Oil for the Engines of China:
The Standard Oil Company and the Early Mechanization of China, 1927-1953

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# Table of Contents

Acknowledgements........................................................................................................................................1

Notes on Language and Terminology.......................................................................................................2

Map of China, 1945....................................................................................................................................4

Introduction...............................................................................................................................................5

Chapter 1 Historical Background, the Pre-1927 Years...........................................................................15

Chapter 2 Oil in the Nanjing Decade, 1927-1937....................................................................................21

  i)     Rising Demand for Oil

  ii)    Standard’s New Strategies

  iii)   Awareness of Oil Self-Reliance

  iv)    Initial Chinese Challenges to Foreign Oil

Chapter 3 The Black Blood in War, 1937-1945...................................................................................50

  i)     Impacts of Japanese Invasion on Standard

  ii)    Standard’s Participation in the China Theater

  iii)   Chinese Oil and Planning for Reconstruction

Chapter 4 Postwar Reconstruction, 1945-1949...................................................................................75

  i)     Aiding Post-War Reconstruction

  ii)    Standard and the New Company Law

  iii)   Standard and the Chinese Petroleum Corporation

  iv)    The Last Years of the Nanjing Regime

Epilogue................................................................................................................................................105

Bibliography........................................................................................................................................112
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I would not have accomplished this project without the love and support of my friends and family. I dedicate my work to them.
Notes on Language and Terminology

This thesis uses Pinyin for Chinese names of people and businesses, except for names well-known in the Wade-Giles system, such as Sun Yat-sen, Chiang Kai-shek, and Mei Foo (Standard Oil’s Chinese brand name). For Chinese names transliterated into Pinyin or Wade-Giles, surnames are put in front of first names, both in the text and in the footnotes.

All quotes from Chinese sources (primary and secondary) are translated by the author.

This thesis uses “Standard” or “Standard Oil” to refer to Standard Oil before 1911, SOCONY between 1911 and 1933, and Stanvac between 1933 and 1953. While it was John D. Rockefeller’s Standard Oil that originally founded its China operations, in 1911 the U.S. Supreme Court broke Standard’s monopoly on the U.S. oil market pursuant to the Sherman Antitrust Act. After the dissolution, Standard Oil of New York (known as “SOCONY”) took charge of the majority of Standard’s China operations and became the most active in China among all former Standard subsidiaries. Standard Oil of New Jersey (known as “Standard”) also remained in China with limited capacities. In 1933, the two combined their strengths and merged their operations in the Far East to form the Standard-Vacuum Company (known as “Stanvac”). Stanvac stayed in the China market until the 1950s. ¹ Despite these numerous changes, however, there exist clear continuities in these companies’ operations in China. Standard continued to be known as Mei Foo in China. SOCONY and Stanvac’s facilities and personnel in China still belonged to the same North and South China Divisions. Therefore, it is reasonable for this thesis to treat the progression of these companies in China as one single entity.

This thesis uses “Asiatic” and “Texaco” to refer to the Asiatic Petroleum Company and the

¹ The company histories on the American side are more complicated. SOCONY merged with Vacuum Oil and formed SOCONY-Vacuum in 1931. SOCONY-Vacuum eventually became Mobil. Standard (New Jersey) eventually became Exxon. Exxon and Mobil merged to become ExxonMobil in 1999.
Texas Company—Standard’s two main competitors—respectively. Like Standard, they also went through some changes in terms of company name and structure, but their China operations remained consistent. Asiatic was always known as “Yaxiya,” whereas Texaco, which later became Caltex, was known as “Deshigu.” Due to the constraints on length and scope, this thesis does not delve into their individual stories in China, but it considers their shared experience with Standard Oil.

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2 The translation is both phonetic and literal: it means “Asia”.
3 The translation is more phonetic. It sounds close to “Texaco” and does not have a specific meaning, although it can convey a general sense of positiveness. “De” means moral, “Shi” means scholar/gentleman, and “Gu” means ancient.
Note: The original map is in the Wade-Giles system. For important locations mentioned in this paper, I have converted their names to pinyin and labeled them red.
Introduction

In 1933, the American novelist Alice Tisdale Hobart published the bestselling novel, Oil for the Lamps of China, drawing upon her experience in China as the wife of a Standard Oil Company executive. The novel won instant success in the United States and was adapted into a Hollywood film in 1935. Based primarily on Standard Oil’s kerosene sales in China, the novel used lamp oil to symbolize progress and introduced American readers to the prospects and difficulties faced by American businesses in China when the country struggled to modernize at the beginning of the twentieth century. The novel also popularized Standard Oil’s successful though arduous sale of kerosene in China. As the novel’s title became a catchphrase to mean “a windfall of any kind,” Standard’s kerosene came to represent “expansive American dreams of the vast China market.”

But Standard’s “oil for the lamps of China” was already giving way to “oil for the engines of China” at the time of the publication of Hobart’s novel. In fact, when Hobart fled Nanjing in the midst of Chiang Kai-shek’s Northern Expedition to reunify China in 1927, she missed the chance to observe the drastic changes that would occur in Chinese politics as well as in Standard Oil’s China operations in the following decades. Previously, while Europe and the U.S. had come to realize oil’s strategic significance, China, split among competing warlords, devoted little concentrated efforts to utilizing petroleum products other than kerosene. After the National Revolutionary Army occupied Nanjing in 1927, however, the Nationalist Party led by Chiang Kai-shek established a new national government based in that city. Though Chiang never managed to unify China completely, the increasingly centralized government gained more

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political, diplomatic, financial, and personnel capacity for military buildup and industrial
development, which required motor fuel and machine oil. Since China lacked refinery facilities
and had few, if any, discovered oil deposits at that time, the Nationalist regime primarily relied
on foreign companies, including Standard Oil, to import oil from the U.S. and Southeast Asia.
Therefore, Standard faced a very different business and political landscape after 1927 than that
depicted by Hobart in her novel.

