

CHINA MERCHANTS S.N. CO. (1872) 招商局輪船公司

A Short History of the Company's Shipowning

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The Commercial Phase (Growth)

Formed at the end of 1872, China Merchants Steam Navigation Company (CMSNC), in Chinese literally the 'Trade Promotion Bureau Shipping Company' 招商局輪船公司, was the pioneer Chinese-flag steam shipping venture. Chinese merchants had already invested substantial sums in steamships but only in ships and companies under foreign flags in order to be secure from interference by Chinese officials. The initiative for the formation of a Chinese company came from Li Hung-chang, the dynamic Governor-General of Chihli province and Commissioner for the Northern Ports. Although his immediate concern was to improve the transport of tribute (tax) rice from the Yangtse Basin to the capital Peking, his broad vision was to attract merchant capital to an officially sponsored venture that would challenge the, foreign monopoly of steam shipping, thereby compensating for the decline of the junk trade, strengthening the country, and earning profits into the bargain. In August 1872 he instructed the Commissioner for Sea Transport for Chekiang province, Chu Chi-ang, to do a feasibility study and draw up regulations for the new company. Then in October he was sent to Shanghai to open up an office. The company formally commenced operations on 4 January 1873 with a government loan of Tls 136,000.



Li Hung-chang in retirement

Merchant response to the new venture was unenthusiastic. By April 1873 only one man had actually contributed capital, though others had made promises. To prevent the venture from foundering, Li contributed some of his own funds as well as a substantial loan from military funds. This support enabled the purchase of wharves and godowns in Shanghai and Tientsin and also four ships: the former P&O feeder *Aden* was already on the coast and could be brought into service immediately, while three new British-built steamers arrived from March onwards. Cargo was not a problem because Li arranged for the company to carry government grain at a subsidised rate, about double that paid to foreign firms.

The new company began to prosper after July 1873 when the official Chu and his brother were replaced as managers by Tong King-sing, hitherto comprador of Jardine, Matheson & Co. and undoubtedly the most skilful Chinese shipping manager on the China Coast. Educated in English missionary schools in Macao and Hong Kong, he had at first worked as a police and court interpreter in Hong Kong and then as a clerk and interpreter with the Maritime Customs in Shanghai. In 1861 he joined Jardine's and two years later became their Shanghai comprador. Like other compradores, Tong simultaneously developed his own business interests. Initially he invested in traditional activities such as pawnshops and the salt trade, but in search of higher returns soon diversified into steamships. In 1867 he was appointed by Chinese shareholders as director of the Union S.N. Co. (Glover & Co.) and similarly in 1868 of the North China Steamer Co. (Trautmann & Co.). In 1870, after heavy losses by the Steamer Company, he combined with other Chinese to buy *Nanzing* and placed her under Jardine management. In April 1872 he went halves with the American marine engineer D.R. Spedding to purchase *Tungting*: Spedding was registered owner and master but Tong managed the ship and ran her on the Yangtse against the Russell & Co. monopoly, loading transshipment cargo for Jardine's North China steamers. By the time he was invited by Li to take over the management of CMSNC, Tong therefore combined a very good knowledge of western business practice and the technical side of ship management with excellent contacts in the Chinese business

community. He did not rely solely upon his own abilities and resources, however, but brought in as assistant manager Hsu Jun, a wealthy Shanghai tea merchant whose uncle had served as compradore to Dent & Co., and as branch manager in Hankow he appointed Liu Shao-tsung (aka Seating), former compradore to Heard & Co. They made a formidable team. The official Chu remained in charge of grain carriage until 1878.



Tong King-sing

Tong's first priority was to build up CMSNC's capital base. Over the next year he raised almost half a million taels from Shanghai merchants, of which about half was subscribed by Hsu Jun himself. With these funds CMSNC was able to pay off the balance on the three new steamers and their conversion costs and buy a fourth steamer (*Hochung*) on the stocks in England. By March 1874 the company had added to its own five ships the chartered steamers *Yungning*, *Tungting* (in both of which Tong was part owner) and *Hanyang*, which together enabled the company to open a line on the Yangtse. The company was also entrusted with the operation of four wooden gunboats built by the Foochow Naval Arsenal, but these were unsuited to commercial service and only *Haiching* seems to have been so employed.

After this consolidation, at the end of 1874 Tong moved boldly to double the size of the fleet by investing in seven more steamers: two fine passenger steamers from Denny's for the Tientsin run, two paddle steamers from Inglis for the Yangtse and three secondhand steamers (of which *Yehsin* and *Howsang* were only recently built). Since little additional equity capital was flowing in and profits were largely exhausted in the payment of high dividends (10%, 15% and 5% in the first three years), the financing of this expansion program was on a rather ad hoc basis, partly from government loans and partly from Chinese banks at high rates of interest. Including the re-engined steamer *Tahyew* acquired for the Ningpo trade and the grain lighter *Lee Hong*, by the end of 1876 CMSNC had a fleet of 16 ships and branches throughout the country: Tientsin, Chefoo and Newchwang in the North, Chinkiang, Kiukiang and Hankow on the Yangtse, Ningpo, Foochow, Amoy, Swatow, Hong Kong and Canton in the South and also on the island of Taiwan. Despite its shaky start, CMSNC was now a force with which the foreign companies had to reckon.

