, 29 Jan. 1948, in GDPA 94-1-657.

⁸⁴ Since the incident was uncovered in Guangzhou, I used the Guangzhou wholesale price index to adjust for inflation. The index figures for March, August, and October 1947 were 11,032, 35,013, and 48,634, respectively. Princes indexed at 1 from the first half of 1937. See Wu 1958: 189.

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along with their produce. Yet what made smuggling by land in the Pearl River Delta during the postwar period economical was the Kowloon-Canton Railway (KCR). The KCR was the only railway between Hong Kong and Guangzhou; it also served as a smuggling channel for the Guangzhou-Hankou Railway, which effectively connected the economies of the Pearl River Delta and interior Central China.

Smuggling on the KCR did not simply involve moving goods station-to-station. In fact, between Shenzhen and Guangzhou as trains were still running, passengers threw overboard packages of smuggled goods at predetermined locales or times. Waiting along the tracks were fellow smugglers who would pick up the cargo and distribute them to towns and villages throughout the Pearl River Delta. Members of one smuggling concern—nicknamed the “Flying Packages Clique” (*Feibao dang*)—unloaded packages during the journey to Guangzhou, seemingly more concerned with chasing profits than the dangers of moving while the train was operating.⁸⁵ This mode of distribution was also prevalent on steamships, where smugglers threw packages of goods overboard before docking to avoid inspection at ports. The flow of the trafficking for railroads like the KCR, however, was not unidirectional. Besides distributing goods, trains were also collecting goods by picking up packages conveyed by foot across the Sino-Hong Kong border and transporting them to Guangzhou for sale. Operators allegedly conspired with the smugglers by adjusting the trains’ speed to accommodate goods being loaded or unloaded at specific points during the journey.

Petty smuggling had long been a problem on the KCR, but its scale reached alarming proportions after the war. Demobilized soldiers—many of whom were unable to secure adequate employment in the faltering postwar economy—swelled the ranks of

⁸⁵ GR, 17 May 1948, 6.

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traffickers making a livelihood shuttling prohibited articles up and down the region. One official's vivid description not only sheds light on the economy of this rail-borne traffic but also the outsized role of recently-demobilized soldiers as its carriers:

A large number of runners, mostly disbanded soldiers, rushed on board or got off trains at small stations near the terminal stations, taking with them rice, cotton yarn, etc., on the outward trip [toward Kowloon] and salt, kerosene oil, glass plates, etc., on the inward one [toward Guangzhou]. They swarmed over the coaches, sat on the top of the wagons and threw the train into such a disorder that even its running was endangered.⁸⁶

Liu Zuoren, a one-time managing director of the Guangdong Provincial Bank and a longtime observer of the South China economy, estimated that more than 3,000 demobilized soldiers and petty traders (*xiao shuike*) were engaged full-time in smuggling on the KCR, while another two to three million directly or indirectly made their living from this illicit traffic.⁸⁷ Another writer offered similar estimates on the number of traffickers (two to three thousand) and provided addition details on their background and motivations:

After the war's conclusion, some of these [smugglers are soldiers] forgotten by their country. They are not willing to engage in banditry but can only rely on this path for their livelihood. In addition, some [smugglers] are locals familiar with the area and are using their physical strength to make a living. Others are good people returning from exile in the interior [during the war]. [They] want to farm but have no land, want to work but have no employment. [They] can only engage in smuggling between Guangzhou and Hong Kong.⁸⁸

The scale of smuggling and individual motivations behind the activity are difficult to verify. (The estimate that millions participate in the traffic, in particular, appears quite fantastic on its face.) They are nonetheless suggestive of the railway's large role in the smuggling economy of the Pearl River Delta, given a deteriorating postwar economy

⁸⁶ SHAC 679 (1) 28210, "Smuggling Reports, Canton, 1947," Canton SR, Aug. 1947, 1.

⁸⁷ Liu 1948: 103-4.

⁸⁸ Chen 1948: 11.

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unable to absorb surplus labor. Smuggling on the KCR, in fact, became so regularized that even rice and flour, whose profit-to-volume ratios were comparatively lower than that of lighter consumer goods because of their bulk, became major articles of trafficking. In two separate instances during the summer of 1946, for example, the Customs intercepted shipments of 235 and 344 bags, respectively, of smuggled flour conveyed to Guangzhou from Hong Kong by rail.⁸⁹ As one report noted: “The fact that goods of bulky nature as in the forgoing cases were even smuggled into [Guangzhou] in large quantities shows how flagrant smuggling by rail was being undertaken by smugglers.”⁹⁰

The reach of smuggled goods by land from Hong Kong extended well beyond the Pearl River Delta. Steamships were not the only vectors of long-distance illicit trade—even circuitous land routes proved to be profitable channels of transport during this period when imported goods were in great demand and commanded substantial premiums on the market. One legal case illustrates the dynamics of this far-flung network linking Hong Kong with interior and maritime China. On May 31, 1948, Customs officials together with the Hangzhou municipal police intercepted a shipment of assorted smuggled goods—rayon, wool, and cellophane—at the Hangzhou station along the Zhejiang-Jiangxi railway. The shipment was escorted by one Yang Jiafu, a 38 *sui* employee of the Southeast Transportation Company (Dongnan yunshu gongsi). Yang pled ignorance: he was told that the shipment contained cotton and dyes and admitted that he was hired only a few days earlier to deliver the goods to one Liu Wenbing in Shanghai. Bolstered by the intelligence officials received, Yang confirmed the goods’ long journey originating from Hong Kong, transshipped to Guangzhou, and transported by land to

⁸⁹ SHAC 679 (1) 28209, “Smuggling Reports, Canton, 1945-1946,” Canton SR, July 1946, 4; and Canton SR, Aug. 1946, 4-5.

⁹⁰ SHAC 679 (1) 28209, “Smuggling Reports, Canton, 1945-1946,” Canton SR, July 1946, 1.

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Yingtan in Jiangxi where they would end up in Shanghai vis-à-vis the Zhejiang-Jiangxi railway. Yang was transferred to the Shanghai Local Court, where he was later tried, convicted, and sentenced to fifty days of penal servitude under the Regulations Governing the Punishment of Smuggling.⁹¹

Regulatory Arbitrage: The Case of Gold

Beyond China, the scale of smuggling became so extensive that it redirected far-flung global supply chains. Such was the case for gold, another frequently-trafficked commodity in the Pearl River Delta during the postwar years. The Nationalist government initially imported gold from the United States after the war and sold the precious metal to the public at a considerable mark-up (two times the price it paid) through its monopoly, the Central Bank of China. After months of capital flight destabilizing China's balance of payment account, however, the government reversed its policy and banned all private transactions of the precious metal as part of its "Emergency Economic Measures" in February 1947. Meanwhile, the rapid collapse of the Chinese *fabi* and its eventual replacement, the gold yuan, encouraged Chinese consumers to hold precious metals that would presumably better retain their value. While an understandable defensive investment strategy in the face of galloping inflation, the public scramble for gold accelerated the hemorrhaging of foreign exchange in China as consumers traded their personal holdings of foreign currencies for precious metals from abroad.

As formal markets were shuttered by government fiat, black markets emerged to meet unsatisfied demand. The source of black market supply was the Pearl River Delta, which had already served as the middle ground where demand from anxious Chinese

⁹¹ SHMA Q185-2-33717. For court's judgment, see Shanghai Local Court Criminal Judgment No. 4252, 13 Aug. 1948. For a brief description by the press regarding the seizure in Hangzhou, see: *SB*, 4 June 1948, 2.

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consumers and supply from eager global dealers met since foreign exchange transactions remained legal in Hong Kong and Macau. Panic buying and new restrictions on the mainland accelerated the tempo of this trade and reoriented the global market to satisfy the Chinese demand for gold. Until early 1947, Hong Kong was labeled by one magazine as the modern-day “treasure island” that soaked up gold from as far as the United States and Mexico for eventual sale to China. In 1946, at least 120,000 oz. (8,230 lb.)⁹² arrived in the British colony. “Lively buyers” from Shanghai, Guangzhou, Shantou, Xiamen, Hankou, and even Kunming descended upon Hong Kong to satisfy the strong, almost insatiable demand for gold throughout China.⁹³ Each node in the supply chain took a cut—importers reportedly charged a commission of 5%, while dealers earned a profit between 15% and 20%.⁹⁴

Hong Kong remained a major center in the postwar global traffic in gold, but the primary pivot soon moved to Macau. The Portuguese colony was a longtime convenient staging ground for smuggling due to its proximity to China, but importing gold in sufficient quantity from distant locales was initially a daunting prospect. Macau was not blessed with the advantages its cross-harbor counterpart enjoyed, namely a modern airfield and a deepwater port to accommodate shipments by ocean-going vessels. Instead, what made Macau an attractive transshipment center for gold in the postwar years were Britain’s and Portugal’s respective positions vis-à-vis the nascent supranational regulatory regime. Whereas Britain was a member of the then newly-formed International Monetary Fund (IMF) and bound by the organization’s restrictions on gold transactions between member states, Portugal was not a member and hence enjoyed

⁹² All subsequent mentions of “ounces” refer to troy ounces. 1 troy ounce equals 0.06857 pounds.

⁹³ *FR*, 2 July 1947, Vol. 3 No. 8, 130.

⁹⁴ *FR*, 8 Jan. 1947, Vol. 2 No. 2, 18.

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considerably more freedom from international regulations on capital movement.⁹⁵

Responding to IMF requirements and British concerns that the heavy influx of gold would destabilize the pound's exchange rate against the American dollar, the Hong Kong government announced it would limit the import of gold in August 1946 and later ceased issuing permits altogether in April 1947. Its counterpart in Macau, meanwhile, announced that it would issue import permits for 900,000 oz. (61,715 lb.). Financial considerations underpinned the introduction of this policy, as the Macau government charged a fee of M\$1 per ounce for permits it issued.

With the new policy effectively creating profit opportunities from regulatory arbitrage, dealers scrambled to overcome the colony's infrastructural limitations to import as much gold as possible from around the world. One solution they initially settled upon was to airlift bullion from abroad into Hong Kong and transport it to Macau. This, however, soon proved to be a risky venture. One plane carrying an estimated 80,000 oz. (5,485 lb.) of gold crashed in eastern Hong Kong. Another plane carrying 33,000 oz. (2,260 lb.) of gold nearly crashed during takeoff.⁹⁶ Dealers eventually turned to a more reliable option by chartering a Catalina flying boat to haul gold by tens of thousands of ounces to Macau from ports across East and Southeast Asia, including Manila, Bangkok, Saigon, and even as far as Rangoon and Calcutta.