The rising demand for various petroleum products in China presented Standard Oil with
new business opportunities but also intensified the challenge of economic nationalism. While
kerosene remained Standard’s key commodity in the China market, throughout the Nationalist
period from 1927 to 1949, Standard supplied China with lubricating oil for machines, asphalt for
roads and, most importantly, fuel for cars, trucks, ships and planes. Military mobilization during
the 1937-1945 Sino-Japanese War, postwar reconstruction, and the 1946-1949 Chinese Civil
War further incorporated petroleum as an integral part of U.S. aid to China mainly through the
United Nations Relief and Rehabilitation Administration (UNRRA) and the Economic
Cooperation Administration (ECA), thus allowing Standard to maintain and expand its China
operations.

Yet, the relationship between Standard and the Chinese government was far from a smooth
one. Considering military necessities and popular concerns about strategic resources, in the
1930s the Nationalist government attempted to increase its control over the oil, both imported
from abroad and exploited domestically, by establishing the National Resources Commission and
by collaborating with the privately-owned Chinese Guanghua Petroleum Company. The 1937-
1945 Sino-Japanese War highlighted the mutual dependence and inevitable conflicts between
commercial and political interests. During the postwar reconstruction, oil’s crucial role further
motivated the Nationalist government to regulate foreign oil companies in China through the new Company Law and to establish the state-owned Chinese Petroleum Corporation. Chinese initiatives to secure its oil supply constantly subjected Standard’s private interests to the possibilities of state intervention and nationalization, which eventually took place after the Communist takeover. In response, Standard played an active role in negotiating with the Chinese government and in lobbying the U.S. government to help ensure its autonomy and profitability until 1953, when the Communist government eventually shut down the company’s division headquarters in Shanghai.

My thesis focuses on Standard Oil’s involvement in China’s industrial and military development from the establishment of the Nationalist government in 1927 to Standard’s exit from the China market in 1953. Examining the company’s interactions with both the Chinese and the U.S. governments throughout the period, my study explores, through the lens of one of the most influential foreign companies in China at that time, the tensions between rising Chinese awareness of oil’s strategic significance and American business ambitions to profit from China’s industrial and military mechanization. It argues that, after 1927, oil’s enhanced strategic importance and Chinese state efforts to control its domestic and foreign oil supply increasingly politicized the operations of foreign oil companies in China. In order to overcome the obstacles it encountered in China, Standard Oil worked closely with the U.S. government to protect its business interests, but political priorities often took precedence, thereby leading to Standard’s decline in China and its eventual exit after the Communist victory.

**Literature Review**

There exists little extensive historical research on Standard’s China operations despite the
company’s strong business presence in Nationalist China and its active interactions with the U.S. and the Chinese governments. The lack of research possibly resulted from the relative unavailability of primary sources. In fact, in Mobil’s response to a scholarly inquiry in 1971, the company said that “we have no written descriptions of the day-to-day work of the China staff... those Americans who were there are either gone or unwilling any longer to relive the past.”

Throughout the twentieth century, Standard has published a number of historical accounts on its involvement in China as magazine articles, employee training material, publicity books and pamphlets, etc., but most of these materials merely covered basic facts (names, dates, locations, the acclaimed marketing strategies, etc.) rather than offering critical analysis.

The most substantial scholarship on Standard’s China operations focuses on the company’s kerosene trade between 1876 and the 1920s, and seeks to use business and diplomatic history to analyze Standard’s success in China in contrast to many other American firms. Michael Hunt, Sherman Cochran, Chu-Yuan Cheng, and Wu Ling-chun all find that Standard’s effective business organization and innovative marketing enabled it to reach the interior of China while maintaining centralized control. None of them consider the U.S. government an important factor in Standard’s success in China before the 1920s; to the contrary, Hunt actually points out that U.S. diplomatic support was inadequate and ineffective in many ways during the period. Though their evaluation of Standard’s various strategies has little to do with Standard’s post-

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6 Letter, Betty L. Hale to Roy Stratton, November 12, 1971, 2.207/E172, ExxonMobil Historical Collection, 1790-2004 (EMHC), Briscoe Center for American History (BCAH), University of Texas at Austin (UTA), Austin, Texas. Mobil, the successor of Standard Oil of New York after a series of mergers, was in charge of its predecessor’s company archives.

1927 operations, their research nevertheless provides valuable background information and offers a reference point for analyzing how Standard took new measures when it transitioned from marketing kerosene to selling other oil products under the Nationalist regime.