With John Swire's China Navigation Co. (CNC) also making a determined assault on the Yangtse River trade, the established operators were now under great pressure. At the end of 1876 Jardines were ready to approach Tong to sell out the China Coast S.N. Co. but in the event were forestalled by Russell & Co. Although their Shanghai S.N. Co. was the main operator, it faced stiff competition from CNC on the Yangtse and from CMSNC on all three of its routes (the River, the North and Ningpo). Its American owners evidently had no patience with a venture that yielded low returns. In December 1876 feelers were put out to CMSNC and tentative agreement was reached to sell the fleet and properties for 2.2 million taels. Tong wasted no time but with his fellow managers immediately lobbied the provincial governors (including Li Hung-chang) and through them the Imperial government in Peking. With pledges for 1 million taels, in January 1877 Tong was able to finalise the purchase, arranging for the assets to be transferred on 1 March 1877 for a down-payment of 1.22 million taels, the balance to be paid off over five years at 8%. Through this deal CMSNC obtained nine river and seven coastal steamers plus four small craft, six hulks, five wharf and godown properties and a dockyard in Shanghai. It thereby doubled the numerical size of its fleet, which was now twice the size of the Swire and Jardine fleets together. Nevertheless, it has to be recognised that the Russell & Co. fleet was a rather motley one: half the steamers had wooden or composite hulls and were more than ten years old. Three steamers were broken up almost immediately, though the British-built *Hae-an* (ex *Shingking*, 1873) and *Kiangteen* (ex *Hupeh*, 1870) survived until scuttled in 1937 and 1941 respectively.

Although this massive takeover appeared to place CMSNC in a commanding position, the company's weakness was that it was now very heavily geared. With 1.9 million taels owing to the government and the balance of one million outstanding to Russell & Co., plus the costs of servicing that debt, the company needed to maintain a large cash flow, and was therefore vulnerable to rate warfare from its smaller foreign rivals. In March, Tong was able to reach a uniform rate agreement with Jardines for the Northern and Foochow lines (which CMSNC had now entered) but could not strike an agreement with Swires to regulate the Yangtse trade. Tong, having the larger fleet, insisted upon two thirds of the sailings, whereas Swires demanded equality. The outcome was a fierce rate war, in the course of which Swires invaded the Ningpo trade. CMSNC was able to withstand the pressure only because Li Hung-chang arranged a moratorium until 1880 on the company's debt repayments.

In December 1877 John Swire himself arrived in China and negotiations were reopened. Concessions from both sides resulted in a pool agreement, which divided sailings and earnings on the Yangtse 55/45 in favour of CMSNC and raised freights from a ruinous one tael per ton between Shanghai and Hankow to five taels. The sequel was a formal pool arrangement with Jardines in July 1878 that divided the Northern trade 60/40 (in favour of CMSNC) and the Foochow trade equally. The improved revenues enabled CMSNC gradually to retire its debt burden. The balance of the payment to Russell & Co. was paid off on schedule in 1881, after which the entire income from the carriage of tribute rice was allocated to repaying the government debt, which by mid-1883 was reduced to about one million taels – it was finally liquidated in 1891). The process of debt repayment would have been much faster had it not been for the large amount of revenues drained out of the company by corrupt branch managers, clerks, compradores and foreign employees. Early in 1879 Tong and Hsu tightened up on the revenue administration but this limited rather than eliminated the problem.

The period after the takeover of Russell & Co. and the conclusion of pool agreements with the two main foreign rivals was undoubtedly CMSNC's heyday. The annual report for 1879/80 stated that as of August 1880 the company had a fleet of 27 steamers (excluding the grain lighter *Paokong*): five steamers plied the River between Shanghai and Hankow with another connecting through to Ichang; *Pautah*, *Fungshun*, *Hankwang*, *Haeting* and *Haeon* ran north to Chefoo and Tientsin (in summer connecting through to Newchwang by the *Meili*); running South from Shanghai were *Kiangteen* to Ningpo, *Yungning* to Wenchow, *Haesan* to Foochow and *Fuyew* and *Hwaiyuen* to Canton, connecting with the little *Tungting* to Macao; from Hong Kong *Tahyew* ran to Swatow, Amoy and Taiwan while the consigned steamer *Kangchi* had just opened a new line to Haiphong; the cargo steamers *Chitung*, *Haeshin*, *Lee Yuen*, *Yehsin* and *Yungching* in spring and summer carried tribute rice from Shanghai to Tientsin (where *Lee Hong* and sometimes also *Meili* served as lighters) and in autumn and winter were switched to run from Shanghai to Swatow, Hong Kong and Canton.

CMSNC now also ventured into deepsea trades. In July 1879 *Hochung* had been despatched to Hawaii and San Francisco and she made several more voyages before her loss in April 1881. After one voyage by the newly rebuilt *Mei Foo*, this route was then abandoned. In September 1881 *Mei Foo* was instead despatched to England with a cargo of tea. After this voyage had also been unprofitable, the company henceforth confined itself to the Far East and Southeast Asia. Already in 1880/81 *Kangchi* and *Tungting* had opened a line from Hong Kong to Haiphong. In the spring of 1882 the newly lengthened *Meili* was sent to Saigon and *Mei Foo* from Amoy and Swatow to the Straits while two large steel-hulled steamers were ordered for the coolie trade.

Meanwhile, on the China Coast CMSNC more or less held its ground while Swires and Jardines were at each other's throats. When peace was formally restored on the Yangtse in January 1883 CMSNC's share of the pool was cut back to 42%, thereby conceding than Swires (38%) to enable the return of Jardines (20%). In the Northern Trade, however, CMSNC held 44% of the new pool (excluding tribute grain), thereby conceding less than Jardines (28%) from the entry of Swires. In both trades CMSNC was still the main party.

