



State, Market and Salt-Tobacco Road in Modern China (1935–1949)

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UNIT CONVERSION

Unit of Length

1 Chinese li=500 meter

Mass Unit

1 *jin*=16 *liang*=500 gram

1 *qian jin* \approx 1.4 *jin*=700 gram

1 *zai* (載)=12 *jin* (引)=600 *bao* (包)=108000 *jin*=54000 kilogram=54 ton

Currency Unit

1 Silver Dollar=0.72 *liang*=22.5 gram (silver)

1 Silver Dollar=5 Copper Dollar=100 cent

Area Unit

1 *mu*=667 square meters

Unit of Output

1 large box=10 Small box=120 Piece=1200 Pack=24000 cigarettes.

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Introduction

Benmo Jiang and Zhao Zhou

Though many states throughout history have tried to control the production and distribution of commodities that contribute to fiscal revenue, few examples show equivalent embeddedness to salt administration in China. Unlike in Europe, where salt was no longer a principal commodity when patterns of trade developed, the salt trade in China retained its importance both in volume and as an economic activator when the Qing Dynasty ended in the early twentieth century.¹ Current studies on the salt trade of China have provided us with a comprehensive understanding of how the complex state-granted monopoly on salt worked in the Ming and Qing Dynasties. Furthermore, they have shown that from the Ming Dynasty onward the combination of changes to salt administration policies and the development of salt merchants' networks not only affected how salt was produced and distributed but also had various influences on the connections and boundaries between different localities.²

¹ Samuel Adrian M. Adshead, *The Modernization of the Chinese Salt Administration, 1900–1920* (Cambridge: Harvard University Press, 1970), 13–14.

² See Huang Guoxin 黄国信. *Qu yu jie: Qingdai Xiang Yue Gan jielin diqu shiyan zhuanmai yanjiu* 区与界:清代湘粤赣界邻地区食盐专卖研究 [Regions and Boundaries: An Analysis of Qing Salt Monopoly at the Provincial Border of Hunan, Guangdong, and Jiangxi] (Beijing: SDX Joint Publishing Company, 2006); Huang Guoxin, *Guojia yu shichang: Mingqing shiyan maoyi yanjiu* 国家与市场:明清食盐贸易研究 [State and Market: Salt Trade of Ming-Qing Period] (Beijing: Zhonghua Book Company, 2019).

After the Qing Dynasty ended, salt was still one of the most important sources of tax revenue. Additionally, the continuous conflicts and wars of this period made salt a principal strategic material. Though the free trade of salt was promoted by some reformers and temporarily practiced,³ the republican government, not to mention warlords, realized that it was necessary to take as much control as possible over the production and distribution of salt. When the KMT's National Government gained its legitimacy nationwide, it began to implement a controlled economy and restore a state monopoly on salt with modernized transportation and financial devices. Though it has been widely accepted that the KMT's wartime salt administration policies brought structural changes to the salt industry and had profound impacts after the anti-Japanese War ended, how these policies were implemented in particular areas, how they impacted local society, and how the established local trade networks dealt with changes to salt administration in different localities remain to be further analyzed and discussed.⁴

Guizhou, the focus of this book, is the only province south of the upper Yangtze River in China that does not produce salt. Thus, it has always relied on its neighbors to fulfill people's basic daily needs, and controlling salt distribution was an integral part of controlling local communities. By the end of the Qing Dynasty, the routes and related networks of the salt trade covered at least 70% of Guizhou's hinterland in both a spatial and social sense, and this significance continued into the Republican period (1912–1949).

Puk Wing Kin, *The Rise and Fall of a Public Debt Market in 16th-century China: The Story of the Ming Salt Certificate* (Boston: Brill, 2016); Madeleine Zelin, *The Merchants of Zigong: Industrial Entrepreneurship in Early Modern China* (New York: Columbia University Press, 2005); Kwan, Man Bun, *The Salt Merchants of Tianjin: State-making and Civil Society in Late Imperial China* (Honolulu: University of Hawai'i Press, 2001).

³ Though Adshead's analysis of salt administration's modernization in China speaks highly of Richard Dane's reform during early Republican period, he also admits that the free trade of salt is the least successful part of Dane's reform. See Samuel Adrian M. Adshead, *The Modernization of the Chinese Salt Administration, 1900–1920*, 110.

⁴ Tang Mingsheng 唐明胜, *Na yan gui cang: 1800–1960 nianjian zhejiang de yanzheng bianqian yu yan chang shehui* 纳盐归仓: 1800–1960 年间浙江的盐政变迁与盐场社会 [Collecting Salt into Granary, the Changes of Salt Administration and Saltern Society in Zhejiang, 1800–1960] (PhD. Diss., Shanghai: East China Normal University, 2022):138–139.