While studies on Standard’s kerosene trade from the business point of view acknowledge Standard’s successful strategies, those that examine Standard’s relationship with the Chinese and the U.S. governments tend to find business and political interests in conflict. The most notable case is Standard’s joint venture with the Chinese government in 1914-17 to search for oil for kerosene production in Shaanxi and Zhili. The final agreement between Standard and the Chinese government promised to establish a Sino-American company to market oil produced in Shaanxi and Zhili if Standard could discover major oil deposits there. However, the project was soon aborted; complications in the negotiation process strained the relationship between Standard and the Chinese government, and geologists sent by Standard even reached the verdict that there existed no possibility for commercial oil exploration in most of China.8

Noel Pugach concludes that the joint venture failed because of the differing goals of the Chinese and the Americans. The Chinese government envisioned a large enterprise that would serve as the basis for a national oil industry, but Standard Oil only wanted to build a small joint company so as to enjoy privileges in China while minimizing its capital investment.9 Michael Hunt points out that the joint venture also suffered fierce criticism from the Chinese public, which accused the government of selling a crucial resource to foreigners.10 Wu confirms Hunt’s argument by examining the nationalistic Chinese press response to the agreement.11 This episode

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11 Wu, Meifu shiyou gongsi.
represented an early attempt by the Chinese government to seize control of the country’s oil resources. As scholars have pointed out, China’s interest in ensuring resource security, both at the grassroots and on the official level, inevitably clashed with the business interests of Standard and the U.S. government. This conflict would intensify once China recognized its strategic interest in controlling its own oil.

Moreover, Standard’s relationship with the U.S. government was not always cooperative either. In anti-foreign movements preceding the Nanjing decade, Standard prioritized its own profits and repeatedly defied advice from the American consulate. During the 1925-28 boycott against foreign goods, Standard refused to follow the U.S. government’s suggestion to withdraw from China and instead expected to resume business immediately once the conflict was over.\(^{12}\) When the local government in Guangdong imposed taxes on kerosene in 1925, Standard at first joined its British competitor, the Asiatic Petroleum Company, and pushed the U.S. and British governments to protest the policy. They also followed their government’s suggestion to enforce an embargo on kerosene sales in Guangdong. Yet, when the Guangdong Ministry of Finance promised to grant Standard a monopoly over kerosene sales in the province, Standard tried to disregard the position of the U.S. government as well as its agreements with Asiatic.\(^{13}\) Current research on these events demonstrates the inherent tensions between Standard’s interest in private profits and the U.S. government’s concern about the bigger picture in the politically and economically unstable China of that time.

Standard’s post-1927 developments in China have been largely missing from current literature. Studies of Chinese oil history, such as Tai Wei Lim’s examination of the Yumen

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\(^{12}\) Wu, *Meifu shiyou gongsi*, 177.

Oilfield (the first large-scale oilfield discovered in China)\textsuperscript{14} and Zhang Shuyuan’s overview of oil in China in the early-twentieth century, tend to focus solely on indigenous efforts to explore oil.\textsuperscript{15} Judd Kinzley’s study of oil exploitation in Xinjiang considers Soviet involvement and mentions that Standard’s 1914-17 joint venture provided valuable lessons for Chinese exploration efforts in Xinjiang, but his study hardly considers concurrent American participation in China’s oil development in other regions.\textsuperscript{16} Together, these studies seek to interpret China’s oil development as an integral part of state-building. The urgency to exploit oil and other natural resources to bolster China’s modernization made the Nationalist government increase its presence in crucial industries and establish relevant state institutions. As Lim argues, the experience gained in the Yumen Oilfield remained relevant after the Communist takeover and eventually contributed to the discovery of the Daqing Oilfield, which helped China achieve oil self-reliance in the 1960s.\textsuperscript{17} William Kirby further emphasizes that the personnel associated with the National Resource Commission, which attempted to take charge of all strategically important natural resources in China starting in the 1930s, gained much experience in economic planning and formed the core of the technocracy in China after the Second Sino-Japanese War, setting the basis for later development in the People’s Republic of China (PRC).\textsuperscript{18}

The narrative that stresses how the oil industry strengthened state centralization in China views the United States as a supporting actor that simply provided expertise, training, and

\textsuperscript{17} Lim, \textit{China’s Quest}, 102-115.
\textsuperscript{18} William C. Kirby, “Continuity and Change in Modern China: Economic Planning on the Mainland and on Taiwan, 1943-1958,” \textit{Australian Journal of Chinese Affairs} 24 (July 1990), 132.
funding for China’s development in the oil industry. C.X. George Wei’s work on Sino-U.S. economic relations shows the many forms of aid that the U.S. government provided for China between 1944 and 1949. Wei notes that U.S. aid for China’s reconstruction eventually failed because U.S. liberal economic policy clashed with China’s emphasis on central planning, which again shows the importance of economic development in China’s state-building. But Wei’s focus rests on macroeconomics rather than specific sectors or industries.

U.S. historians of oil and diplomacy take a different approach when examining the Sino-U.S. oil trade in the first half of the twentieth century. They do not examine in any depth the bilateral relationship in terms of oil. China’s scarcity of discovered oil deposits and its relatively low oil consumption in the first half of the twentieth century made China only a marginal player in the global expansion of American oil companies that focused instead on newly found reserves in the Middle East and increasing demand in Europe and Japan. Scholars who include China in their studies also consider oil an integral part of the Sino-U.S. alliance against the Japanese and the Communists, but they emphasize U.S. foreign policy more than state-building in China.