The Bureaucratic Phase (Stagnation)

The company's good fortune came to an abrupt end in November 1883 when financial markets collapsed amidst rumours of a French attack on Shanghai. The personal fortunes of both Tong and Hsu were almost wiped out. Hsu had invested heavily in urban real estate and pawnshops. When the 'native banks' which had financed him called in their loans, he was forced to hand over most of his assets. Tong had left for Europe in April 1883, so that his brother had to borrow to shore up his position. The consequences for CMSNC were dramatic. In the summer of 1883 Li Hung-chang had deputed his trusted economic adviser Sheng Hsuan-huai to assist with the management of CMSNC while Tong was in Europe. In January 1884 Sheng removed Hsu from the management on grounds that he had borrowed from the company to pay off his personal creditors. In April, after his return to Shanghai, Tong (and his younger brother) was also relieved of his post on similar grounds and left to devote himself to the management of the Kaiping coal mines, which in fact had been the main focus of his attention since 1878. Sheng then returned to his official post in Tientsin, leaving the company in the hands of Ma Chien-chung, whom Li had just appointed as assistant manager. Presumably to prevent their seizure by French warships, in January 1884 three of the newest ships, *Mei Foo*, *Chi Yuen* and *Toonan*, had been transferred to the British flag under the nominal ownership of William Keswick, Jardine taipan in Hong Kong. In July, on the eve of the Sino-French

War, the rest of the fleet was transferred to the American flag under the nominal ownership of Russell & Co. At the end of hostilities, a secret agreement was invoked to transfer the ships back to CMSNC with effect from 1 August 1885. Thus no ships were lost, but the company lost much ground to its foreign rivals because of the collapse of managerial discipline after the crash and its difficulties in taking advantage of the high wartime freight rates.

The end of the war also marked a watershed in management of the company. Sheng Hsuan-huai (Sheng Xuanhuai) was promoted by Li to Director-General of the Company and, by taking over the shares which Tong and Hsu had been obliged to surrender in repayment of their private borrowings, also became the major shareholder. He was not exactly an outsider. Apart from his stint as assistant manager in 1883/84 Sheng, as one of Li's most trusted advisers, had been involved in the initial formation of the company and until 1878 had also served as one of four assistant managers, though without clearly defined responsibilities. The real significance of his appointment was that it marked the demise of the merchant management conducted very ably by Tong and Hsu between 1873 and 1884 and a return to bureaucratic management as exercised by Chu in the early months of the company's existence. As Feuerwerker recounts, Sheng was an enlightened official, who had already laid the basis for the construction of China's telegraph network and would later rehabilitate its pioneer cotton textile mill, develop a modern iron industry, oversee the construction of a railway system and found the first modern bank. Nevertheless, he remained first and foremost an official and his outlook and goals were very different from those of commercial entrepreneurs.



Sheng Hsuan-huai (Wikipedia)

The impact of the shift from commercial to bureaucratic management was seen most starkly in the course of the company's fortunes. Under Tong (and Hsu) the company grew rapidly in the size of the fleet, the extent of its services and, on the financial side, in its capital and earnings. During the period of Sheng's unchallenged control, from 1885 to 1902, the size of the fleet, its services, and the level of its earnings remained virtually static. New ships continued to be built, often very good ones, but they merely replaced ships that had become marine casualties – a not infrequent occurrence) – or been dismantled because of old age. Profits were not reinvested in the company but siphoned off

in dividends, with the result that by the 1900s CMSNC was quite overshadowed in size by its two main foreign rivals, Swires and Jardines, even though as late as 1903 it still had the largest tonnage in the Yangtse pool.

In competition with its foreign rivals CMSNC was gravely disadvantaged by wars and domestic turmoil against which it enjoyed no extra-territorial protection. Thus, in July 1894, within a decade of the war with France, China was again embroiled in war, this time with Japan. Once again the company transferred its fleet to foreign flags and this time, perhaps to make the manoeuvre more convincing; often with change of name. Apparently the fleet was first offered to Swires, who refused all but the Ningpo steamer *Kiangteen*. Most vessels were then transferred to the German flag, using several nominee owners. In 1895, after the Treaty of Shimonoseki, the ships reverted to the Chinese flag under their old names. An indirect casualty of the war was CMSNC's patron Li Hung-chang, who was made a scapegoat for China's defeat and lost his positions as Governor-General of Chihli and Commissioner for the Northern Ports. Sheng, who was nothing if not nimble, found a new patron in Chang Chih-tung, Governor of Central China, and in the process gained more autonomy.

Five years later, in June 1900, the seizure of the Taku forts marked the commencement of joint foreign action against the so-called Boxer Rebellion. Thanks to some subtle diplomacy in which Sheng himself played a major role, hostilities remained confined to the North, but the coastal steamers were again transferred for the duration to foreign flags. About two thirds of the ships transferred went under the British flag (five older ones to the dockyard S.C. Farnham & Co. and five newer ones to the CMSNC's marine superintendent T. Weir). The other third went to the American flag in the name of Captain A.E. Knights (who in the past had supervised CMSNC steamers under construction); for reasons that are obscure the Bank of China became registered owners of *Hae-shin* and Mitsui Bussan of *Kung Ping*.

Unfortunately for Sheng, barely a year after the signing of the Boxer Protocol, in which he himself was the leading Chinese negotiator, the death of his aged father in October 1902 led quickly to his partial eclipse. His main rival, the military strongman Yuan Shih-kai, took advantage of the custom of withdrawal into mourning to undermine Sheng's position. Sheng was able to hang on as chief executive and main shareholder of CMSNC but Yuan appointed two of his own men as assistant managers, including none other than Hsu Jun whom Sheng had dismissed almost twenty years earlier. For the next few years the company became a pawn in a high level power struggle. Although four large new ships were delivered in the mid-1900s, in terms of market share the company lost ground, especially on the Yangtse. Following Yuan's fall from grace at the end of 1906, Sheng was able in mid-1907 to force out Hsu and regain control of the company.