It was not until 1935 that the central government regained its control of Guizhou and began to actively intervene in the development of the local economy as a response to the crisis of war. In 1937, Wu Dingchang 吴鼎昌, who had been the head of the Ministry of Industry and was experienced in business and politics, was appointed as the governor of Guizhou and launched a series of incentives to develop the province's economy soon after taking office. Then, when the central government retreated inland, the capital was relocated to Chongqing. Thus, Sichuan, the province of this temporary capital, along with the neighboring provinces of Yunnan and Guizhou, became the most important region for the Chinese army, and policy to fully mobilize the financial and economic resources of these provinces to fulfill the needs of war became a focus of the nationalist government. For a southwestern province previously remote from political and economic centers, this presence of the central government undoubtedly affected local power structures.

Madeleine Zelin has mentioned in her analysis of Zigong's salt merchants that the revival of the province's salt industry after years of chaos under warlords was not a result of merchants regaining their leverage regarding salt administration, but a part of the general move toward state capitalism.⁵ Guizhou's salt merchants faced a similar situation. However, unlike Zigong's salt merchants, who controlled their salt mines and had a chance to promote industrial upgrading, Guizhou's most powerful salt merchants during the republican period were a newly rising group of local distributors who had benefited from Ding Baozhen's reform. To some extent, these merchants' success in the salt trade was more dependent on maintaining relationships with the authorities, and they had more limited bargaining power when policy changed. However, these savvy merchants were no doubt very aware of risks and tended to adopt flexible business strategies. Diversification is a commonly used strategy for merchants to reduce risks or seek out potential synergies. Some studies have noted that the networks of the salt trade were often utilized by merchants to operate their other businesses as well.⁶

⁵ Madeleine Zelin, *The Merchants of Zigong: Industrial Entrepreneurship in Early Modern China*, 267–268.

⁶ Samuel Adrian M. Adshead, *The Modernization of the Chinese Salt Administration, 1900–1920*, 190–191; Madeleine Zelin, *The Merchants of Zigong: Industrial Entrepreneurship in Early Modern China*, 269–291. Huang Guoxin, *Guojia yu shichang: Mingqing shiyan maoyi yanjiu*, 293–303; Wen Chunlai also discussed such a possible connection

Though the salt merchants in Guizhou rarely got the chance to become involved in salt production, their background granted them the opportunity to control how Guizhou's local products were transported and distributed through the established trade networks. Their diversified investments helped salt merchants to maintain their dominance in the salt trade and facilitated the flow and exchange of commodities between Guizhou and other regions. When the costs of the salt trade rose too high, these investments also provided alternatives for merchants to cut their losses. From late 1930s onward, tobacco became a very promising commodity for salt merchants to overcome the difficulties caused by changing salt administration policies and to reshape the market.

According to a local gazetteer, tobacco was brought to Guizhou by Fujian merchants during the Daoguang Era.⁷ Though it became very popular soon after it was first introduced into this borderland province, Guizhou had kept a periphery area for the China's tobacco market when the production of tobacco and related products was industrialized. Purchases of machine-rolled cigarettes were heavily concentrated in the eastern seaboard areas and large cities along the Yangzi River, while Henan, Shandong, and Anhui were the most important planting regions.⁸ This situation changed significantly during the anti-Japanese war. These main markets and planting areas were mostly occupied by the Japanese or

between the import of salt and export of minerals, see Wen Chunlai, *Cong yiyu dao jiujiang: Song zhi Qing Guizhou xibeibu diqu de kaifa yu rentong* 从“异域”到“旧疆”：宋至清贵州西北部地区的制度、开发与认同 [From the Foreign Land to the Old Territory: Development and Identity in Northwestern Guizhou From Song to Qing Dynasty] (Beijing: SDX Joint Publishing Company, 2006), 251–261.

⁷ Duan Zhao'ao 段兆鳌 ed., *Guiding xian zhi gao* 贵定县志稿 [Draft of Gazetteer of Guiding County] (Guiyang: Guizhou Provincial Library, 1964), reprinted, “Local Products”, 70.