So active was the Macau traffic in gold that dealers quickly met—and exceeded—the 1947 import quota. Of the 900,000 oz. permitted for import that year, 300,000 oz.

⁹⁵ Between 1945 and 1971, IMF members agreed to keep their currencies pegged in terms of the US dollar, which in turn was expressed in terms of gold. Maintaining exchange rate stability sometimes led to significant divergence in gold prices. In August 1947, for example, the price of gold was fixed at US\$33 per oz. by IMF regulations but sold for US\$51 per oz.—a 54% premium—in Macau. See *SB*, 3 Aug. 1947, 1.

⁹⁶ Both planes originated from Manila and belonged to Philippine Airlines (PAL). Reports from China alleged that gold was being smuggled out of the Philippines using export permits intended for sugar. See *SB*, 10 Aug. 1947, 1.

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entered Macau via Hong Kong, while another 600,000 oz. entered Macau directly. An additional 200,000 oz., however, found its way into the colony with dealers reusing import permits that were not stamped due to administrative oversight, malfeasance, or smuggling (even with the lax regulations!). Just as it was the case for permits issued in other locales, an active secondary market also emerged to match the supply and demand for surplus Macau gold import permits. Permits that originally cost M\$1 per ounce were resold (and sometimes resold many times over) for anywhere from M\$8 to M\$15 per ounce, a reflection of how profits from the gold trade attracted would-be dealers to pay substantial premium for the privilege of supplying the Macanese market. While the Macau government eventually raised the cost of permits up to M\$3 per ounce and imposed new restrictions on reselling permits, the trafficking continued.⁹⁷ By early 1948, *The Economist* reported that tiny Macau had officially absorbed more gold than any market in the world, with much of it unofficially destined for China.⁹⁸ Some gold legitimately imported into Macau would in turn be smuggled back into Hong Kong (in smaller, presumably more manageable lots), where it would eventually enter the many abovementioned illicit trafficking channels to China.

To crack down on the illicit traffic in the Pearl River Delta, the government concluded separate anti-smuggling agreements with the governments of Hong Kong and Macau in 1948. The agreements permitted the Maritime Customs greater freedom to patrol in the waters of Hong Kong and Macau and exercise stricter surveillance over

⁹⁷ *FR*, 29 Jan. 1947, Vol. 2 No. 5, 52-3; 30 Apr. 1947, Vol. 2 No. 17, 202-3; and 17 Dec. 1947, Vol. 3 No. 32, 681-2. The article “Gold Business with China” in *FR*, 25 Feb. 1948, Vol. 4 No. 8, 169-71 was translated in a Chinese financial journal. See *Yinhang Tongxun*, 1948, No. 55, 15-6.

⁹⁸ *The Economist*, 17 Apr. 1948, 639.

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cargoes.⁹⁹ In one sense, the agreements represented a triumph for the Nationalists, who had long sought to project its control more widely across the Pearl River Delta.

Ratification of a similar anti-smuggling agreement with Hong Kong failed in the 1930s due to opposition from Guangzhou merchants. In another sense, however, the agreements had limited practical effect, since the Nationalists would have little time to implement them on the eve of its defeat.

Conclusion

The difficulties the Maritime Customs experienced in combatting smuggling were symptomatic of broader challenges facing the Nationalist state in the postwar era. To rebuild an economy that suffered tremendous destruction after eight years of unrelenting warfare, the government initially liberalized foreign trade policies to help alleviate chronic shortages and fight stubborn inflation—conditions inherited from wartime. China's almost-insatiable appetite for imports, however, quickly outstripped the supply of foreign exchange, and the government soon reversed its policies by reintroducing variations of wartime controls on trade. High tariffs remained an important driver of smuggling, but it was these controls that changed the economics of illicit trading yet again, since restrictions effectively transformed scores of badly-consumer products into contraband. The new postwar geopolitical order—e.g. new boundaries and non-recognition of Japan and Korea—placed legal walls in the middle of traditional trade networks and further encouraged enterprising merchants to circumvent these restrictions. Many merchants engaged in some form of regulatory arbitrage by legitimately importing goods into zones outside of Chinese control like Hong Kong and Macau before funneling them into the mainland. In the case of Macau, the confluence of strong demand for gold

⁹⁹ CH 1950: 322.

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in China and changing regulations in Hong Kong and elsewhere rerouted entire global supply chains to the small Portuguese colony. The speed and scale of the shift highlight the adaptability of smugglers to stay one step (or two or three) ahead of regulations.

While it is tempting to write off this period of Nationalist rule as an unqualified failure, it must be recognized that as state authority was undermined, it was also asserted in other ways. After the Nationalists effected the shift in jurisdiction from persons to territory after abolishing extraterritoriality, for instance, the Customs was able to move into new spaces (e.g. former concessions) and apprehend foreign smugglers for prosecution as part of overall interdiction efforts. Moreover, while trade restrictions were constantly circumvented, the rising number of violations by itself does not suggest that regulations were completely ineffective. After all, merchants and other would-be smugglers had to engage in elaborate and complex evasion tactics precisely because regulations were strict enough to warrant such tactics in the first place. The Nationalists' collapse, therefore, should not completely obscure the overall trajectory of growing state controls.

Table 5-1
Major Postwar Trade Regulations

Date of Promulgation	Regulation
March 1946	Temporary Foreign Trade Regulations (Jinchukou maoyi zanxing banfa): Divided imports into three categories—free imports, licensed imports, and prohibited imports. Some luxury articles were permitted for import through payment of a 50% luxury surtax above existing tariff rates. Total number of prohibited articles was 22. Exports subjected to examination by Customs and required a certificate issued by appointed banks testifying that foreign exchange would be surrendered.
November 1946	Revised Temporary Foreign Trade Regulations (Xiuzheng jinchukou maoyi zanxing banfa): All imports—except for items prohibited, required no foreign exchange, or valued less than US\$50—may be imported with license. Board for the Temporary Regulation of Imports created to oversee licensing and coordinate regulations. Quotas established and permits allocated to trade associations and guilds, who in turn distributed them to members.
February 1947	Emergency Economic Measures (Jingji jinji cuoshi fang'an): Prohibited gold speculation and foreign exchange circulation.
August 1947	Foreign Trade Regulations (Jinchukou maoyi banfa): Import licensing system and regulations prohibiting gold speculation and foreign exchange circulation maintained. Board for the Temporary Regulation of Imports renamed to Import-Export Board to reflect its role regulating the flow of all commodities.
March 1948	Regulations Governing the Punishment of Smuggling (Chengzhi zousi tiaoli): Smuggling criminalized and punishable by penal servitude or death.

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Table 5-2
Dates of Loss and Recovery of Coastal Customs Stations, 1937-46

Region and Customs Station	Japanese Occupation	Bogus Customs Takeover	Nationalist Customs Takeover
North China			
Qinhuangdao	Jul-37	Dec-41	Nov-45
Tianjin	Aug-38	Dec-41	Nov-45
Longkou	Feb-38	Dec-41	Communist control
Zhifu	Feb-38	Dec-41	Communist control
Weihaiwei	Mar-38	Dec-41	Communist control
Qingdao	Jan-38	Dec-41	Oct-45
Lower Yangzi			
Hankou	Oct-38	Dec-41	Sep-45
Jiujiang	Jul-38	1943	Closed
Wuhu	Dec-37	Mar-43	Closed
Nanjing	Dec-37	Jun-42	Sep-45
Jinjiang	Dec-37	1943	Closed
Central Coast			
Shanghai	Nov-37	Dec-41	Sep-45
Suzhou	Dec-37	1943	Closed
Hangzhou	Dec-37	1943	Closed
Ningbo	Apr-38	May-43	Sep-45
Southern Coast			
Xiamen	May-38	Dec-41	Oct-45
Shantou	Jun-39	Dec-41	Sep-45
Guangzhou	Oct-38	Dec-41	Sep-45
Kowloon	Dec-41	Dec-41	Sep-45
Jiangmen	Mar-39	Dec-41	Sep-45
Sanshui	Oct-38	Closed	Closed
Qiongzhou	Feb-39	Dec-41	1946

SOURCE: *TC* 1946.

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Table 5-3
Maximum Nominal and Real Fines Leviable, 1937-48

Date	A: Fine Leviable (CN\$)	B: Price Index (Mid-1937 = 1)	C: 1937 Equivalent (CN\$)
Mid-1937	2,000	1	2,000
Aug-45	100,000	346	289
Nov-46	200,000	5,318	38
Aug-48	400,000,000	4,927,000	81

Note: Price Index for Aug-45 taken from Sep-45.

SOURCES: Column A from IG Circular Nos. 6711, 23 Aug. 1945; 6937, 5 Nov. 1945; and 7352, 10 Aug. 1945. Column B taken from Shanghai general wholesale price index from Wu 1958: 160-2. Column C calculated by dividing Column A by Column B.

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Table 5-4
Postwar Bilateral Trading Relations

	Nationalist China	Japan	South Korea	Hong Kong	Macau
Nationalist China		Government-to-government trade until 1951	Government-to-government trade until early 1948	Broad restrictions CH-HK; fewer restrictions HK and elsewhere	Broad restrictins CH-Macau; fewer restrictions Macau and elsewhere
Japan	Government-to-government trade until 1951		Relations normalized in 1965	Government-to-government trade until late 1947	Few restrictions; Portugal neutral during the war
South Korea	Government-to-government trade until early 1948	Relations normalized in 1965		Government-to-government trade until late 1947	Few restrictions; Portugal neutral during the war
Hong Kong	Broad restrictions CH-HK; fewer restrictions HK and elsewhere	Government-to-government trade until late 1947	Government-to-government trade until late 1947		Few restrictions
Macau	Broad restrictins CH-Macau; fewer restrictions Macau and elsewhere	Few restrictions; Portugal neutral during the war	Few restrictions; Portugal neutral during the war	Few restrictions	

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Table 5-5

Estimated Revenues and Expenses by Individual Steamship Smugglers

Item	HK\$
Revenues	800
Expenses	
Cost of Goods	400
Passage to Shanghai	60
Passage to Hong Kong	30
Hotel (2 days)	15
Meals and Expenses	50
Total Expenses	555
Net Profit	245

SOURCE: *FR*, Vol. 4, No. 8, 5 May 1948, 449.