Irvine Anderson’s study of Standard Oil and U.S. oil policy in East Asia between 1933 and 1941 represents this kind of approach. Comparing the levels of oil consumption in China and Japan, Anderson concludes that Standard continued its operations in Japan until 1941, despite U.S. protests against the Japanese invasion of China, because the rapidly industrializing and militarizing Japan, almost bare of oil resources, bought much more oil from American and British companies than China. Yet, both Washington and Standard eventually realized that the war infringed on their interests in the long run. Warfare in China threatened the security of Standard’s China divisions and other American businesses; Japanese expansion encroached on

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the Dutch East Indies, which supplied much oil for Standard’s Asian trade. Standard thus supported Washington’s decision to enforce an embargo on oil to Japan in 1941. Here, the implications of geopolitics on business profits led to the convergence of the interests of Standard and the U.S. government. Similarly, as Standard’s official historians record, once the United States joined the war, Standard fully participated in the Allies’ war efforts in the China Theater by supplying fuel for the Allies’ forces and Chinese industries.

In sum, the current literature on the Sino-U.S. oil trade in the early twentieth century raises important, though separate, issues: how Standard achieved success and faced conflicts in its kerosene sales in China, how the oil industry influenced China’s political and economic centralization, and how the oil trade interacted with U.S. geopolitical priorities. Yet, an examination of existing, relevant works reveals gaps that need to be filled and missing connections that need to be articulated. Detailed accounts of Standard’s sales of non-kerosene products in China since the 1920s remain scant and lack rigorous analysis; key issues, such as how the United States responded to the foundation of the Chinese Petroleum Corporation, are missing. Moreover, as many scholars have hinted at but have not elaborated upon, the intricate interplay between Standard Oil’s profit-driven operations, China’s strategic aims, and U.S. policy toward China highlights the necessity to consider the three actors together against the backdrop of China’s quest for modernization.

My thesis overcomes the absence of a centralized primary source repository by piecing together company archives from the ExxonMobil Historical Collection at the University of

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Texas, U.S. diplomatic files from the U.S. National Archives, and Chinese official documents from Taipei and Shanghai. By reconstructing Standard’s experience in the first three decades of China’s modern oil development, it adds a transnational dimension to the history of China’s oil industry. Examining the conflicts and interactions among Standard Oil, the Chinese and the U.S. governments, my thesis contributes to modern Chinese energy history by portraying energy development policy as a constant negotiation between domestic and foreign actors representing different and often conflicting interests.

This thesis is divided into the following parts. Chapter 1 offers a brief overview of Standard’s entry into China. Chapter 2 covers the period between 1927 and 1937 when Standard responded to rising industrial and military demands as well as the Nationalist government’s initial attempts to intervene in China’s oil market. Chapter 3 focuses on Standard’s role in the 1937-1945 Sino-Japanese War, as it tried to reconcile business interests with U.S. foreign policy and aided the Allies’ war efforts in the China Theater. Chapter 4 considers Standard’s activities in China’s postwar reconstruction between 1945 and 1949, when the company confronted U.S. diplomatic priorities as well as the growth of China’s domestic oil industry. The Epilogue ends with Standard’s evacuation from Shanghai and its eventual exit from mainland China after the Communist victory.
Chapter 1 Historical Background, the Pre-1927 Years

Founded by John D. Rockefeller in 1870, Standard Oil had already begun to sell kerosene to China in the late 1870s through foreign and Chinese intermediaries. Like many other American firms, Standard’s long-term presence in China was prompted by the myth of the China market. The large Chinese population seemed to hold the potential for infinite demand for non-Chinese products, including kerosene for illumination. The interest in the China trade gained further momentum as the United States had reached the end of its territorial expansion by the end of the nineteenth century.22 In his renowned frontier thesis in 1893, Frederick Jackson Turner warned that reaching the limit of the territorial frontier would harm the American economy and democracy because domestic overproduction would lead to economic stagnation and social unrest. To resolve the problem, Turner urged the United States to expand “politically and commercially into lands beyond the seas,” so that it could obtain foreign markets to absorb its products.23 The devastating depression of 1893-1897, the largest in American history before the Great Depression, and the labor conflicts that ensued seemed to confirm Turner’s anxiety that American businesses had to seek overseas consumers so as to avoid stagnation.

China, with its huge population and potential demand for foreign products, held the promise of becoming a major market for American goods. While the U.S. government previously adopted “hitchhiker diplomacy” and got a free ride on other imperial powers’ invasion of China so as to obtain equal privileges, it started to provide more active military and diplomatic support for commercial expansion into China beginning in the 1890s.24 Not only did the United States annex

the Philippines and establish a military presence in East Asia in 1898, but it also started to promote the Open Door Policy,\textsuperscript{25} which denounced foreign spheres of influence and insisted on free trade in China. As American politicians and businessmen believed, with a strong and industrialized economy, the United States would exceed other countries if given equal access to the China market.\textsuperscript{26}

Yet, as Michael Hunt argues, Washington’s efforts to adjust its military and diplomatic strategies were merely half-hearted between the 1890s and 1920s. The weak American consular and diplomatic service in China often failed to enforce the Open Door Policy, while American banks failed to provide enough long-term investments to support the China trade.\textsuperscript{27} Inadequate government attention probably occurred because the China market never lived up to American expectations. The majority of the Chinese population could hardly afford American products due to general poverty, while the aggressive Japanese incursions into China’s politics and economy, as well as the tumultuous transition between the Qing Dynasty and the Republic of China, frequently disrupted American trade and investment.\textsuperscript{28}

Nevertheless, Standard did manage to realize the potential of its China trade between the 1870s and the 1920s, even making the China market absorb some of its excess products to increase business efficiency. As Cheng Chu-Yuan observes, while Standard previously treated China as merely one of its many overseas markets, from 1882, urban electrification in Europe and the United States led to a sharp decline in these countries’ demand for kerosene and a huge

\textsuperscript{25} The United States proposed the Open Door Policy in response to the possible division of China into spheres of influence by different imperial powers. Such spheres of influence might fragment the China market and grant each country exclusive trade privileges in a given region. The Open Door Policy, as Secretary of State John Hay suggested in 1899 and 1900, called for equal access to the China market. Though the United States often failed to defend the policy in practice, it remained the U.S. official position on the China trade.