There now ensued a struggle for control of the company between the shareholders and the government in Peking. In this, Sheng's position was ambiguous. In March 1908 he had regained his former post of junior vice-president of the Ministry of Posts and Communications, though his enemies prevented him from actually taking up the position. It was not on his initiative that in April 1909 supervision of the company, which hitherto had been under the Governor-General of Chihli (until 1907 Yuan Shih-kai himself), was transferred to the Ministry. In fact Sheng allied himself with shareholder protests and persuaded the Ministry to agree to the election of a board of directors. At a shareholders' meeting in August 1909, Sheng was elected as chairman of a nine man board. After he was able at last to take up the ministerial post in August 1910, he seems to have used his

influence to support shareholder demands for a reduction in official interference in the company's management. Feuerwerker argues that his official tenure was too insecure to be sure of controlling the company from the Ministry. His promotion in January 1911 to president of the Ministry meant that he had to decline any position in the company at the March annual meeting. Nevertheless, he seems behind the scenes to have supported moves to register the company with the Ministry of Agriculture, Industry and Commerce as a private enterprise and to reduce the role of government to the appointment of two officials, one being an inspector and the other to supervise the carriage of tribute rice.

Reform of the company's status was overtaken in October 1911 by the Republican Revolution and the collapse of the Imperial dynasty. Sheng himself supplied the spark by his policies of centralizing railway administration and raising foreign loans, both of which aroused fierce opposition in the provinces. Indeed, he quickly became so unpopular that he was impeached by the government and actually sentenced to death on the day before the Revolution broke out. In the confusion he was able to escape to Japan.

As far as CMSNC was concerned, the withdrawal of the two imperial representatives left the company nominally autonomous but still a pawn in international and domestic politics. In January 1912 the representatives in Shanghai of Sun Yat-sen's Republican Government in Nanking, which was desperately in need of funds, demanded that CMSNC either provide a loan of Tls 10 million or transfer title of the company's property as the security for a loan. It was claimed that the transfer would be merely formal and that the company would be duly rewarded when the country had been reunified. An extraordinary meeting of shareholders on 3 February was deemed to have approved the transfer after a mere half-hour session in which only one shareholder spoke and no vote was taken. A subsequent protest meeting seems to have been abandoned under duress from the military. The issue became even more delicate when it was learned that the Japanese government, which belatedly had decided to support the Republican cause, was backing a syndicate of Japanese financiers to raise a loan from the Japanese NYK and Nisshin K.K. secured against CMSNC's valuable properties. This greatly alarmed British interests, most notably Swires and Jardines, for whom control of CMSNC by the already strong Nisshin K.K. would have been a calamity. The British government was persuaded to protest at this alleged Japanese intervention, notwithstanding that Swires had only recently been instrumental in arranging a fifteen-year loan of Tls 1.5 million from the Hong Kong & Shanghai Bank secured on CMSNC's properties, one third of which found its way to the Republicans. What finally scuttled the loan, however, was the intervention of Yuan Shih-kai, who in mid-February became President of all China after the Imperial abdication and the resignation of Sun Yat Sen's Revolutionary Government in Nanking. Yuan was not only wary of Japanese penetration but also sought to wrest control of the strategic CMSNC from Sheng, his old rival. An official was appointed to the board and to investigate the affairs of the company. Understanding was reached whereby the new national government would buy up the company for Tls 11.5 million, but it was unable to raise the funds.

At the end of 1912 the board of CMSNC proposed that the company be reconstructed by formation of a new private company that would buy out the old one for Tls 8 million. During January 1913 proposals and counter-proposals were traded back and forth between the old and new companies, with a stumbling block being the mortgage of most of CMSNC's properties by the old managers to the Hong Kong & Shanghai Bank. The reconstruction foundered in mid-January when the Chinese Government insisted that no foreign capital would be allowed. This left the new company without

any means of raising the Tls 8 million. At the annual general meeting at the end of June 1913, attended by no less than 1000 shareholders representing 31,000 shares and a contingent of Chinese police in case of trouble, it was announced that negotiations with the new company had been broken off. It was also reported that the company had operated profitably in 1912/3 and was able to declare a dividend of 7.5%. The directors of the old company now moved to consolidate their control with a revised management structure reportedly based upon that of the Japanese NYK. Shareholders unanimously agreed to elect a board of nine members, who would in turn nominate from among their own number the president, vice-president and managers of the three departments. Author of this proposal was none other than Sheng, who had just returned from Japan and with control of 19,000 shares had no difficulty in being re-elected to the board and reappointed as President. Also among the new directors was Fu Siao-an, who was soon to become his successor.

In March 1914 Japanese interests were again rumoured to be trying to gain control of CMSNC, evidently with the support of the ageing Sheng. British interests led by Swires and Jardines again lobbied the Foreign Office, which for the benefit of the Japanese government publicly reiterated its support for British interests in Central China and insisted that CMSNC not fall under 'foreign' control. After the Japanese loan had been thwarted, a Franco-German syndicate was rumoured to be mobilising funds to buy out the company. The Foreign Office ruled out a British government loan but suggested that Swires and Jardines combine with the Hong Kong & Shanghai Bank to bail out CMSNC. This proposal met with no enthusiasm, but a compromise was worked out whereby Butterfield & Swire (B&S) were appointed as managers on a commission basis. In fact B&S may already have had some involvement in the company's management because in mid-1912 Swires and Jardines had already combined with CMSNC in the formation of the Luen S.S. Co. Ltd, which acquired the three Yangtse steamers of a bankrupt French company and allocated management of one ship to each partner.