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Just months after the Nationalists criminalized smuggling, concluded the anti-smuggling agreements with Hong Kong and Macau, and implemented a new tariff, the regime suffered a string of defeats on the battlefield from which it never recovered. In the fall of 1948, as part of the Liaoshen Campaign, Communist forces annihilated the Nationalists' best-trained army in Manchuria and assumed control over China's most industrially advanced and resource-rich region. Months later in January 1949, Communists forces emerged victorious yet again from the even more decisive Huaihai Campaign, effectively ejecting Nationalist forces from north of the Yangzi River and opening up the rest of South China for conquest. The economy also continued its free-fall: the introduction of the new currency in August 1948, the gold yuan, failed to halt inflation and took public confidence in the regime down several more notches. The government soon lifted almost all trade restrictions, but by this time, foreign trade had been reduced to a negligible amount, with more ports and territory falling into Communist hands.¹

As the military balance quickly and inexorably tipped in the Communists' favor, Customs Inspector General Lester Knox Little received conflicting instructions regarding actions to be taken by the agency in the event that the Nationalist government evacuated Nanjing. In early December 1949, the Minister of Finance gave Little verbal instructions to move south to Guangzhou with the government. In February 1949, however, the

¹ Chang 1958: 334.

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Ministry of Finance ordered all officials to remain at their posts until explicitly instructed otherwise.² Finally, at an April 1949 meeting of high-level Guan-wu Shu and Customs officials, Little decided to relocate with his retinue to Guangzhou and leave the archives and the rest of the staff to manage agency affairs in Shanghai.³ In retreating south, Little was no doubt mindful of avoiding the notorious example set by his predecessor Frederick Maze, who remained in Shanghai even after the Nationalists' retreat to Chongqing back in 1938. Maze's decision—ostensibly made to maintain continuity of Customs operations—damaged the prestige of the agency in the eyes of Nationalist officials. More importantly, Maze's disinclination to adequately prepare the Customs for the escalating conflict had serious repercussions. The outbreak of the Pacific War in December 1941 and the subsequent Japanese takeover of the Maritime Customs precipitated a crisis in agency leadership by helping to sow confusion over which Maritime Customs was legitimate—the Wang Jingwei-sponsored Customs that controlled intact the agency's archives and staff, or the new Chongqing-sponsored Customs that was just created from scratch?

In any case, Little's demonstration of his loyalty to the Nationalists did not go unnoticed, least of all by Chiang Kai-shek, who in the end placed far more trust in the Maritime Customs than his own navy. On the Generalissimo's orders, Little loaded up 200 tons of gold and silver on Customs cruisers—the whole bullion reserves of China—and shipped them off to Taiwan prior to the fall of Guangzhou in October 1949.⁴ Little himself followed the regime's retreat to Taiwan, helped set up a new Maritime Customs

² Yeh 1987: 62-3. The logic behind this order is that officials who stayed at their posts were nominally doing so under the Nationalist government's directive, whereas officials who accepted a transfer meant effectively accepting the authority of the Communist government.

³ For the events leading to Little's departure, see Chang 2013: 150-1.

⁴ Anderson 2005: 388.

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on the island, and resigned as the last foreign Inspector General at the end of 1949. For his long service to China, he was awarded the Order of Brilliant Star (*Jingxing xunzhang*), one of the highest honors the Republic of China bestowed on civilians.⁵ Little was the last foreign employee of the Maritime Customs, and his resignation effectively and symbolically closed a long, one-hundred year chapter on China's first tangle with Western imperialism.

Meanwhile on the mainland, a new regime inaugurated its own state-building program to protect, consolidate, and expand its gains from the still-unfinished revolution. One tactic it employed was to take over existing Nationalist institutions, refocus their missions, and inculcate among their staff loyalty to the new regime. The Maritime Customs was an especially important target. The government rechristened the old Maritime Customs as the General Customs Administration (Haiguan Zongshu), and—just as its predecessor did many decades ago—sought to harness the agency to serve larger political and economic aims. Symbolically, direct and full control of the agency irrevocably confirmed the end of foreign imperialism in China. The party, in fact, made the realization of this goal a top priority, even before it had achieved total victory. In his report to the Second Plenary Session of the Chinese Communist Party's Seventh Central Committee held on March 1949, Mao Zedong declared: “Taking immediate control of foreign trade and reforming the customs system—these are the first steps we must take upon entering the big cities.”⁶

Economically, directing the agency to regulate the flow of goods supported China's development and still-fragile recovery. In emphasizing this mission for the

⁵ Chang 2013: 170-5. Little was only one of two foreign Inspector Generals (the other being Robert Hart) to receive this honor upon retirement.

⁶ RR, 25 Nov. 1968, 2.

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agency, Liu Shaoqi praised the new Customs for working in lockstep with New China’s foreign trade policy and helping to protect and promote the country’s industrial development. The agency would now work for the benefit of the people, Liu asserted, because of new leadership: “[W]e have now placed the key to the gate of China in our own pocket, in contrast to the past when it was placed in the pockets of foreign imperialists and their running dogs.”⁷ Liu’s metaphor of the Customs as the “gate” would be repeatedly invoked to emphasize the agency’s importance in monitoring and regulating foreign trade.

The man entrusted with the key to this gate was Kong Yuan, who was appointed Director of the General Customs Administration in 1949. A native of Jiangxi, Kong had joined the Communist Youth League back in 1924, cut his teeth as a political operative during the dark days of the late 1920s and 1930s, and slowly ascended the party hierarchy in a career that took him from Moscow to Yan’an to Chongqing to Manchuria.⁸ Just as it did with other institutions, the new regime made sure to place politically-reliable cadres to oversee the Customs.

While Kong’s revolutionary credentials were unassailable, the same cannot be said for the supporting cast beneath him in the New Customs’ administrative hierarchy—holdovers from the Old Customs and the very staff that remained at their posts during the Nationalists’ steady southward retreat. Their ranks not only included low-ranking employees but also high-ranking officials who were (initially) valued for their technical and administrative expertise. Before they were put to work for the new regime, however, they most certainly underwent some form of reeducation to encourage loyalty and

⁷ *RR*, 18 Aug. 1950, 5.

⁸ “Kong Yuan,” in HB: 327.

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dedication to the new order. One former commissioner described such a reeducation session, a 1950 meeting between a representative from the People's Liberation Army and employees at a South China Customs station:

The speaker said it must be understood that the People's Government possessed the ability and power to take over and run the Customs, but the retention of the Customs staff was merely an act of generosity so that they may be given a chance to reform themselves, and at the same time, to avoid increase in unemployment. While the [Military] Committee was glad that the Customs staff took active steps to indoctrinate themselves in the new principles, he hoped that those who were wavering and were thinking of enjoying the same privileges as under the old regime, should be advised to alter their attitude in the light of the new order. All should strive to fulfill the expectation of the People's Government, under pain of being put to forced labor or dismissal. Whereas the Customs under the old regime ruled over the people, it was now the people who ruled over them. The old staff must therefore work up to the new principles, and make amends for whatever wrong they had done to the people.⁹

The commissioner's description of the meeting reveals both the reeducation tactics of the Communists as well as the initial attitude of the staff towards the new order. This multi-prong strategy of employing threats, inducements, and magnanimity was probably necessary because, as the speaker alluded, many employees proved hesitant to fully commit themselves to the new regime and unwilling to recognize the irrevocable end of the old.

We do not know how many holdovers were "wavering," but Ding Guitang was not among them. The former Deputy Inspector General and the highest-ranking Chinese official in the Old Customs stayed in Shanghai after Little's flight to Guangzhou in order to "maintain the administrative integrity of the Customs." While uncertainties surrounded the regime change, Ding was reportedly optimistic about the prospect of

⁹ Yeh 1987: 70.

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working for the new government. “I know that the Communists consider me a good person,” he purportedly told a subordinate.¹⁰

Ding’s instincts proved correct, at least initially. After Little’s retreat to Guangzhou and the fall of Shanghai in May 1949, he ordered his subordinates to remain in the city, collaborated with Communist representatives sent to take over the Customs, and helped relocate the Inspectorate to the new capital in Beijing. For his efforts, Ding made a quick transition in the new political order, becoming Deputy Director of the General Customs Administration shortly after the founding of the People’s Republic. He was also accorded a very public role in the new regime, serving on various political committees as well as a delegate to the National People’s Congress. His many articles—topics of which ranged from comparing the Old and New Maritime Customs, to urging that the mopping up of counterrevolutionaries continue, to how the elderly are becoming more youthful in revolutionary spirit¹¹—appeared in *People’s Daily*.

His service to the new regime, unfortunately, did not protect him from the turbulent politics of the 1950s. Under the liberalized political atmosphere during the Hundred Flowers Campaign, Ding wrote an open letter in *People’s Daily* declaring: “The Communist Party is great in its wisdom and correctness, but not every party member is like so.” His letter focused on the lack of respect party cadres accorded to non-party staff and called for improvement in treatment within the New Customs.¹² Months later when the regime reversed course and launched the Anti-Rightist Movement, Ding had to publically recant his criticisms, publishing another letter in *People’s Daily* (his last)

¹⁰ Fan 2001: 112.

¹¹ *RR*, 5 May 1951, 2; 16 July 1955, 3; and 4 Mar. 1956, 2.

¹² *RR*, 17 May 1957, 4.

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declaring: “Without the Communist Party, China will perish.”¹³ Despite his repentance, Ding never fully removed his political stigma, eventually succumbing to illness in 1962.¹⁴

Despite such political intrigues at the top, work at the New Customs continued apace. In addition to supporting the new regime and its industrialization program, the agency was also expected to police foreign trade—the very same responsibility its predecessor assumed. Smuggling remained a widespread problem in New China. In his review of the General Customs Administration’s first year of operation, Director Kong Yuan praised the agency’s ongoing progress in ridding itself of the vestiges of imperialist influence and becoming a more effective organ in serving the needs of the people. But with respect to the fight against smuggling, Kong struck a more cautious tone and betrayed some concern: “Although the Customs’ anti-smuggling work has achieved much success nationwide, the smuggling situation remains serious.”¹⁵ Smuggling menaced public order, maintained China’s dependence on foreign imperialists, and exposed the country’s vulnerability to the vicissitudes of global capitalism—all the hallmarks of Old China’s failure to realize greater economic autarky. Moreover, illicit foreign trade undermined the goals set forth by New China’s leaders to reorient the country’s economic ties away from the hostile Capitalist Bloc and towards the friendlier Communist Bloc. As Mao himself declared: “The basic policy of our foreign trade is: All forms of goods needed by the Soviet Union as well as the new democratic countries in Eastern Europe, we should try our best to export to them; and all those that we can get from them, we should import from them. Only goods that are not needed by them or we

¹³ *RR*, 13, July 1957, 11.