\textsuperscript{27} Hunt, “Americans in the China Market,” 299.

surplus of kerosene for Standard, the American oil monopolist. Standard thus considered China’s large population and limited prospects for electrification an ideal environment to sell its kerosene surplus.29 This line of reasoning paralleled general American expectations for the China market to serve as an outlet for domestic overproduction.

Unlike many other American ventures in China that resulted in disappointments at that time, Standard achieved its goal through a series of successful management and marketing strategies. After collaborating with major trading houses like Jardine & Matheson to export kerosene to China, Standard took a more active approach by appointing Ye Chengzhong, a Chinese merchant born in Ningbo, to take charge of kerosene distribution throughout China. Sherman Cochran studies Ye’s work between 1883 and 1893 and argues that Ye’s interregional chain of hardware stores, along with his personal network of Ningbo-born merchants across China, allowed Ye to distribute Standard’s kerosene on a wider scale and to boost Standard’s sales in China.30

After detecting that Ye defied company regulations and took advantage of his position to seek personal profit, Standard eventually fired Ye in 1893 and took the initiative to operate in China more directly. Having established its Shanghai and Hong Kong offices in 1894, Standard formally included China into its worldwide marketing network and hired a number of British and American employees to oversee kerosene sales by local merchants across China.31 The Shanghai office became the headquarters for Standard’s North China Division that covered Chinese territories north of Fuzhou, whereas the Hong Kong office spearheaded the South China Division that included regions south of Fuzhou as well as Southeast Asia.32 The supervision of foreign employees over Chinese distributors centralized the company and allowed Standard to enforce

30 Cochran, Encountering Chinese Networks, Chapter 2.
31 Cochran, Encountering Chinese Networks, Chapter 2.
32 “In Many Lands,” SOCONY-Vacuum News, December 1936, 2.207/E211, EMHC, BCAH, UTA.
policies and strategies more effectively, while the daily work of local Chinese merchants ensured that Standard did not lose touch with regional realities and diversity.

Standard established an active presence in China by registering its brand name, “Mei Foo” (美孚) in China, the United States, and other regions where Standard operated. According to old employees, the name already represented the company before 1891. When considering registering the trademark in the United States, the company explained that “Mei” meant “admirable, fine, beautiful” as well as “the United States” while “Foo” means “to repose confidence in.” Though the particular origin of the name was unknown, the Chinese meaning of the trademark conveyed the message that Standard’s kerosene was desirable and trustworthy, just as the name “Standard Oil” provided American customers with the assurance of high product quality. Standard also standardized the names of its vessels in China so that each ship’s name started with “Mei” (e.g. Mei Xia, Mei Tan, etc.), thus reinforcing its image as an appealing and highly organized company.

Moreover, to stimulate demand among Chinese customers who had previously never heard of kerosene lamps, Standard created demand by giving out free, or at least very cheap, lamps labelled “Mei Foo” and/or “dian Mei Foo you” (use Mei Foo oil). The distribution of free lamps thus raised tremendous curiosity among Chinese consumers and persuaded them to buy kerosene to light these lamps. “Mei Foo” was established as a household name, even to the point that the phrase “meifu deng” (Mei Foo lamp) became the equivalent of “kerosene lamp”. Meanwhile, many Chinese found it convenient to use empty kerosene cans as household and farming

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33 Letter to C.K.Stubbe, June 7, 1916, 2.207/E159, EMHC, BCAH, UTA.
34 The United States, or Mei Guo, literally means “the beautiful country”.
35 Letter from Robt H. Hunt to W.R.Bemis, August 15, 1907, 2.207/E159, EMHC, BCAH, UTA.
implements, again increasing demand for kerosene.\textsuperscript{37} In addition, the company also published advertisements, distributed pamphlets to propagate the idea of kerosene as a symbol of civilization and modernity,\textsuperscript{38} and gave out free gifts like calendars and mirrors.\textsuperscript{39} Standard’s business structure in China, where American managers supervised local Chinese agents, allowed the company to carry out marketing campaigns in cities as well as rural areas.

Standard’s China operations withstood the trouble that the company faced within the United States at the beginning of the twentieth century, namely the dissolution of the Standard Oil Trust by the Sherman Anti-Trust Act in 1911. Furthermore, it stayed one of the “big three” foreign oil companies in China, along with Asiatic and Texaco, before the 1950s. Due to its early entry and its adaptation to the Chinese market, Standard dominated China’s oil supply. While the British Shell Transport and Trading Company had been selling to China by 1894, it really became a serious threat to Standard when Shell and Royal Dutch jointly formed Asiatic in 1903.\textsuperscript{40} The dissolution of Standard’s monopoly over American oil sold to China also allowed Texaco to start selling kerosene to China in 1913. Together, these companies engaged in price wars to compete for profits and colluded to deal with outside competitors, such as the dumping of cheap Soviet oil on the Chinese market, whenever their oligopoly was threatened.\textsuperscript{41}