⁸ These planting regions were selected by the unquestionably dominant tobacco company in China during the republican period, British American Tobacco, after serious field work scouting for suitable plating locations. See Huangfu Qiushi 皇甫秋实. *Weiji zhong de xuanze: zhanqian shinian de zhongguo juanyan shichang* 危机中的选择：战前十年的中国卷烟市场 [Choices in the Crisis: Cigarette Market in Pre-war China] (Shanghai: Orient Press Company, 2015), 26–27. The discussion business networks and strategies of tobacco trade in republican China see also Sherman Cochran, *Big Business in China: Sino-foreign Rivalry in the Cigarette Industry, 1890–1930* (Cambridge, MA.: Harvard University Press, 1980); Howard Cox, *The Global Cigarette: Origins and Evolution of British American Tobacco, 1880–1945* (New York: Oxford University Press, 2000); Benedict, Carol. *Golden-silk Smoke: A History of Tobacco in China, 1550–2010* (Berkeley: University of California Press, 2011).

severely affected by the war. The tobacco industry in China began to find new opportunities westward.

The government realized that tobacco and related products could be a significant source of tax revenue when cigarettes became more and more popular in the late nineteenth century,⁹ and thus the tobacco industry was also their focus in the wartime-controlled economy. The provincial government supported the trial planting of flue-cured tobacco and promoted mass cultivation far before large private tobacco companies such as BAT realized Guizhou's potential as an alternative when the planting regions they were more familiar with encountered problems during the war.¹⁰

Drawing on historical records from merchants and local officials in Guizhou, this book focuses on changes in the province's business networks: here a term which mainly refers to the linked nodes and ties that support the dissemination of certain commodities. As William Skinner has pointed out in his analysis of the structures of rural markets, one standard market in a rural area, which is established to fulfill the daily needs of people in that area, usually is tied to two or three market towns and there is regular movement of goods and mobile firms between the standard market and intermediate or higher level markets.¹¹ The two commodities discussed here, salt and tobacco, also were circulated in this kind of market structure. However, these were not only popular commodities in the basic market but also important sources of tax revenue, which brought the state into the picture.

The improvement of the state monopoly system after the Nationalist Government took control of Guizhou also coincided with the fall of the salt business in Guizhou and the rise of the tobacco industry. This book tries to argue that these changes in the salt and tobacco trades were not isolated from each other, and the established networks of the salt trade to some extent contributed to the flourishing of the tobacco industry in

⁹ Huangfu Qiushi. *Weiji zhong de xuanze: zhanqian shinian de zhongguo juanyan shichang*, 2–3.

¹⁰ Institute of Economics, Shanghai Academy of Social Sciences ed., *Yingmei yan gongsi zaihua qiye ziliao huibian* 英美烟公司在华企业资料汇编 [Compilation of Materials on British American Tobacco's Enterprises in China] (Beijing: Zhonghua Book Company, 1983), 349–332, 349–350, 359–360.

¹¹ William G. Skinner, "Marketing and Social Structure in Rural China, Part I," *The Journal of Asian Studies* 24, no. 1 (1964): 21.

Guizhou during this period. Taking on the perspectives of two dominant players, the local salt merchants of Guizhou and the Nationalist Government, authors in this book try to answer questions such as the following. What were the roles of local merchants and the state in the transformation of the salt and tobacco trades? What role did they have in constructing the supply chain of salt-tobacco in the context of the development of the controlled economy?

Though state-business relations have always been an unavoidable element in research on the business history of China, recent works have begun to go beyond the simplified dichotomy of either reliance or independence and unfold the complexity of the changing relationship and tensions between the state and merchants.¹² Through analyzing the roles that the state and merchants played in the trade network formed by the dissemination of salt and tobacco, as well as the related circulation of money, knowledge, and information in Guizhou, this book looks closely at the dynamics of how the state and merchants can be linked by the flow of certain commodities. Within this theoretical framework, this book aims to trace several processes: how salt merchants in Guizhou strategically dealt with central and local government to sustain their business advantages; how they coped with wartime difficulties, and reshaped their socio-economic networks during this period; and how the nationalist government promoted new financial instruments to better govern markets, regulating businessmen and controlling flows of money and commodities.

It is widely accepted that the agency of merchants is more or less circumscribed by state power.¹³ However, economic sociologists have also

¹² Wang Luman, *Money and Trade, Hinterland and Coast, Empire and Nation-State: An Unusual History of Shanxi Piaohao, 1820–1930* (PhD Diss., University of Southern California, 2014), 9.