¹⁴ “Ding Guitang,” in HB: 72.

¹⁵ *RR*, 3 Jan. 1951, 2.

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cannot get from them, should be exported or imported to and from capitalist countries.”¹⁶

Finally, the leakage of precious raw materials, finished goods, and precious bullion robbed the government of the currency to pay Communist allies for their vital economic and technical assistance.

The dynamics and geography of the post-1949 smuggling problem were remarkably similar to their pre-1949 counterparts. As Kong himself summarized, smuggled goods coming into China included Western medicines, sea delicacies, dyestuff, chemicals, and luxury goods such as watches. Smuggled goods going out of China included gold, silver, grains, cotton goods, and silk fabrics. The major channels of this illicit traffic were Shanghai, Tianjin, Qingdao, Shantou, and, in particular, the Pearl River Delta.¹⁷ During the decade from 1950 to 1959, the agency recorded 328,490 cases of smuggling nationwide.¹⁸

In addition to its adverse impact on geopolitical aims, smuggling had other pernicious effects as well, as the rhetoric employed by the new regime would indicate. The Communists still levied the usual epithets “treacherous merchants” (*jianshang*) and “bandits” (*tufei*) at illegal traders. Just as it was the case under the previous regime, the anti-smuggling discourse was also articulated in terms of nationalism, linking the illicit pursuit of profit to the damage it inflicted on the welfare of the nation. The Communists, however, now expanded the public vocabulary to describe those who purportedly collaborated with foreign imperialists and the “Chiang Kai-shek bandit gang” (*Jiang feibang*) in undermining the laws, borders, and sovereignty of the People’s Republic. The new labels they affixed on smugglers—“unscrupulous traders” (*bufa shangren*),

¹⁶ Westad 2003: 254.

¹⁷ *RR*, 3 Jan. 1951, 2.

¹⁸ *HB*: 800.

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“capitalists” (*zibenjia*), and “feudal remnants” (*fengjian canyu*)—reflect the regime’s belief that private economic motivations were intimately and ultimately inseparable from more insidious political and social motivations. From this perspective, individual acts of smuggling were more than just a *personal* act of greed—they represented a *collective* threat to the proletariat and their revolutionary gains.

Another holdover that survived the 1949 divide was the legal edifice constructed to fight smuggling and project central authority. Even in post-liberation China, where the prevailing political discourse repeatedly emphasized its total break from pre-liberation China, many Communist institutions and practices traced their roots to Nationalist predecessors. We can see some of this continuity in the Provisional Customs Law of the People’s Republic of China (Zhonghua Remin Gongheguo zanxing haiguan fa). Promulgated in 1951 and replaced only in 1987, the law governed the administration and responsibilities of the new People’s Customs for more than three decades and owed many of its features to the pre-1949 regulatory framework. Jurisdictional responsibilities over minor and major cases of smuggling were more clearly delineated between the judiciary and the People’s Customs, but the decision to fine and confiscate remained the sole prerogative of commissioners.¹⁹ Individuals dissatisfied with the penalties levied by the People’s Customs were permitted to appeal their cases in accordance with procedures that echoed those of the old Customs Penalty Board of Inquiry and Appeal.²⁰ Even as it celebrated China’s liberation from the baleful influence of imperialism, an editorial in *People’s Daily* highlighted the “useful, professional experience” (*youyong de yewu*

¹⁹ ZH: 17.185 and 17.186.

²⁰ ZH: 17.187, 17.188, and 17.189.

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jingyan) of the old Maritime Customs in crafting the new Provisional Customs Law.²¹

Viewed in this light, many of the Nanjing Decade state-building reforms were thus far from ephemeral—through war and revolution they enjoyed a long, unacknowledged afterlife on the mainland. It is this story of how these continuities shaped Communist China’s initial state-building efforts—as well as Communist China’s own war on smuggling—that will be told in a future book.

* * *

This dissertation has explored the interplay between law, society, and economy by focusing on the Nationalists’ extensive and violent war on smuggling in coastal China during the early twentieth century. In examining the ways the regime taxed, regulated, and policed trade, this dissertation has traced the impact of new legal categories and rules on social and economic change. Specifically, it has shown the many effects of official policies on the underlying economics of exchange that ultimately made smuggling profitable, as well as the varied societal responses to these policies. Again, evading state strictures and taxes on trade has been (and remains) an enduring phenomenon in human history, but it is particularly remarkable how the Nationalists’ policies encouraged smuggling on such a wide scale. Prior to China recovering its tariff autonomy in 1928, the kinds of smuggling official attention focused upon were the trafficking of a handful of contraband, such as weapons and narcotics, or government monopolies such as salt. With the introduction of higher across-the-board tariffs, however, the price gap for ordinary goods licitly imported and those illicitly imported diverged dramatically, providing opportunities for retailers of smuggled goods to drastically undercut competitors who sold goods that paid the required duties. Later during the Second Sino-Japanese War and

²¹ RR, 21 Apr. 1951, 1.

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the postwar period, new regulations either limited the flow of consumer goods with permits and quotas, or they prohibited it outright, creating severe shortages and exacerbating imbalances between supply and demand.

From the perspective of Nationalist officials, many of the policies the regime pursued had defensible rationales: they were aimed at raising sorely-needed revenues, restricting harmful trade with the enemy, or stabilizing a faltering economy. In asserting their prerogative to police trade within China's borders—even in extraterritorial enclaves—the Nationalists were also using the fight against smuggling to assert their authority and sovereignty. Smuggling by foreigners, once dealt with through diplomatic channels, was eventually dealt with through domestic channels with the creation of new institutions and the formalization of legal procedures. Many of these state-building ideals had been percolating in official and public discourse from the late Qing through the early Republic, but it was the Nationalist regime—with its centralizing imperative—that began translating them into practice. Moreover, as this dissertation has noted, these policies shared many similarities to those pursued by other modern states, such as protecting critical trade revenues and securing borders. An important difference, of course, was that the Nationalists were trying to build a modern nation-state while laboring under the legacies of nineteenth and twentieth century imperialism, a politically-fractured China, and a hostile geopolitical environment.

The perspective of merchants, consumers, and others at the end of these state-building efforts, however, differed considerably from that of the state. Such economic actors viewed these new policies—not infrequently and with some justification—as arbitrary and unjust. Restrictions and higher tariffs were primarily aimed at goods such

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as luxury products or those that competed with nascent domestic industries, yet many of these goods—sugar, kerosene, cigarettes, nylon stockings, among others—were also daily necessities for millions of consumers and businesses. These categories also later expanded to include virtually all commodities, widening and deepening the impact of state regulations on everyday life. Finally, during periods of galloping inflation where the value of money eroded—first steadily, later exponentially—evading state strictures on trade became not merely an opportunity for profit but also an imperative for survival.

In other cases, illegality was simply a byproduct of a broader state-building agenda in asserting national sovereignty and exercising stricter control over borders more imaginary than real. To have any real significance, after all, borders need to be more than asserted, mapped, and recognized—they need to be enforced. We have seen, for instance, how merchants plying long-time trade routes were labeled as “smugglers” by a state that quickly elected to enforce borders and impose restrictions on movement of people, goods, and vessels. We have also seen ways that existing patterns and practices of commerce were made illegal, particularly during the wartime and postwar periods when economic embargoes and non-diplomatic recognition placed walls between supply and demand in ways that accorded with the vicissitudes of war and geopolitics, rather than with actual economic conditions.

This dissertation has identified the many motivations behind evading and defying state strictures. Careful reading of legal plaints, petitions, and popular press reports make clear the many roots of dissatisfaction and issues of contention with new central government policies. Profit was certainly a powerful driver, but it was mixed with others. Resistance to the Nationalists’ centralization program, for instance, also drove smuggling.

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This was particularly the case for warlords and local governments who recognized that paying stipulated tariffs and adhering to trade regulations meant more financial resources and political legitimacy for their rival in Nanjing to claim the mantle of China’s national government. Finally, as it was the case for many other crimes, justice was meted unevenly for smuggling. The runners and other participants of the trafficking occupied the lowest rung of the socioeconomic ladder yet took the biggest brunt of state enforcement. They—and not the consumers, suppliers, or others with far more culpability in the illicit trade—were most likely to be caught or punished. One could certainly see—as some members of the public and even government officials themselves did—that engaging in “smuggling” by circumventing state restrictions was an understandable survival strategy with some moral basis.

This dissertation has looked at the Nationalists’ war on smuggling in a comparative context, identifying the similarities the Nationalists’ state-building program shared with those of other modern states. The Nationalists’ reliance on tariff revenues for funding during the Nanjing Decade was not unique. Although they had shifted their tax base by the early twentieth century, many other modernizing states—including the United States and Great Britain—once relied on tariff duties for their primary source of funding. The violence sparked by the Nationalists’ war on smuggling was also not unique. The governments of other modernizing states clashed with their own merchants and consumers in enforcing revenue laws. The long war on smuggling in China thus echoed the historical experience in other states facing considerable resistance in implementing their policies.

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This dissertation has also looked at the Nationalists' war on smuggling in a connective context, by exploring ways smuggling was a product of the interplay between domestic Chinese policies and economic currents and their global counterparts. Examples in this dissertation abound. During the Nanjing Decade, the decision behind and the consequences of new tariffs and regulations on trade did not unfold in a domestic vacuum but within a broader international context. During the war years, economic embargos were introduced, modified, and enforced in response to enemy policies. During the postwar years, domestic Chinese regulations and new supranational regulations reoriented the global economy—such as the market for gold—by creating opportunities to profit from regulatory arbitrage. A proper understanding of smuggling's dynamics, indeed, necessarily requires seeing the global connections between trade policies, tariffs, and regulations.