Standard’s early success allowed it to stand out as a representative of foreign firms in China in the eyes of Chinese customers and the Chinese and U.S. governments alike. Its high profile had already drawn some hostilities in China, as was evident in numerous anti-foreign boycotts and protests. But once oil became closely associated with nationalism after 1927, Standard

\textsuperscript{37} Hunt, “Americans in the China Market,” 282.
\textsuperscript{39} Wu, \textit{Meifu shiyou gongsi}, 40.
\textsuperscript{41} Wu, \textit{Meifu shiyou gongsi}. 

would find itself in an exceedingly delicate position dealing with rising Chinese economic nationalism on the one hand and American economic and geopolitical interests on the other.
Chapter 2 Oil in the Nanjing Decade, 1927-1937

In August 1934, when Jack Sherwood, a twenty-six-year-old Standard Oil employee returned from his home leave and reported to the company’s Shanghai office, he found out that he had become head of the company’s By-Products Division in Nanjing. As General Manager P.J. Twogood told him, a key part of his new job was to negotiate with Chinese officials. Despite Sherwood’s relatively young age, Twogood was convinced that Sherwood could quickly make friends with the young Chinese industrialists and military leaders in Nanjing, and that their friendship would help boost Standard’s sales as “the Nationalist government was becoming a growing consumer of petroleum and petroleum products.” Sherwood’s promotion reflected two major shifts in Standard’s China operations. First, Standard was ready to take advantage of the rapidly increasing Chinese military and industrial demand for oil products other than kerosene. Second, Standard realized that its success in China now required the support of the Chinese government rather than the private networks of Chinese merchants.

Indeed, throughout the Nanjing decade from 1927 to 1937, the Nationalists’ military modernization undertaken to counter Communist and Japanese threats, along with economic growth encouraged by the limited reunification of China, gave rise to new demand for petroleum products such as motor fuel and lubricating oil. While Standard Oil had also dealt with Chinese governments in numerous instances before 1927, those negotiations focused more on conflict resolution and occasional joint projects. After 1927, however, the Nationalist government’s interest in securing the petroleum supply meant that politics affected Standard’s China operations on a daily basis. In the meantime, Standard’s involvement in China’s strategic buildup intensified Chinese aversion to the foreign oil oligopoly, increasing the possibility of conflict.

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42 Jack Sherwood, *Fond Memories of a Young Man in Old China* (AuthorHouse, 2009), 133-134.
between business and political priorities. This chapter focuses on Standard’s response to the new demand for oil and the nationalistic repercussions of the increasing sale of foreign oil in China.

**Rising Demand for Oil**

Though oil consumption in China between 1927 and 1937 paled in comparison to that in later decades, the prewar decade did witness a significant increase in oil demand and a major shift in the types of petroleum products that the Chinese consumed. As Figure 1 shows, though kerosene remained China’s primary oil import, gasoline and other liquid fuel imports steadily rose by more than five times from 21,655,000 gallons in 1920 to 119,557,000 gallons in 1937. The growth rate of both products increased especially after 1927.

**Fig. 1 Imports of Petroleum Products from Various Countries to China, 1885-1948**

Source: The graph was compiled by the author based on Cheng Chu-Yuan, “The United States Petroleum Trade with China, 1876-1949,” in America’s China Trade in Historical Perspective, ed. Ernest R. May and John K. Fairbank, Table 31, p. 208-209.

Note: Cheng’s original table also contains data on lubricants, which took up a much smaller proportion of total oil imports than other products. Import data between 1941 and 1946 is missing possibly due to wartime chaos.
The Chinese National Resource Commission estimated that by 1936 and 1937 gasoline, diesel and lubricants took up 48.6% of total petroleum imports into China.43

This increased motor fuel consumption resulted from new developments in transportation and industrial production prior to the Sino-Japanese War. Aimed at building roads passable for motor traffic, road construction projects in economically and strategically important regions in China gradually developed the necessary infrastructure for future motorization. Modern highways had already been built in some parts of China as early as 1908, but the costly investment required and the trans-regional nature of highways made it difficult for warlords, local officials, and merchants to undertake large-scale and systematic projects at a time when China lacked an effective national government.44

Almost concurrent with the intensification of highway construction in the United States in the 1920s, once the Nationalists took power in 1927, their Nanjing government designated national institutions, such as the Ministry of Transportation and the Ministry of Railways, to coordinate the construction of a national highway system. The initiative gained momentum after 1932 when Chiang Kai-shek announced the construction of a seven-province highway linking political and economic heartlands, such as Jiangsu and Zhejiang, with provinces in the interior, such as Jiangxi, Anhui, Guangxi, Hunan, and Henan. Rather than serving economic purposes, however, the seven-province highway, along with similar projects built throughout the 1930s, aimed primarily at facilitating army mobilization and ensuring the accessibility of supply lines to the Nationalists in their ongoing war against the Communists. Between 1927 and 1936, the

length of China’s motor roads grew by 15.8% per year,\(^45\) connecting economically vibrant regions such as Zhejiang and Guangdong while binding the nation’s frontiers, such as Gansu and Yunnan, to the political center.\(^46\)

The close connections between road-construction and Chiang’s anti-Communist campaigns thus suggested the growing role of motor vehicles in the Nationalists’ military strategies. Indeed, as part of the military modernization program under the guidance of German military experts, Nanjing imported tanks, armored cars, and other vehicles from Britain, Germany, Italy and the Soviet Union. The capacity of trucks to move goods more rapidly also led the army to utilize trucks to transport sustenance and other logistical supplies, while using them to help transport soldiers as well. The expanding fleet of motor vehicles in the Nationalist army constituted a significant portion of the new demand for motor fuel.