The death in the northern summer of 1916 of strongman Yuan Shih-kai ushered in a decade of turmoil with no effective central government. Control of the country fell into the hands of local warlords. Lacking the protection of a foreign flag and foreign gunboats, CMSNC ships were at the mercy of these warlords, who commandeered them at will and generally made life difficult. The company was now responsible only to itself. Old and in ill health, Sheng had passed away in April 1916, at almost the same time as his main enemy Yuan Shih-kai. Management was taken over by W.H. Li (grandson of Li Hung-chang) as chairman, Edward E.Y. Sheng as vice-chairman and Fu Siao-en, a former protege of Sheng, as one of the main shareholders. It was alleged, however, that the Sheng family still controlled most of the key positions of branch managers, godown keepers and compradores and ran the company almost as a family business. Nevertheless, despite the political situation in China, World War I was a prosperous time for shipping in the Far East with high freight rates and plenty of cargo. Between 1918 and 1921 the company was able to take delivery of seven ships of which all but one were new and five from local Shanghai yards. *Kiang An* and *Kiang Shun* delivered in 1921 were at 4,400 gross tons two of the three largest ships in regular service on the Yangtse.

The Kuomintang Era

In the 1920s the company's fortunes sank to their nadir. By 1921 China, like the rest of the world, was in recession and CMSNC's position rapidly deteriorated. From 1923 onwards the company ran

large deficits and most of its properties had to be mortgaged to raise funds. A further blow was the outbreak of civil war in the Yangtze Valley. From his base in Canton, in July 1926 Chiang Kai-shek launched his Northern Expedition to reunify the country under Kuomintang rule. Fu offered – not that he had much choice – use of the CMSNC ships to General Sun Chuan-fang, the warlord who controlled Central China and Shanghai and who was mistakenly thought to be the stronger party. The river steamer *Kiang Yung* was in fact lost with heavy loss of life from an explosion in her ammunition cargo while carrying troops. On 6 December 1926, when Chiang's army reached the Yangtze, sailings were suspended for several months and by the end of January 1928 foreign officers were being laid off – most masters, officers and engineers were still foreigners. By mid-April 1927 Chiang had established his control and peace had been restored, so that sailings were able to resume, but by then the company was on the verge of bankruptcy.

Relations between the management of CMSNC and its new overlords were brittle. The managing director and largest shareholder, Fu Hsiao-en, who was also general manager of the Bank of China and chairman of the Shanghai General Chamber of Commerce, was compromised by his support for the defeated warlord Sun Chuan-fang. In April 1927 the Kuomintang demanded a 'loan' of 10 million yuan to finance further military operations. Unwisely, Fu refused. Chiang ordered his arrest and confiscation of all his properties. Fu took refuge in the International Settlement and from there fled to Japanese-controlled Dairen. He was now persuaded of the wisdom of making a donation but it was too late. At the end of April his chairmanship of the Chamber of Commerce was declared invalid and CMSNC was placed under the control of a government supervisory committee consisting of four officials and three business representatives, one being the prominent shipowner Yu Ya-ching of San Peh S.N. Co. Ltd who had become an ally of Chiang kai-shek. CMSNC thereby passed out of private control back into the bureaucratic orbit.

Despite the sudden demise of Fu, the status of the company remained vague and its financial situation parlous. In October the payment of wages was announced to be delayed by 'temporary difficulties'. By February 1928 wages were three months in arrears. On 13 February the officers and crew of *Kwang Lee* refused to sail for Singapore until they were paid. This brought matters to a head. The new Kuomintang government was already in possession of the report of the investigating committee (appointed in April 1927) that identified gross corruption and mismanagement, including the practice of directors monopolising supplies to the company through their own private firms. At the end of February the government assumed direct control. Mr Chao Ti-chao was appointed a general manager with the task of reorganising the company, the board of directors was suspended except for Marquis Li as chairman, and the June meeting of shareholders was indefinitely postponed. Although in July 1928 a new charter reaffirmed the company's private status, the shareholders had been virtually dis-enfranchised and complained that it had become "a private company without the right to control its own affairs". This situation was reinforced by the decision in May 1929 to appoint, independently of the shareholders, a Reorganisation Committee (represented by the Superintendent) and a Special Commissioner (represented by the General Manager).

Now the sole shareholder voice in the management of the company, in July 1931 Li embarked on an audacious reconstruction scheme both to rescue the company's finances and to protect its private shareholders. Li recognised that nothing could be done without a large injection of new capital. The fleet of 25 steamers of 35,600 tons was indeed 'weary' with an average age of 32 years. Except for three old river steamers and a tug, no ships had been added to the fleet over the previous decade.

Wharves and godowns were in poor repair. The company still owned much valuable property – in fact most of its asset worth was in property – but this had been mortgaged for only a third of its estimated value. Revenues did not suffice to cover even the interest on the company's debts.

In conjunction with Kuo Wei-fung, who had replaced the assassinated Chao as General Manager, Li opened negotiations with the American-owned China Realty Company to borrow Tls 30 million in bonds (repayable at 9% interest over 20 years) to pay off Tls 17 million of existing liabilities and redevelop the company's properties, wharves and ships. The loan was divided into three equal parts. The construction loan was to be used to clear Tls 1.4 million of existing mortgages and to redevelop prime sites on the Bund and between Foochow and Szechuen roads with 13- and 9-story buildings, the rental income from which would service the loan. Most of the wharf loan would be used to pay back Tls 8 million of loans (Tls 7 million due to the Hong Kong & Shanghai Bank) which had been raised against the companies wharves in Shanghai, on the Yangtse and along the Coast to finance the deficits on shipping operations; the balance of Tls 2 million would be used to redevelop the five Shanghai wharves, of which three would be sublet via China Realty to the Dollar S.S. Co. (forerunner of American President Line) and the revenues earmarked to servicing the loan. Finally, the vessel loan, secured against the outport properties, would be used to finance the purchase through the Dollar Co. of up to 30 ships, which would remain under the American flag until the loan was paid off. CMSNC and the Dollar Co. would also sign a through-shipment agreement. Negotiations over the loan were suspended temporarily in April 1932 after the resignation of Wei, but agreements were able to be signed on 6 September by Li acting concurrently as managing director.