Smuggling remains a serious and enduring phenomenon for China and many societies today. The illicit flow of commodities—everything from contraband such as narcotics and weapons to ordinary consumer goods to human beings—are infinite in their variety, confirming the historian Eric Tagliacozzo's original observation that smuggling has no ontology. It also represents a double challenge to states trying to maintain public order and protect their prerogative to tax and regulate trade. China continues to grapple with the problem of smuggling, despite its newfound status as an economic powerhouse. Using language that Nationalist officials themselves might have used, a General Customs Administration official admitted: "Smuggling has become a serious problem, which has undermined national foreign trade management, caused great losses to State tax incomes,

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and led to unfair competition in the market.”²² For the global community more generally, the United Nations Office on Drugs and Crime (UNODC) has warned of how illicit transnational trafficking and social instability “amplify each other to create vicious circles in which countries may become locked.”²³ Proposed responses to this problem run the gamut from intensifying interdiction, to launching education campaigns, to liberalizing trade restrictions. Whatever the policy prescription is adopted, however, officials must discard the assumption that illicit activities are somehow new, aberrant activities. Scholars like the political scientist Peter Andreas have called claims of illicit globalization eroding state control as “overly alarmist and misleading and suffer[ing] from historical amnesia.”²⁴ Indeed, as this dissertation has shown, the relationship between the regulatory state and illicit activities like smuggling has not always been antagonistic but also symbiotic, with one shaping the other and vice-versa. For the modern state, challenges to its authority also invite crackdowns that reify that very authority.

²² “China's customs crack down on secret smuggling method.” *China Daily*, 3 Dec. 2010.

²³ United Nations Office on Drugs and Crime (UNODC) 2010: 21.

²⁴ Andreas 2011: 3.

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Character List

aiguo shangren	愛國商人
aiguo xin	愛國心
baobi	包庇
baozhang	保長
bei diren baoli kongzhi	被敵人暴力控制
Boshang nihuo	舶商匿貨
bufa shangren	不法商人
buxiang	不詳
buxiao guanbing	不肖官兵
buyuan chikui	不願吃虧
Chajin dihuo tiaoli	查禁敵貨條例
Changguan	常關
chengbai dishi guanjian	成敗得失關鍵
Chengzhi zousi tiaoli	懲治走私條例
chumu jingxin	觸目驚心
congkuan banli	從寬便利
diaoling	凋零
dihuo	敵貨
dihuo biao	敵貨表
dixia maoyi	地下貿易
Duidi jingji fengsuo weiyuanhui	對敵經濟封鎖委員會
fang si	放私
fanrong de shihou	繁榮的時候

Character List

fengjian canyu	封建殘餘
fenjia	分家
genjue dihuo	根絕敵貨
gezi weizheng	各自為政
guanshui wenti	關稅問題
guohuo	國貨
guohuo zhengming qingdan	國貨證明清單
guowai difang	國外地方
Haiguan	海關
Haiguan faze pingyi hui	海關罰則評議會
Haiguan guanli hanghai minchuan hangyun zhangcheng	海關管理航海民船航運章程 漢奸
Haiguan jisi tiaoli	海關緝私條例
Haiguan Zongshu	海關總署
Hanjian	漢奸
hu si	護私
huifu	恢復
Huixun zhangcheng	會訊章程
Jiandu	監督
Jiang tufei	蔣土匪
jiashang	奸商
Jihuo siyun yinlei yinbi chufa jijiang banfa	緝獲私運銀類銀幣處罰給獎辦法 進出口貿易暫行辦法
Jinchukou maoyi zanxing banfa	經濟封鎖
jingji jianshe	經濟建設
Jingji jinji cuoshi fang'an	經濟緊急措施方案
jingji qinlüe	經濟侵略

Character List

Jinyun zidi wupin tiaoli	禁運資敵物品條例
Jinyun zidi wupin yun Hu shenhe banfa	禁運資敵物品運滬審設辦法
Jinzhi duiyu zousi huowu zhengshui fangxing banfa	禁止對於走私貨物徵稅放行辦法
jiu	救
Junyong qiangpao qudi tiaoli	軍用槍砲取締條例
kong Ri bing	恐日病
langren	浪人
mou guo	某國
neixiao zheng	內銷證
Ni shui	匿稅
qique	奇缺
quqiao yi yu	取巧以裕
Riji XX yanghang	日籍 XX 洋行
rulang sihu	如狼似虎
si	私
shangbiao	商標
shangzhan	商戰
Shiliang zidi zhizui zanxing tiaoli	食糧資敵治罪暫行條例
shuike	水客
shuiwu si	稅務司
shusan zheng	疏散證
shutu tonggui	殊途同歸
Siyan zhizui fa	私鹽治罪法
tufei	土匪
Wei Haiguan	偽海關
wen le zousi de fengsheng	聞了走私的風聲

Character List

wuyan tang	無煙糖
X guo	X 國
xiancheng chuwai	縣城除外
xianmin	線民
xiao shuike	小水客
Xiuzheng chengzhi toulou guanshui	修正懲治偷漏關稅暫行條例
zanxing tiaoli	
yangyao	洋藥
yi cai	易財
youbang	友邦
youmin	莠民
youyong de yewu jingyan	有用的業務經驗
Yunshu yinbi yinlei qingling huzhao ji	運輸銀幣銀類請領護照及私運私帶
siyun sidai chufa ban fa	處罰辦法
zahuodian	雜貨店
Zangwu zui	贓物罪
Zhanshi guanli jinkou chukou wupin	戰時管理進口出口物品條例
tiaoli	
zhanshi xiaofei shui	戰時消費稅
zhengming shu	證明書
Zhonghua Renmin Gongheguo	中華人民共和國暫行海關法
zanxing haiguan fa	
zibenjia	資本家
zidi wupin	資敵物品
zong shuiwu si	總稅務司
zousi	走私
zuyi zengjia diren zhi shili zhe	足以增加敵人之實力者

APPENDIX A

Customs Preventive Law 海關緝私條例

Date of Promulgation: June 1934

Article 1

Customs Preventive officers, acting under the instructions of the officer in charge (Commissioner of Customs) and having reasonable cause to believe that a breach of this Law has occurred, may, in the performance of their duties, inspect and search the premises concerned. In conducting their inspection and search, they shall require the presence, as witness, of the occupant or other inhabitant of the premises, or of any of the occupant's employees or neighbors, and of a representative of the local police or other local officials. When a vessel, aircraft, or other vehicle is being inspected and searched, the person in charge thereof shall be required to attend as witness.

Should the premises concerned be those of an official administration or an organization under Government control, the inspection and search shall be conducted jointly by Customs officers and the officials of such administration or organization.

Article 2

Customs Preventive officers, acting under the instructions of the officer in charge and in the performance of their duties, may, if they have reasonable cause to believe that anyone has on his person any article the possession of which constitutes an infraction of this Law, demand the

第一條

緝私關員，承主管長官之命，執行職務時，具有正當理由，認為違反本條例情事，業已發生者，得赴關係場所施行勘驗、搜索，當勘驗搜索時，應邀同該場所占有人，或其同居人、僱用人、鄰人、並當地警察，或其他公務人員在場作證，如在船舶，航空機，車輛，施行勘驗搜索時，應邀其管理人在場作證。

前項關係場所，如係其他官署，或公營事業機關，其施行勘驗搜索，應會同該官署或機關辦理。

第二條

緝私關員，承主管長官之命，執行職務時，具有正當理由，認有身帶物件，足以構成違犯本條例情事者，得令其交驗該項物件，如經拒絕，得搜索其身體。

Appendix A

production of such article and, if the demand is refused, may search his person.

Search of persons shall be made in the presence of another Customs officer or of a third party.

Search of females shall be made by Customs female searchers.

Article 3

Customs Preventive officers, acting under the instructions of the officer in charge in investigating a case of suspected infraction of this Law, may, if it is necessary, interrogate the persons suspected, the witnesses, and those stated by the suspects to be concerned with the case.

Article 4

Customs Preventive officers, while conducting an inspection, search, or interrogation, shall wear uniforms or carry with them badges or some other mark to identify their official capacity.

In conducting an inspection, search, or interrogation, Customs Preventive officers may also, if necessary, request the assistance of the military and police authorities.

Article 5

Customs Preventive officers, acting under the instructions of the officer in charge, when satisfied that the articles found as a result of their search indicate that an infraction of this Law has been committed, shall attach such articles and shall prepare a list of attachment giving therein the name and quantity of the articles, the place and time of the attachment, and the name and

搜索身體時，應有第三人，或其他關員在場。

搜索婦女身體，應由女緝私關員行之。

第三條

緝私關員，承主管長官之命，調查有違反本條例嫌疑事件時，如有必要，得詢問嫌疑人、證人、及該嫌疑人提出之關係人。

第四條

緝私關員，施行勘驗搜索詢問時，應著制服，或佩徽章，或提示足以證明其職務之其他憑證。

緝私關員施行勘驗搜索詢問，遇有必要時，得邀軍警協助之。

第五條

緝私關員，承主管長官之命，查出貨物，認為確有構成違反本條例情事時，應即將該貨物扣押，並繕具扣押清單，載明該貨物之名稱，數量，扣押之地點，時間，貨物持有人之姓名，及其住所或居所。

Appendix A

domicile or residence of their possessor.

The articles attached may, if the Customs Preventive officers deem fit, be left in the custody of their possessor or of a local official organ. If they are left with the latter, the possessor shall be notified accordingly.

If the articles attached are perishable, the Customs may, before the case is settled, dispose of them by auction and hold the proceeds in custody, informing the possessor accordingly.

The public shall be give due notification of any auction.

Article 6

In the event of articles being subjected to attachment in accordance with this Law, the possessor of the articles may produce adequate guarantee and request the Customs to exempt the articles from attachment or, if they have been attached, to return them to him.

Such a request shall not be refused by the Commissioner of Customs, unless he has reason to fear that the possessor of the articles concerned may abscond or that the subsequent enforcement of the Law may be rendered difficult thereby.

Article 7

Inspection, search, or attachment of articles shall not be carried out between sunset and sunrise. This provision shall not apply, however, in cases in which the inspection, search, or attachment has commenced prior to sunset and has to be continued, or in which the offender is detected *in flagrante delicto*.

前項扣押之貨物，緝私關員因事實上之便利，得交由原貨物持有人，或當地公務機關保管之，其交由公務機關保管時，應通知原貨物持有人。

第一項扣押貨物，認為有腐壞之虞者，海關得於定案前，將該貨物拍賣，保管其價金，並通知原貨物持有人。

前項拍賣，應於事前公告之。

第六條

依本條例扣押之貨物，其持有人得提供相當擔保，請求免予扣押或發還。

海關稅務司對於前項請求，非認為貨物持有人有逃亡之虞，或日後執行顯有困難者，不得拒絕。

第七條

勘驗搜索，或扣押貨物，不得在日沒後日出前施行，但於日沒前已開始施行，而有繼續之必要，或對於現行違犯者，不在此限。

Appendix A

Article 8

On the conclusion of an inspection, search, or attachment of articles, Customs Preventive officers shall prepare a detailed record of the proceedings. This record shall be shown to the person or persons who were present as witnesses, or to those interrogated, and their signatures or seals shall be affixed thereto together with those of the Customs Preventive officers. In the event of any one of these persons failing to subscribe his signature or seal, the fact and the reason therefor shall be noted on the record.