Developments in aviation during the Nanjing decade made aviation fuel, which required an even higher grade than other fuels, another crucial product for China. Motivations for aviation development also stemmed from political and military roots. Although the Chinese government had already shown serious interest in establishing an air force after the First World War, progress was limited due to the political divisions and upheavals in China at the time. The Nationalist regime, in contrast, was able to devote more attention and resources to aviation development than its predecessors, and it sought joint ventures to found the Sino-American China National Aviation Corporation (CNAC) in 1929 and the Sino-Germany Eurasia Corporation in 1931. Though operated as commercial airlines without apparent political or military connections, these two companies became tools for political integration. Like highways, Eurasia’s westbound routes allowed state officials to travel to remote places like Gansu, Ningxia, and Sichuan in timely


fashion, and 40% of the company’s passengers were indeed officials. The government also used the air mail service to transmit information that could not be sent via telegraph to these remote areas. The political benefits of commercial airlines justified Nanjing’s continued financial support for the two companies, even when high costs and lack of passengers subjected them to chronic financial losses. Moreover, having noticed air power’s importance in modern warfare and having witnessed Japan’s rising air prowess in its invasion of North China after 1931, the Nationalist government, along with some semi-independent provincial governments, set up military aviation schools, hired American flight instructors, and raised money to import fighter aircraft. Though the high capital requirements of aviation prevented China from establishing a profitable commercial airline or a fully developed air force by 1937, Nanjing’s continuous investment in its growing air fleet and the two commercial airlines underlined the strategic significance it attached to aviation and, naturally, the fuel needed to sustain air power.

Aside from land vehicles and airlines, water transport also contributed to China’s rising oil consumption. Beyond the traditional junks that depended on wind and muscle power, modern ships in China had largely depended on coal and steam engines for decades, but the number of vessels that ran on diesel and gasoline gradually rose during the Nanjing decade. As part of the military modernization plan, the Nationalist government imported vessels, and hired foreign advisors to train naval officers. By 1937, the Chinese navy possessed about 60 vessels, including cruisers, destroyers, gunboats and torpedo boats. Though most of these vessels were obsolete and poorly equipped, the procurement of foreign ships and exchanges with foreign navies exposed the Chinese military to the recent conversion from coal to oil in the navies of industrial countries.

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48 William Kirby, Germany and Republican China (Stanford: Stanford University Press, 1984), 77.
Even though water transport constituted only a small proportion of China’s oil consumption between 1927 and 1937, the imperative of military modernization indicated that oil would play a decisive role in China’s strategic position if Nanjing wished to pursue stronger sea power.

Beyond Nanjing’s military and political motivations for pursuing oil-powered mechanization, economic benefits associated with faster land and air transport—such as reduced costs and increased mobility—held the potential to facilitate economic development. Nanjing took an interest in civilian mechanization, since economic growth would not only strengthen the nation but would also allow the government to tap into a larger tax base, thereby increasing funding for a military buildup. While automobiles, cars, trucks and planes only served a very small portion of the Chinese population and were mainly concentrated around commercial and political hubs like Shanghai and Nanjing, their numbers were slowly increasing, facilitating daily economic activity around large cities.50

Together, the rising demand for fuel for military and commercial usage along roads, air routes and waterways in China between 1927 and 1937 added much to the previously negligible fuel demand from foreign gunboats cruising Chinese rivers and the few car owners residing in China. Due to the direct and indirect benefits of military modernization and economic growth for the Nationalist regime, a constant and expanding supply of fuel became a prerequisite for government and industry. As Republican China continued to modernize, Standard Oil and other foreign oil companies in China saw a business opportunity to profit from China’s military and economic modernization. The difference between the rural household consumption of kerosene that predominated in previous decades and the pressing need for oil products for public use that emerged after 1927 persuaded Standard Oil to adjust its business practices and its relationship

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with the Chinese government.

**Standard’s New Strategies**

Standard perceived the shifts in China’s business environment with great enthusiasm. In July 1928, soon after the Nationalist victory, the *Mei Foo Shield*, Standard’s monthly magazine published by and for its staff in East Asia, printed for the first time an overview of motor transportation in China, Japan and Korea. Previous editions of the magazine barely mentioned motor fuel, except for occasional articles on rising gasoline consumption in the United States, commercial aviation in China, and adventurous foreigners who explored China’s frontiers using Standard’s motor fuel. The 1928 report was thus unprecedented, as it analyzed in detail new developments in China’s transportation methods and alluded to Standard’s growth prospects.