Barely a week later the Shanghai community was stunned to learn simultaneously not only of the loan but also of the detention of Li and the reorganisation of CMSNC as a state enterprise. At first sight the government's furious response seems rather astonishing. The deal was clearly to the benefit of the company, the government's own representatives had been involved with negotiations from the outset, and the agreements had been signed with the formal approval of the Supervisor and the Vice-Minister of Communications. The government's stated objections to the agreement seemed to lack substance. The most probable explanation is that only after the event did the government's leaders realise that Li singlehandedly had won his rearguard action to preserve the interests of the private shareholders. Had the agreements been implemented, CMSNC's prime assets (including its new investments) would, by mortgage to foreigners, have been out of reach of the government until 1952. Moreover, the agreement validated asset values which would have translated into a share price many times the current market rate of Tls 30 or the Tls 50 that the government was proposing to pay in compensation. The government declared the agreement not to be legally binding without the sanction of the Ministry of Communications and nationalised the company as of 14 November 1932. All but a thousand shares were bought out for \$2.9 million and full control was assumed from 1 December.

As a state enterprise CMSNC was thoroughly reorganised. A Shanghai banker and industrialist, Liu Hung-shen, was appointed General Manager with an unwieldy 14-man Board of Directors (of whom half were on the Standing Committee) and a figurehead Board of Supervisors made up of nine leaders of the business community. The company's finances were put on a sounder basis by an injection of 15 million yuan, which enabled the company's debts to be rescheduled and the fleet, wharves and godowns to be repaired. The government also gave CMSNC a monopoly of through-shipment by the National Railways. An important internal reform was the abolition both on the ships and in the branches of the old compradore system; instead of remitting a fixed quota of

funds each month – a system introduced as long ago as 1879 by Tong King-sing – branch managers were now expected to remit the full amount, from which they would receive 5% commission.

The ageing fleet was also revitalised. At the end of 1933 the fleet consisted of 22 ships distributed across the following routes:

Shanghai/Hankow: *Kiang An, Kiang Ching, Kiang Hsin, Kiang Shun, Kiang Ta, Kiang Wah, Kiangteen, Kiangyu and Kien Kuo.*

Hankow/Ichang: *Kwei Lee*

Ichang/Chungking: *Ngo Mei*

Shanghai/Ningpo: *Hsin Kiangteen*

Shanghai/Haimen: *Tung Wah*

Shanghai/Chefoo/Tientsin: *Hsin Fung, Hsin Ming*

Shanghai/Wenchow: *Hae-an, Kwang Chi*

Shanghai/Foochow: *Kwang Lee*

Irregular: *Ka Ho, Kung Ping, Tai Shun, Yu Shun*

Early in 1933 agreement was reached with the British Boxer Indemnity Fund to loan funds earmarked for but not required by the Yellow River (Hai Ho) Conservancy Board: £360,000 were made available at 5% over 15 years against the security of four cargo-passenger steamers to be built in British yards. The first of these outstanding new ships, which revived the old 'Hai' ('Hae')(='Sea') nomenclature as opposed to the 'Kiang' (River) steamers, arrived in China in October 1934 and was placed in service between Shanghai and Canton via Coast ports and Hong Kong. In February 1937 *Hai Yuan* inaugurated a new service between Shanghai and Manila. From its own funds the company purchased two warbuilt 'Lake'-class freighters and a 25-year-old British tramp, considerably boosting the fleet's cargo capacity. By 1936 the company also had five ships on charter.

Although these reforms considerably improved the company's performance, they did not restore it to solvency. Between 1933 and 1937 reported revenues rose by about a third – freight receipts by 29% and the number of accounted passengers by 44% – but the deficits continued, much to the chagrin of the long-suffering creditors. In December 1935 Liu resigned as General Manager and was replaced by J.K. Choy, formerly Commissioner of Finance and Commissioner of Lands of Greater Shanghai. The latter introduced various economies including abolition of the Board of Directors and Board of Supervisors and liquidation of the unprofitable Inland Steamship Navigation Company, which ran 20 small vessels on inland waterways. In mid-1936 agreement was reached over a salvage operation to deal with the company's debts of \$13 million to the Hong Kong & Shanghai Bank and \$1.5 million to the First National City Bank of New York. In a deal strikingly reminiscent of that concluded by the unlucky Li in 1932, Mr William Hunt, an American financier and former diplomatic representative in Tientsin, headed an Anglo-American syndicate which agreed to inject new funds and guarantee existing loans against the security of the ships and properties. The ships were mortgaged to the China Foreign S.S. Corp. of Delaware (capital US\$6 million) while the properties were mortgaged to the China Foreign Trading Corp. (capital US\$4 million).

War broke out before the reconstruction had time to show results. In 1931 Japan had already invaded Manchuria, The contrived Marco Polo Bridge incident on 7 July 1937 gave the Japanese a pretext to invade China Proper. On 11 August the Ministry of Communications ordered all Chinese-flag ships to retreat up the Yangtse or seek refuge in Hong Kong or other neutral ports.