Article 9

Any vessel engaged in international trade entering any port of China not open to such trade shall be confiscated, and the master thereof shall be liable to a fine not exceeding \$2,000, but not less than \$500. Should, however, the entry of a vessel at an unauthorized place be due to reasons of distress or other unavoidable circumstances, which are duly notified by the master of the vessel to the local authorities at the place of entry, the penalties herein prescribed may be waived.

Article 10

Should any vessel, within the limit of 12 marine miles from the coast of China, refuse to heave to when called upon to do so by a Customs preventive vessel through the firing of a rifle or gun as signal, such vessel may be fired upon by the Customs vessel.

The master of a vessel refusing to heave to under the above circumstances shall be fined a sum not exceeding \$2,000, and the vessel shall be liable to confiscation.

第八條

緝私關員，於施行勘驗搜索，或扣押之後，應將經過情形，作成詳細筆錄，此項筆錄，應交在場證人或被詢問人閱看後，一同簽名或蓋章，如有不簽名或不蓋章者，應於筆錄中記明其事由。

第九條

國際貿易船舶駛進非通商口岸者，應沒收其船舶，並得處船長五百元以上，二千元以下罰金，但因確遇災險，或其他不可抗力之情事，並經船長將進港理由呈報當地官署者，不在此限。

第十條

船舶在中國沿海十二海里界內，經海關巡輪以鳴放空槍或空砲為信號，令其停駛，而抗不遵照者，得射擊之。

有前項違抗情事者，處船長二千元以下罰金，並得沒收其船舶。

Appendix A

Article 11

Should any vessel, within or pursued from within the limit of 12 marine miles from the coast of China, be found to have any part of her cargo, or any of her documents relating to the vessel or cargo, either destroyed or thrown overboard in order to prevent seizure, the offender shall be fined a sum not exceeding \$2,000, and the vessel shall be liable to confiscation.

Article 12

Should the master of any vessel bound for China from a foreign port allow any merchandise or shop's stores to be discharged within the limit of 12 marine miles from the coast of China before arrival at the proper place of discharge and before receipt of a Permit to Discharge, he shall be fined a sum not less than the value and not exceeding twice the value of the goods or stores thus discharged, and the merchandise or stores concerned and/or the vessel shall be liable to confiscation.

The aforesaid penalties shall be likewise applicable to any vessel unauthorizedly used for transshipping, place, or receiving on board such merchandise or stores, or for assisting in the loading and discharging thereof.

Article 13

Any person signaling or conveying information to a vessel engaged in smuggling shall be fined a sum not exceeding \$1,000.

Article 14

Any person making use of vessels, aircraft, or other vehicles for the importation,

第十一條

船舶在中國沿海十二海里界內，或經追緝逃出界外，將貨物或關於船舶貨物之文件毀壞，或拋棄水中，以圖避免緝獲者，處行為人二千元以下罰金，並得沒收其船舶。

第十二條

船舶由外國口岸開至中國，在駛進中國沿海十二海里界內之後，未到正當卸貨地點之前，並未領有卸貨准單，而船長准許起卸貨物或船用物品者，處船長以貨價一倍至二倍之罰金，並得將該貨物物品或船舶沒收之。

船舶擅自轉載放置或收受前項之貨物物品，或幫同裝卸者亦同。

第十三條

有發遞信號，傳送消息於私運貨物之船舶者，處一千元以下之罰金。

第十四條

未經海關核准，以船舶航空機車輛私運貨物進口出口起岸或搬移者，處二百元

Appendix A

exportation, landing, or removal of merchandise without Customs permission shall be fined a sum not less than \$200 and not exceeding \$2,000, and such vessels, aircraft, or other vehicles and the merchandise concerned shall be liable to confiscation.

Article 15

Any master of a vessel who fails to present, in accordance with Customs regulations, a manifest of the cargo carried on board shall be fined a sum not less than \$100 and not exceeding \$1,000.

Article 16

Should any unmanifested merchandise be found on board a vessel, the master and the owner of such merchandise shall each be fined a sum not less than \$200 and not exceeding \$2,000, and the merchandise concerned shall be liable to confiscation.

Failure to declare on the manifest as such, packages made up of two or more separate lots shall entail a fine not exceeding \$1,000.

Article 17

If any merchandise described in the manifest be not found on board, the master shall be fined a sum not exceeding \$1,000, unless he is able to prove to the satisfaction of the Customs that the merchandise in question was actually short-shipped or was inadvertently discharged at a port *en route*.

Article 18

Should any vessel unauthorizedly leave port prior to presentation to the Customs of an export manifest and before issue by the

以上，二千元以下罰金，並得將該項貨物，或船舶航空機車輛沒收之。

第十五條

船長不遵海關定章，呈驗艙口單者，處一百元以上一千元以下罰金。

第十六條

船舶所載貨物，經海關查明，有未列入艙口單者，處船長及貨主各二百元以上二千元以下罰金，並得沒收其貨物。

貨物由二包或二包以上，合成一件，而在艙口單內，未經註明者處一千元以下罰金。

第十七條

船舶所載貨物，為較艙口單內所列者有短少時，處船長一千元以下罰金，但經證明該項貨物確係在沿途口岸誤卸，或在上貨口岸短裝者，不在此限。

第十八條

船舶未向海關呈驗出口艙單，並未領海關出口准單，而擅離口岸者，處船長二百元以上，一千元以下罰金。

Appendix A

Customs of a Clearance Permit, the master of the vessel shall be fined a sum not less than \$200 and not exceeding \$1,000.

Article 19

Should any aircraft or vehicle laden with goods from any foreign country arrive at any frontier station and discharge goods without reporting to the Customs or before receipt of Customs permission, the person in charge of such aircraft or vehicle shall be fined a sum not exceeding \$1,000.

Article 20

Any unauthorized person who defaces, removes, or breaks a Customs seal or other fastening placed upon any merchandise, baggage, bonded goods or baggage, or on a vessel, vehicle, warehouse, or any place under Customs control in which such aforesaid articles are stored, or who unauthorizedly enters such vessel, vehicle, or warehouse and unauthorizedly removes or intends to remove such merchandise or baggage, shall be fined a sum of not less than \$100 and not more than \$1,000.

Article 21

Any person engaged in smuggling merchandise into or out of China or dealing in smuggled merchandise shall be fined a sum not less than the value and not exceeding three times the value of the goods concerned.

Any person unloading, loading, transporting, or concealing smuggled merchandise shall be fined a sum not exceeding \$1,000. Any person who procures, hires, or induces any other person to be concerned in the above act shall be subject to the same penalty.

第十九條

航空機車輛，自外國裝運貨物，到達邊站，未經報關，或報關未經核准，而下卸貨物者，處航空機車輛管理人一千元以下罰金。

第二十條

凡貨物行李，或保稅之貨物行李，在船舶、車輛、貨棧中，或在海關管理下而經海關加封下鎖，有擅行塗改、移動、拆毀該項封鎖，或擅入船舶車輛貨棧，意圖搬運或擅行搬運該項貨物行李者，處一百元以上，一千元以下罰金。

第二十一條

私運貨物進口出口，或經營私運貨物者，處貨價一倍至三倍之罰金。

起卸裝運，或藏匿私運貨物者，處一千元以下罰金，其招僱或引誘他人為之者亦同。

Appendix A

Any person receiving, storing, purchasing, or dealing in brokerage for smuggled merchandise shall be fined a sum not exceeding \$1,000.

The smuggled merchandise mentioned in the foregoing three paragraphs of this article shall be liable to confiscation.

Should it prove to the satisfaction of the Customs that the acts mentioned above, such as loading, unloading, transporting, receiving, storing, purchasing, or dealing in brokerage for smuggled merchandise, were undertaken without knowledge that the merchandise had been smuggled, the said penalties may be waived.

Article 22

Any person importing or exporting any merchandise—

- 1) Upon a false declaration of quantity;
- 2) Upon a false classification as to their quality or value;
- 3) By means of a forged invoice or document; or
- 4) By means of other unlawful acts of detriment to the revenue;

shall be fined a sum not less than twice, but not exceeding 10 times, the amount of duty sought to be evaded, and the merchandise concerned shall be liable to confiscation.

Article 23

Whenever Customs officers have reason to suspect that merchandise has been unlawfully imported or exported and have accordingly seized or detained it, the importer, or exporter, or the owner, or the consignee thereof shall, upon being required to do so by the Customs, produce

收受、貯藏、購買或代銷私運貨物者，處一千元以下罰金。

前三項私運貨物得沒收之。

不知為私運貨物而有起卸、裝運、收受、貯藏、購買或代銷之行為，經海關認為屬實者免罰。

第二十二條

報運貨物進口出口，有左列情事之一者，處以匿報稅款二倍至十倍之罰金，並得沒收其貨物：

- 一、匿報貨物之數量。
- 二、偽報貨物品質價值之等級。
- 三、呈驗偽造發票或單據。
- 四、其他違法漏稅之行為。

第二十三條

貨物確有違法進口出口之嫌疑，經海關緝獲扣留者，其進口商出口商貨主或承領人，經海關通知後，應將該貨物發票價單賬單，及其他單據呈驗，其與該貨物進口、出口、賣買、成本、價值、付款各情事有關之賬簿，信件簿，或發票簿，海關並得查閱或抄錄。

Appendix A

for inspection all invoices, bills, accounts, and other statements relating to the merchandise concerned; and the Customs shall also be allowed to examine or make copies of all books of account, letter books, or invoice books wherein any entry or memorandum appears respecting the importation, exportation, purchase, sale, cost, value of, or payment for, the merchandise so seized or detained.

Any person concealing or destroying with intent to suppress evidence, or failing or refusing to produce for inspection or to allow copies to be made of the aforementioned documents and account books respecting the merchandise concerned shall be fined a sum not exceeding \$1,000.

Article 24

Should any person without lawful excuse send, or bring into China, or, being in China, have in his possession, any blank bill-heading capable of being filled in and used as an invoice for imported merchandise, to which are attached certificates purporting to show that the invoice which may be made from such bill-heading is correct or authentic, he shall be fined a sum not exceeding \$1,000, and such bill-heading shall be confiscated.

Article 25

Any person employing fraudulent methods of applying for duty exemption, duty reduction, or refund of duty shall be fined a sum not exceeding \$2,000, and the merchandise concerned shall be liable to confiscation.