¹³ Studies of institutional economic history have extensively discussed the sources of the state power and its role as resource-supported administrative and coercive organizations that ensure resources are extracted from society. Tilly and Giddens also argue that the state dominates a system of social governance that rationalizes the dominant class's management of society. However, Michael Mann proposes a more dynamic and organic analysis of "what state power is." He argues that there are two types of state power: despotic power and infrastructural power. The former is absolute for a period, a power enjoyed by the dominant class without consultation with other levels of society. However, this power collapses in times of war or dynastic change. The latter type of power is dynamic and sustainable in its influence on other social organizations. It can only work through various consultative, non-bureaucratic institutions. See Otto Hintze, and Felix Gilbert,

argued that when the state uses policies to govern markets, its governance is shaped by established social relations.¹⁴ In Skinner's analysis of two institutions introduced by the communist party after 1949 to socialize rural trade, state trading companies (or state-owned enterprises), and supply and marketing cooperatives, he mentions that patterns of rural trade from the previous market system continued for a few years after their introduction.¹⁵

It is worth noting that, many economic institutions and economic policies that the communist party implemented after the PRC was founded originated before 1949. Kirby has pointed out that the communist party was not the only Chinese party with a strong interest in national economic planning and the nationalist government laid the foundation for many industrial policies, which were believed to be under the influence of the Soviet Union, and promoted by the communist party during the 1950s.¹⁶ Such continuity is also one of the focuses of Morris L. Bian's analysis of the transformation of Guizhou's regional state enterprises. He reveals that its development, which came about through both war and revolution, was "both radical and transformative and gradual and evolutionary" and emphasizes that the national government, through the particular situation of the wartime crisis, massively transformed Guizhou's

"Military Organization and the Organization of the State", *The Historical Essays of Otto Hintze* (New York: Oxford University Press, 1975), 181; Theda Skocpol, *Social Revolutions in the Modern World* (Cambridge University Press, 1994); Charles Tilly, *Regimes and Repertoires* (University of Chicago Press, 2010); Anthony Giddens, "Elites in the British Class Structure," *The Sociological Review* 20, no. 3 (1972): 345–372; Michael Mann, *The Sources of Social Power: Volume 2, the Rise of Classes and Nation-states, 1760–1914* (Cambridge University Press, 2012).

¹⁴ Jan-Hendrik Passoth, and Nicholas J. Rowland, "Actor-network State: Integrating Actor-Network Theory and State Theory," *International sociology* 25, no. 6 (2010): 818–841; Bob Jessop, "Regulationist and Autopoieticist Reflections on Polanyi's Account of Market Economies and the Market Society", *New Political Economy* 6, no.2 (2001): 213–232.

¹⁵ G. William Skinner, "Marketing and Social Structure in Rural China, Part III," *The Journal of Asian Studies* 24, no. 3 (1965): 363–364.

¹⁶ William C. Kirby, "Continuity and Change in Modern China: Economic Planning on the Mainland and on Taiwan, 1943–58." *The Australian Journal of Chinese Affairs* 24, no. 24 (1990): 124.

industrial economy and established a model of an East Asian developmental state.¹⁷ The state took advantage of the crisis to intervene and restructure the market in a comprehensive manner. However, Bian's study pays less attention to how local business networks are transformed in times of great political and economic change.

The monopolization of commodities also followed a similar trajectory. The communist party established a state monopoly on salt when they set up the China National Salt Industry Corporation during the 1950s, but the process of traditional salt merchants inevitably losing their bargaining power in a more modernized, state-dominated fiscal complex had started before the PRC was founded. By examining the changing power relations between officials and merchants and analysing how this dynamic affected society more broadly, this book also hopes to shed new light on how contemporary China came into being.

With the above concerns in mind, the following chapters begin with a general overview of Guizhou's geography and how that geography shaped its business networks. Chapter 2 shows how the political-geographical division created by its mountainous area has been the most important feature of Guizhou's society and economy. The geographical conditions, the needs of various ethnic groups scattered through this area, and the political designs of the central government gradually formed business networks that linked Guizhou with other parts of China and made it a transportation hub in both a geographical and political-economic sense.

Next, Chapter 3 analyzes Guizhou's local salt merchants, a group of elites that rose after Ding Baozhen's salt reform during the late Qing Dynasty, and the transformation of their business networks under the changing salt administration policies. This chapter shows that, though the relationship between salt merchants and officials was always the key component of the salt trade network, the wartime salt monopoly system brought new challenges for Guizhou's salt merchants and structurally transformed the salt trade network.

Chapter 4 focuses on the development of networks of tobacco trade in Guizhou. It first provides an overview of how the cultivation of tobacco was introduced and proliferated over Guizhou from the Ming Dynasty onward and then focuses on the cooperation and conflict involved

¹⁷ Morris L. Bian, "Redefining the Chinese Revolution: The Transformation and Evolution of Guizhou's Regional State Enterprises, 1937–1957." *Modern China* 41, no. 3 (2015): 313–350.