Next day seven old CMSNC coasters (*Hsin Ming, Ka Ho, Kung Ping, Kwang Lee, Tai Shun, Tung Wah* and *Yu Shun*) were among 16 private ships and 28 lighters sunk to block the River below Chinkiang to prevent the Japanese Navy from sailing up to the capital Nanking. Shortly afterwards the Nisshin Kisen steamers *Yoh Yang Maru* and *Tachang Maru* were seized at Nanking and incorporated into the CMSNC fleet. The smaller ships participated in the armada which shipped the dismantled manufacturing equipment of Shanghai's factories up the Yangtse via the back creeks.

After the evacuation of Shanghai on 12 November 1937, the President of CMSNC set up head office in Hong Kong. All properties in Shanghai were transferred to the name of William Hunt & Co. (a Hunt family partnership) under a two year contract that allowed the American firm 3% commission on monthly revenues. Engineering facilities were transferred to the associated Hunt Engineering Corporation while the ships remaining in coastal ports were transferred to the Hunt S.S. Corporation. Despite the syndicate's registration in Delaware, application to fly the American flag was refused, so the British flag was hoisted instead (although in Lloyd's Register the ships continued to be listed as under the Chinese flag). Officially the management of CMSNC protested that the assets had been seized by their mortgagors and initiated legal action, but it appears that this was only a ruse to circumvent the Japanese prohibition on the transfer of Chinese assets to foreigners. Not included in the transfer were the four 'Hai' class passenger steamers, which in August 1937 had sought refuge in Hong Kong. Surviving the typhoon of 2 September 1937, they swung at anchor for a year until sold for almost their original (1934) cost to Jardines. This was an outright sale to discharge the mortgage to the British Boxer Indemnity Fund.

In mid-November 1937 the Government began to evacuate from Nanking to its wartime stronghold of Chungking in mountainous Szechuen province. A month later Nanking was abandoned and a second boom sunk across the river below Kiukiang, a strategic rail terminal. Another three CMSNC ships (probably *Hae-an, Hsin Fung* and *Kiangyu*) were included among the 18 blockships. CMSNC now established its office at Hankow and from there maintained services to Ichang, Changsha and Changteh, as well as from Kiukiang to Nanchang. In July 1938 the seagoing freighter *Hai Hsiang* made history by sailing from Kiukiang via Tungting Lake as far inland as Changsha with 2,200 tons of rails torn up from the Nanchang-Kiukiang railway. Hankow had in turn to be evacuated at the end of October and Ichang became the final staging point for the passage through the treacherous Yangtse Gorges to Szechuen. At the same time construction began of winching stations to haul steamers through the most dangerous rapids. In June 1939 with the next high water season the surviving large river steamers began one by one to be dragged into the Upper Yangtse. First was *Kiang Hsin* at the end of June, and there followed even the two largest river steamers, *Kiang An* and *Kiang Shun*, which were almost three times the size of the largest vessels previously regarded as a safe maximum to pass through the Gorges. The deeper draughted freighters *Hai Hsiang* and *Hai Jui* had to be left behind in Ichang, where evidently they were used to block the entrance to the Gorges at Wulungshan.

By these almost superhuman efforts, CMSNC managed to secure seven of its large river steamers in the Upper Yangtse. Although in the summer they were able to run between Chungking and Wanhsien at the upper entrance to the Gorges, they were too large to be practical and spent most of their time laid up under camouflage. Notwithstanding that by 1943 CMSNC had at its disposal a fleet of 18 ships of almost 24,000 tons, 90% of this tonnage was accounted for by the six largest river steamers. It was the smaller vessels that were in fact the backbone of the fleet on the Upper Yangtse. These included the chartered *Anning* and *Tsengping*, formerly of the Tientsin-Pukow

railway, and the former Maritime Customs vessel *An Hwa*. In September 1944, in expectation of a Japanese retreat, the government provided funds for rehabilitation of the seven laid up river steamers (*Kiang An, Kiang Han, Kiang Hsin, Kiang Shun, Kiang Ta, Kiang Wah* and *Kien Kuo*), which were therefore in reasonable condition at the time of the Japanese surrender. The coastal fleet, however, was wiped out. Of those vessels which had been left under the control of Hunt & Co., *Hsin Kiangteen* had been sunk as a blockship off Ningpo in July 1940 and the rest were either scuttled or fell into the hands of the Japanese in December 1941.

Post-1945 Revival

Japan's surrender in August 1945 marked the beginning of the most vigorous period of growth in CMSNC's history. It was clear that with the return of the country to something approaching peacetime normality, there would soon be heavy demands upon coastal shipping. Moreover, the treaty of 1943 had reserved for the Chinese flag all traffic on the Yangtse and the coastal trade between Chinese ports, so that CMSNC and private Chinese firms would have to play a much more important role than before the War. CMSNC was able quickly to re-establish a basic network of services. In November 1945 services resumed between Shanghai and Hankow with fortnightly connections to Chungking, and also the coastal services Shanghai-Ningpo, Shanghai-Tsingtao, Shanghai-Taiwan, Tsingtao-Dairen, Tsingtao-Tientsin, and Shanghai-Chinwangtao (coal). Six months later overseas services were in place to India (*Hai Tien, Hai Chen, Hai Hsien*), Thailand (*Hai Huang*), Japan (*Hai Chian*), Guam (*Hai Ti*) Manila (*Hai Lung*). Negotiations were in train with the United States to extend the Manila line to San Francisco. By the late-1940s the network had extended as far as Australia, which was visited by several converted LST's.