不為前項呈驗或拒絕查閱或抄錄，或意圖湮滅證據，將前項關係單據賬簿匿毀壞者，處一千元以下罰金。

第二十四條

由外國寄遞，攜帶或在中國持有可用以填寫進口貨發票之空白票據，並附有其他文件，足以證明該票據可供填作真實發票之用者，該寄遞、攜帶或持有之人，如不能提出正當理由時，處一千元以下罰金，並沒收其票據。

第二十五條

用欺詐方法，請求免稅減稅或退稅者，處二千元以下罰金，並得沒收其貨物。

Appendix A

Article 26

Any dutiable article concealed in a letter or in a postal parcel on the cover of which or attached to which there is no declaration giving a clear description of its quality, quantity, and value shall be liable to confiscation.

Article 27

Should a Customs broker present to the Customs an Application containing a false declaration of weight, value, quantity, quality, or of other particulars of the merchandise, or should he, by fraud, forgery, or misrepresentation, have caused loss to the Customs revenue, he shall make good any such loss and be penalised for the offence as prescribed in Article 22 and, in addition, shall be liable to have his Licence suspended or cancelled, but the merchandise concerned shall not be confiscated.

Should, however, the broker be able to prove to the satisfaction of the Customs that such false declaration and other fraudulent acts were made as the result of false information supplied to him by the owner of the merchandise, the broker shall be exempted from any penalty, but the merchandise shall be liable to confiscation, and, if the offence is of a serious nature, the owner shall also be liable to a fine of not less than \$200 and not more than \$2,000.

If the false declaration and other fraudulent acts are made as a result of collusion between the broker and the owner of the merchandise, the penalties prescribed for each party shall be enforced.

第二十六條

郵寄之信函包裹內，夾帶應課關稅之貨物，其封皮上並未載明該項貨物之品質、數量、價值，又未附有該項記載者，經查出時得沒收其貨物。

第二十七條

報關行向海關呈遞報單，對於貨物之重量、價值、數量、品質、或其他事項，如有虛偽記載、或其他詐欺、偽造、朦混情事，致侵損國格者，除追繳稅款，並依第二十二條處分外，得停止其營業，或撤銷其營業執照，但其貨物免予沒收。

前項虛偽記載等情事，如報關行證明係由貨主捏造，經海關認為屬實者，除報關行免予處分外，得沒收關係貨物，其情節較重者，並處貨主二百元以上二千元以下罰金。

第一項之虛偽記載等情事，如係報關行與貨主之共同行為，依前二項規定分別處罰。

Appendix A

Article 28

If any pecuniary penalty assessed under the provisions of this Law shall remain unpaid (1) after lapse of the prescribed time limit for lodging a protest with the Customs, or, (2) when a protest has been lodged and a decision given, after lapse of the prescribed time limit for enter upon administrative litigation, or, (3) when administrative litigation has been entered upon, after lapse of 30 days from the date of judgment, the person upon whom such penalty has been inflicted shall be liable to have all privileges of importation and exportation of goods at any port in China withdrawn until the penalty has been duly liquidated.

In cases of non-liquidation, as above described, of any pecuniary penalty imposed upon any vessel, aircraft, or vehicle employed in transporting merchandise into or out of China, all merchandise sought to be imported or exported by such vessel, aircraft, or vehicle shall be refused importation or exportation at any port of China, and the entry or clearance of the vessel, aircraft, or vehicle concerned shall be liable to be forbidden.

Article 29

In the event of a second offence of the same nature being committed against this Law within a period of five years from the date of infliction of penalty for the first offence, the penalty prescribed may be increased by 50 per cent, and for third or subsequent offences, such penalty may be increased by 100 per cent.

第二十八條

依本條例處罰案件，經過聲明異議期間，或聲明異議，於決定後，經過提起行政訴訟期間，或提起行政訴訟經判決後滿三十日，未將罰金照繳者，得停止該商在任何口岸報運貨物進口出口，至罰金繳清之日為止。

運輸貨物進口出口之船舶，航空機，車輛，有前項情事時，應停止其所運貨物在任何口岸報運進口出口，並得禁止該項船舶，航空機，車輛進口出口。

第二十九條

自處分確定之日起，五年以內，再犯本條例同條之規定者，其罰金得加重二分之一，犯三次以上者得加重一倍。

Appendix A

Article 30

In the event of violation of any provision of this Law being detected after its occurrence, duties short-paid shall be recoverable by the Customs, provided that the period that has elapsed since the offence was committed is less than three years.

第三十條

有違犯本條例情事，而於事後發覺者，得追繳未納稅款，但以其情事發生後未滿三年者為限。

Article 31

A merchant, if dissatisfied with a decision made by the Commissioner of Customs either in respect of a fine inflicted or of goods confiscated, may, within 10 days of the date of receiving from the Customs a written notification of the decision, file a protest in writing with the Commissioner of Customs, setting forth specifically his objections thereto.

第三十一條

對於海關稅務司，所為罰金或沒收之處分不服者，得於接到處分通知書後十日內，以書面聲明異議，向該管稅務司請求撤銷。

If the protest is not sustained, the Commissioner shall refer the case to the Inspector General of Customs for submission to the Guan-wu Shu for decision, forwarding at the same time a copy of the original protest.

前項請求，海關稅務司認為有理由者，應撤銷其原處分，認為無理由者，應以書面敘述理由，連同原請求書，呈經總稅務司轉呈關務署決定之。

The Guan-wu Shu shall establish a "Customs Penalty Board of Inquiry and Appeal" to deal with protest cases. Regulations to govern the organization and procedure of the Board shall be drawn up by the Executive Yuan.

關務署為受理前項案件，應設海關罰則評議會，其組織規程由行政院定之。

Article 32

A merchant, if dissatisfied with the decision of the Guan-wu Shu, may, within 20 days from the date of receiving a written notification of the decision, enter upon administrative litigation.

第三十二條

對於前條關務署之決定不服者，得於接到決定書後二十日內，提起行政訴訟。

Appendix A

Article 33

When a merchant files a protest, as provided for in Articles 31 and 32 of this Law, and there is reason to suppose that he may abscond before a final decision is given, or if difficulties are to be anticipated in the enforcement of the penalty finally decided upon, the following procedure shall apply:

In cases of fine, the protest is to be accompanied by a cash deposit, the amount of which shall be fixed by the Commissioner of Customs according to the circumstances of the case. This deposit shall be retained by the Commissioner pending conclusion of the case.

In cases of confiscation, the vessel, aircraft, vehicle, and/or merchandise concerned shall be detained by the Commissioner of Customs. Perishable goods, however, may be disposed of as provided for in the third and fourth sections of Article 5 of this Law.

Article 34

The existing Customs regulations which conflict with this Law shall be null and void.

Article 35

This Law shall come into force from the date its promulgation.

第三十三條

依前二條聲明不服案件，如聲明人有逃亡之虞，或執行顯有困難時，其處分為罰金者，得令聲明人提出保證金，由海關稅務司暫行保管，保證金數額，由稅務司依照案情酌定之，處分為沒收者，稅務司得扣留關係船舶航空機車輛或貨物，其貨物易於腐壞者，依本條例第五條第三項、第四項之規定辦理。

第三十四條

海關現行規章，與本條例抵觸者無效。

第三十五條

本條例自公布日施行。

SOURCE: FD 3 3181-3 and IG Circular No. 4926, 23 Aug. 1934.

Appendix A

APPENDIX B

Revised Provisional Code Governing Punishments for the Evasion of Customs Duty

修正懲治偷漏關稅暫行條例

Date of Promulgation: June 1936

Article 1

Those who evade Customs duty shall be sentenced to penal servitude for a period of not less than three years and not exceeding seven years.

The punishment for evasions of Customs duty amounting to \$1,000 or more shall be penal servitude for a period of not less than seven years and not exceeding 10 years; for evasions of \$5,000 or more, penal servitude for 10 years or more; and for evasions of \$10,000 or more, death or penal servitude for life.

Article 2

A penalty of penal servitude for life shall be inflicted on those who, for the purpose of evading Customs duty, have committed any one of the following acts—

- 1) Resisting arrest by force of arms, thereby inflicting wounds which are not of a grievous nature.
- 2) Openly assisting a crowd to resist arrest by force of arms.
- 3) Openly assisting a crowd to intimidate preventive officers or police.

第一條

凡偷漏關稅者，處三年以上七年以下有期徒刑。

漏稅額在一千元以上者，處七年以上十年以下有期徒刑。在五千元以上者，處十年以上有期徒刑。在一萬元以上者，處死刑或無期徒刑。

第二條

凡因偷漏關稅，而有左列行為之一者，處無期徒刑。

- 一、持械拒捕傷害人未致重傷。
- 二、公然聚眾持械拒捕時在場助勢。
- 三、公然聚眾威脅緝私員警時在場助勢。

Appendix B

Article 3

A penalty of death shall be inflicted on those who, for the purpose of evading Customs duty, have committed any one of the following acts —

- 1) Resisting arrest by force of arms, thereby causing death or inflicting mortal or grievous wounds.
- 2) Openly leading and inciting a crowd to resist arrest by force of arms.
- 3) Openly leading and inciting a crowd to intimidate preventive officers or police.
- 4) Conspiring with foreigners or rebels.
- 5) Organizing secret bodies.

Article 4

Those who transport, sell, or conceal goods which they know to have evaded Customs duty shall be sentenced to penal servitude for a period of not less than three years and not exceeding seven years.

Article 5

Customs officers responsible for the examination of goods or for the levy of duty thereon, or employees or officials of railways, public highways, ships, or aeroplanes, who release, transport, sell, or conceal goods which they know to have evaded Customs duty shall receive sentence as follows—

- 1) Penal servitude for a period of not less than five years and not exceeding 10 years in cases where Customs duty amounting to less than \$1,000 has been evaded.
- 2) Penal servitude for 10 years or more in cases where Customs duty amounting to \$1,000 or more has been evaded.
- 3) The penalty of death or penal servitude

第三條

凡因偷漏關稅而有左列行為之一者，處死刑。

- 一、持械拒捕傷害人致死或重傷。
- 二、公然為首聚眾持械拒捕。
- 三、公然為首聚眾威脅緝私員警。
- 四、勾結外人或叛徒。
- 五、組織秘密團體。

第四條

明知為偷漏貨物而為之運送，銷售或藏匿者，處三年以上七年以下有期徒刑。

第五條

稽查關員或鐵路公路輸船飛機人員，明知為漏稅貨物而放行，或為之運送銷售，或藏匿者，依左列處斷。

- 一、漏稅額未滿一千元者，處五年以上十年以下有期徒刑。
- 二、漏稅額在一千元以上者，處十年以上有期徒刑。
- 三、漏稅額在五千元以上者，處死刑或無期徒刑。

Appendix B

for life in cases where Customs duty amounting to \$5,000 or more has been evaded.

The penalty of death or penal servitude for life in cases where release or transportation has been permitted upon receipt of bribes or other illegal profits.

Penal servitude for a period of not exceeding five years or a fine not exceeding \$3,000 in cases where release or transportation has been permitted owing to carelessness.

Article 6

Employees or officials of railways, public highways, ships, or aeroplanes who detect goods which have evaded Customs duty and who fail to notify either the Customs officers responsible for the examination of goods or for the levy of duty thereon or the military or police authorities shall be sentenced to penal servitude for a period of not less than three years and not exceeding seven years.

Those who are compelled by *force majeure* to afford transportation and who are able to notify (the proper authorities) but fail to do so shall receive similar punishments.

Article 7

Unsuccessful attempts to infringe Article 1 to 4 and sections (1) and (2) of Article 5 of this Code shall be punished as actual infringements.

因收受賄賂或其他不正利益，而放行或運送者，處死刑或無期徒刑。

因過失而放行或運送者，處五年以下有期徒刑，或三千元以下罰金。

第六條

鐵路公路輸船飛機人員，發覺漏稅貨物，而不通知稽徵關員或軍警機關者，處三年以上七年以下有期徒刑，因強暴脅迫為之運送，能通知而不通知者亦同。

第七條

本條第一條至第四條及第五條第一項第二項之未遂罪罰之。

Appendix B

Article 8

Examination of Customs duty which are not covered by this Code shall be dealt with in accordance with the Criminal Code, the Customs Preventive Law, and other laws regarding evasions of Customs duty.

第八條

偷漏關稅行為，為本條所未規定者，依刑法、海關緝私條例，及其他關於漏稅法令辦理。

Article 9

The expression “goods which have evaded Customs duty” as used in this Code refers to those imported articles which have been specified by the Ministry of Finance as subject to inspection and which should be covered by Customs Import Duty Proofs and conveyance certificates but are not so covered.

第九條

本條例所稱漏稅貨物，係指財政部規定稽查之進出口貨物，應領完稅憑證及運銷執照而未領者而言。

Article 10

Those who infringe this Code in districts under martial law shall be fined by the highest military tribunal in the district concerned. Offenders in other districts shall be tried by the local district court or by the authority exercising judicial powers.

第十條

犯本條之罪者，在戒嚴區域內，由該區域最高軍事機關審判之，其他區域由地方法院或辦理司法機關審判之。

Article 11

This Code shall be effective for a provisional period of one year.

第十一條

本條例施行期間暫行為一年。

Article 12

This Code shall be enforced from the date of its promulgation.

第十二條

本條例自公布日施行。

SOURCE: FD 5 479-80 and IG Circular No. 5296, 22 June 1936.

APPENDIX C

Regulations Governing the Punishment of Smuggling 懲治走私條例

Date of Promulgation: March 1948

Article 1

第一條

Those who import or export illicitly goods over which the Government has decreed a special control, or goods which are liable to the payment of Customs duty, shall incur a penalty of penal servitude for a term not exceeding five years.

私運政府管制物品及應稅物品進口、出口者，處五年以下有期徒刑。

Article 2

第二條

Those, who, for the purpose of smuggling of goods on importation or exportation commit one of the following acts, shall be sentenced to penal servitude not exceeding seven years—

因私運物品進口、出口而有左列行為之一者，處七年以下有期徒刑。

- 1) Resisting arrest by force of arms, thereby inflicting bodily injury on others, but not of a serious nature;
- 2) Openly assisting others to resist arrest by force of arms;
- 3) Openly assisting others to intimidate preventive officers and/or guards in the performance of their duties.

- 一、持械拒捕、傷害人未致重傷者。
- 二、公然聚眾持械拒捕時，在場助勢者。
- 三、公然聚眾威脅緝私員警時，在場助勢者。

Article 3

第三條

Those shall be sentenced to death, or to penal servitude for life, or to penal servitude for a term of not less than ten years who, for the purpose of smuggling of goods on importation or exportation, have committed one (or all) of the following acts—

因私運物品進口、出口，而有左列行為之一者，處死刑、無期徒刑或十年以上有期徒刑。

- 1) Resisting arrest by force of arms,

- 一、持械拒捕，傷害人致死或重傷者。
- 二、公然為首聚眾持械拒捕者。
- 三、公然為首聚眾威脅緝私員警者。

Appendix C

- thereby causing death or inflicting grievous wounds on others;
- 2) Openly leading and inciting others to resist arrest by force of arms;
 - 3) Openly leading and inciting others to intimidate preventive officers and/or guards in the performance of their duties.

Article 4

Those who transport, sell, or conceal goods which they know to have been smuggled on importation or exportation shall receive a sentence of penal servitude for a term not exceeding two years or detention.

Article 5

Customs Officers who have a responsibility in the examination of cargo and/or levy of duties thereon, as well as the personnel of railway, highway, steamship, omnibus, or aviation companies, who [in assisting smuggling], release, transport, sell, or conceal goods which they know to have been smuggled on importation or exportation, shall receive a sentence of penal servitude for a term of not less than seven years. In cases where release, or transport, is aggravated by acceptance of bribes or of other illegal profits, the sentence shall be penal servitude for life, or for a term of not less than ten years.

Article 6

Railway, highway, steamship, omnibus, or aviation company personnel who detect or know of goods which are being smuggled and fail to notify the Customs shall render themselves liable to a sentence of penal servitude for a term not exceeding three years or detention. The penalty shall be the same for those who are under duress to

第四條

明知為私運進口、出口物品，而為之運送、銷售或藏匿者，處二年以下有期徒刑或拘役。

第五條

稽徵關員或鐵路、公路、舟車、航空人員，明知為私運進口、出口物品而放行，或為之運送、銷售或藏匿者，處七年以上有期徒刑。因收受賄賂或其他不正利益、而放行或運送者。處無期徒刑或十年以上有期徒刑。

第六條

鐵路、公路、舟車、航空人員，發覺私運進口、出口物品，而不通知稽徵關員者，處三年以下有期徒刑或拘役。因強暴脅迫為之運送，能通知而不通知者，亦同。

Appendix C

comply with the orders of smugglers to transport their goods but fail to bring such information to the Customs, although able to do so.

Article 7

Acts of smuggling not covered by the clauses of this Code shall be dealt with in accordance with the Criminal Code, the Customs Preventive Law, and any other Laws enacted for the prohibition of smuggling.

Article 8

This Law shall be effective for a period of one year.

Article 9

This Law shall be enforced from the date of its promulgation. 本條例自公布日施行。

第七條

私運物品進口、出口行為，為本條例所未規定者，依刑法、海關緝私條例及其他關於取締走私之法律辦理。

第八條

本條例施行期間為一年。

第九條

SOURCE: SHAC 679 (1) 32243, 'Shanghai Semi-Official Correspondence, 1948,' IG SO to Shanghai No. 692, 16 Mar. 1948. English translation modified by author.

Appendix C

Bibliography

Archives

GDPA	Guangdong Provincial Archives (<i>Guangdong sheng dang an guan</i>)
GMD	Zhongguo Guomindang Records, Hoover Institution Archives
SHAC	The Second Historical Archives of China (<i>Zhong guo di er li shi dang an guan</i>)
SHMA	Shanghai Municipal Archives (<i>Shanghai shi dang an guan</i>)
TJMA	Tianjin Municipal Archives (<i>Tianjin shi dang an guan</i>)

Periodicals

CG	<i>Customs Gazette</i> , Shanghai
CR	<i>China Weekly Review</i> , Shanghai
DB	<i>Dagong Bao</i> , Hong Kong
FR	<i>Far Eastern Economic Review</i> , Hong Kong
GR	<i>Gongshang Ribao</i> , Hong Kong
HZ	<i>Huazi Ribao</i> , Hong Kong
JG	<i>Jingji Gongbao</i> , Chongqing
JZ	<i>Jingji Zhoubao</i> , Shanghai
RR	<i>Renmin Ribao</i> , Beijing
SB	<i>Shen Bao</i> , Shanghai
SY	<i>Shangye Yuebao</i> , Shanghai
TC	<i>Trade of China</i> , Shanghai
XR	<i>Xinghua Ribao</i> , Shantou
YZ	<i>Yinhang Zhoubao</i> , Shanghai
ZD	<i>Zhan Di</i> , Chongqing

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- PN Preventive Secretary's Notes (*Ji si ke tong qi*). Citation by note number.
- SO Semi-Official Dispatch (*Ban guan han*)
- SR Smuggling Report (*Ji si bao gao*). Citation by date and page number.

IG Circulars

All Inspector General (IG) Circulars and Chungking Inspectorate Series (CIS) cited come from SHAC. Catalog number and item title are listed below.

<u>SHAC No.</u>	<u>Item Title</u>
679 (1) 26893	Vol. 4, Second Series, Nos 318-450, 1885-89
679 (1) 26903	Vol. 3, Second Series, Nos 2001-2300, 1913-14
679 (1) 26910	Vol. 20, Second Series, Nos 4101-4300, 1930-31
679 (1) 26911	Vol. 21, Second Series, Nos 4301-4500, 1931-32
679 (1) 26912	Vol. 22, Second Series, Nos 4501-4700, 1932-33
679 (1) 26914	Vol. 23, Second Series, Nos 4701-4900, 1933-34
679 (1) 26915	Vol. 24, Second Series, Nos 4901-5100, 1934-35
679 (1) 26916	Vol. 25, Second Series, Nos 5101-5300, 1935-36
679 (1) 26917	Vol. 27, Second Series, Nos 5301-5500, 1936-37
679 (1) 26918	Vol. 28, Second Series, Nos 5701-5868, 1938-42

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- 679 (1) 26923 Inspector General's Circulars, Vol.34, Second Series, Nos 6901-7100, 1946-47
- 679 (1) 26925 Inspector General's Circulars, Vol.36, Second Series, Nos 7301-7500, 1948-49
- 679 (1) 28024 Inspector General's Circulars: General Instructions, Miscellaneous, Chungking Inspectorate Series, Nos 6091-7238, 1946-48
- 679 (9) 5379 Kishimoto Inspectorate, Nos 5770-5818, 1941-42
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