This rapid expansion was made possible by a massive transfer of tonnage by the United States and Canadian governments. The only CMSNC vessel recovered from the Japanese after the surrender was the river steamer *Chin Kiang*, which had been sunk in Shanghai at the beginning of hostilities but was later salvaged. She was able to be recommissioned as *Kiang King*. Nevertheless, with the seven large river steamers brought back from their wartime sanctuary in the Upper Yangtse and another eight confiscated Japanese rivers steamers, CMSNC was well equipped with the specialist vessels needed to restore the Yangtse and Shanghai-Ningpo lines. Also at CMSNC's disposal were some 1,335 former Japanese and 'puppet' ships of 129,500 tons, mainly junks and small craft. The need to build a new coastal fleet had been recognised in the closing stages of the War, when C.Y. Tung and others had assisted the Government in preparing for negotiations with the United States and Canadian governments for a transfer of wartime standard tonnage to the Chinese Government for operation by CMSNC. A number of 'Victory' and 'Liberty' types suitable for deepsea trades were made available almost immediately on loan. By mid-1948 an impressive fleet had been assembled, including:

- 10 Liberties
- 13 Lakers
- 3 'Revised' Canadian Parks
- 14 N3 coasters (later increased to 18)
- 7 Canadian 'B'-type coasters
- 3 Canadian 'Castle' corvettes converted to mercantile use
- 5 LST mercantile conversions (later increased to 22)
- 12 LSM mercantile conversions

- 4 large old tankers
- 18 TI-M-AI coastal tankers
- 1 USN YO 174' tanker
- 6 USN/RN 143' tugs
- 2 US Army 'Type 254' tugs
- 1 US Army 'Type 228' tug

The tankers were almost immediately transferred to the China Tanker Company (q.v.). The dry-cargo fleet was not, however, well equipped for carrying coastal passengers. Consequently, ICSNC's *Yuen Sang* (1923) was purchased and as *Hai Hsia* placed in the deck passenger trade between Hong Kong and Singapore. Under management of the Hong Kong office, she ran fully booked. As her consort the old American steamer *Hai Fei* was acquired in 1948 but she was hardly competitive with ships of the British lines. Negotiations with the United States resulted in an agreement to transfer four 'C3'-class 'Empire' troopships with large dormitory capacity. Names were allocated to these ships and preparations made for their transfer but events in China intervened and delivery did not take place – ten years later two of the ships were in fact taken over by CMSNC (Taiwan). The three converted 'Castle' class were used as coastal passenger ships (*Yan Tai* was reported as operating between Hong Kong and Kwangchow Wan was probably *Yuan Pei* of this class).

This burst of activity was halted by the Civil War and the subsequent Communist victory on the mainland. By 1948 services were already heavily disrupted by the requisitioning of ships as troopships or for the carriage of military supplies. A few ships were lost in hostilities. In 1949 the majority of the ocean-going fleet escaped to Taiwan, where it continued under the control of CMSNC as reestablished in Taipei. The river steamers, most of the LST's, LSM's, tugs, some coasters and coastal tankers, as well of course as all the mainland infrastructure of wharves, godowns and repair facilities were taken over by the People's Republic. The much diminished fleet of China Merchants' S.N. Co. was restyled from April 1950 until 1954 as China People's S.N. Co. under the PRC flag, but this entity was shortlived. By 1954 the mainland merchant ships were all transferred to regional fleets, principally of the Shanghai, Guangzhou, Dalian and Chang Jiang (Yangtse) Bureaus, merging the former China People's vessels with ships taken over from private owners that had stayed behind or returned after mid-1949. On both sides of the Straits, many of the formerly naval vessels such as landing craft, corvettes and tugs that had been converted for mercantile use were now converted back to military use and commissioned into the respective navies.

Although 1949 marked the end of CMSNC as the leading Chinese coastal shipping company, the prestige of the name was such that it continued to be used in both Mainland China and Taiwan, and there is also a Hong Kong subsidiary. Because more and more foreign governments were recognizing the PRC as being the only legitimate government of China, in 1973 the fleet of CMSNC (Taipei) was transferred to a new firm of Yangming Marine Transportation Corporation to prevent PRC claims against the assets, though the management company in Taipei continued to be known as CMSNC. Yangming has since become well-known as an operator of deepsea containerships and bulk carriers. The CMSNC entity based in the People's Republic of China (PRC) maintained coastal services from Hong Kong to South China ports from at least the 1960s, and in the late 1970s several of COSCO's 'Kou' class Ro-Ro containerships were delivered by builders to CMSNC (Hong Kong) as the initial stage in their transfer to the PRC flag. China Merchants has also diversified into many wider activities, including ownership of foreign ports. It is notable that an illustrated CMSNC history

published in 2006 by the Shanghai Academy of Social Sciences Press included coverage of the PRC, Taiwan and Hong Kong sections of the CMSNC family.

The separate illustrated fleet list is divided into three parts, being

- the fleet from foundation in 1872 to August 1945;
- the Shanghai-registered fleet from 1945 to 1949/50, including China Tanker Co. Ltd; and
- the Taiwan division from 1949 to 1973 as well a summary list of Yangming vessels.

Note on Sources

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In preparing the fleet list we are indebted to Prof. E.K. Haviland both for access to his study of Russell & Co. in "American Steam Navigation in China, 1845-1878", *American Neptune* (1956-58) and for his personal assistance in resolving difficulties with early ships in the fleet. Material on CMSNC in the late-1940s was drawn mainly from the *Far Eastern Economic Review*. The July 1948 edition of *I Wen Hua Pao* contains details of the postwar fleet and some photographs. The source for the largest number of photographs was the China Merchants Section of Yao Kaiyang (姚開陽)'s virtual site "China Steamships Museum" <60-250-180-26.hinet-ip.hinet.net> including sub-pages which are now defunct.

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