Drawing direct comparisons between the rapidly expanding highway network in the United States and the emerging bus and truck services in China, the authors acknowledged China’s progress in road-building in recent years and pointed out problems that hindered more rapid development. Further growth of motor traffic in China would not only stimulate interregional trade and bring about economic prosperity but would also reduce the likelihood of famines and aid other humanitarian efforts in times of natural disasters. Though the article did not discuss specifically how the Nanjing regime could facilitate faster growth in motor transportation, it cited instances in which the government influenced mechanization, including previous Chinese warlords’ road-construction projects, the Nationalist government’s recent truck procurement, and

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51 “1924 Gasoline Consumption in the U.S.A.,” *Mei Foo Shield*, April 15, 1924, 2.207/C78, EMHC, BCAH, UTA.
52 “Commercial Aviation in China,” *Mei Foo Shield*, June 1924, 2.207/C78, EMHC, BCAH, UTA.
53 “SOCONY Products in Chinese Turkestan,” *Mei Foo Shield*, July 1926, 2.207/C78, EMHC, BCAH, UTA.
the detrimental effects of government-imposed tariffs on imported vehicles. The authors implied that the success of motor transportation in China depended on state-funded infrastructure and pro-growth economic policies. They also pointed out that the Nationalists’ ongoing efforts to reunify and to enrich China might create favorable conditions for such efforts. Stating that “it is but a matter of time before China will really awaken to the great value of a general adoption of motor transportation and good roads for general welfare,” the authors suggested that Standard—already in a firm business position in the China market—would be able to profit from China’s economic development.54

Standard’s optimism continued to rise in the following years and seemed to have rekindled high hopes of profiting from the populous China market. Just two months before the Wall Street Crash of 1929 that marked the beginning of the Great Depression, editors of the Mei Foo Shield exclaimed that, while warnings about market saturation in the United States were starting to draw concerns, Standard could continue to grow at an accelerating rate in China “where there is no question of saturation; where, on the contrary, there is a tremendous vacuum to be filled... destined to outgrow even the boldest imagination.” Though the editorial conceded that China lagged behind the United States significantly in terms of the level of industrialization, it noticed that “evidences of change and growth are all around us... There are notable road developments and plans in various sections—for instance in [Zhejiang]—and we hear too that in many agricultural districts the Diesel engine is replacing that ancient institution, the water buffalo.” It then assured readers that the Shield would keep them informed about economic and political changes in China, starting from the August issue with a chart on China’s economic and industrial conditions.55 China’s apparent desire to transition to fossil fuels in both the private and the public

54 Ells, Hadden et al, “The Motor Car in the Orient,” Mei Foo Shield, July 1928, 2.207/C79, EMHC, BCAH, UTA.
55 “Editorial,” Mei Foo Shield, August 1929, 2.207/C79, EMHC, BCAH, UTA.
sectors indicated a possible expansion of Standard’s customer base and its huge growth potential in China. While the Shield rarely disclosed Standard’s business strategies and instead mainly sought to educate and entertain its readers, the editorial and its promise to publish constant updates on the Chinese economy suggested that the company was eager to sharpen its employees’ business acumen so as to take advantage of China’s mechanization.

Standard’s actual business performance in China showed that the enthusiasm expressed in the Shield exaggerated China’s growth rate, but the general trend of business expansion held true. Unfortunately, no data recording Standard’s profits in China over the decade have survived to the present day, but its performance more or less corresponded with the changes in oil imports demonstrated in Fig.1, because Standard was one of the three largest oil companies in China at that time. Though the total oil imports into China declined sharply between 1928 and 1932, the decrease mainly resulted from falling demand for kerosene, due to China’s urban electrification and business contraction following the Great Depression. In particular, the Great Depression reduced Standard’s parental companies’ capital and forced Standard to cut expenditures by cancelling training classes, laying off Chinese employees, and ceasing the sale of products with small profit margins. But against these odds, sales of fuel and lubricants in China continued to rise throughout the decade, cushioning the effects of the decline of kerosene. Though the Shield might have overestimated the speed and extent of China’s modernization and its immediate impacts on Standard, it was correct that China’s low economic baseline and the Nationalists’ commitment to military and economic mechanization allowed Standard to sustain and expand its presence in China in difficult times.

Standard employees on the ground sensed the dramatic changes to the company’s business practices on a daily basis. When Jack Sherwood first arrived in China in 1930, he perceived that his job was radically different from that of his predecessors described in Alice Hobart’s novel, *Oil for the Lamps of China*. Working in the By-Products Division which handled all petroleum products other than kerosene, Sherwood cared little about the cheap lamps and kerosene sold to Chinese households, and instead spent much of his time considering the business implications of Chiang Kai-shek’s army modernization, naval buildup, and the development of air power.\(^{57}\)

Unlike his predecessors who travelled to obscure regions to inspect the work of local Chinese agents, from 1930 to 1937, Sherwood spent most of his time socializing in Nanjing, which was China’s capital and had a high concentration of officials and military officers. In addition to selling to familiar foreign customers, such as France’s Asiatic fleet passing through port cities\(^{58}\) and the Lindberghs on their 1931 flight to Asia, Sherwood actively engaged in “sale campaigns” that focused on contracts with the Chinese military. He negotiated with heads of Chiang’s German advisory group to increase sales to the army,\(^{59}\) and sought the help of the American Training Mission to meet with various Chinese air force officers and to market relevant products like fuel and asphalt.\(^{60}\)

The ways in which such contracts were formed reflected the necessity for Standard to maintain an amicable working relationship with the Nationalist regime. In many cases, these contracts required informal and sometimes illegal practices, including bribery (called “squeeze” at that time) and the personal networks (known as *guanxi* today) commonly required of most foreign companies in China. Though reluctant to handle “squeeze” himself, Sherwood was

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\(^{57}\) Sherwood, *Fond Memories*, 135.

\(^{58}\) Sherwood, *Fond Memories*, 43.

\(^{59}\) Sherwood, *Fond Memories*, 139, 145.

\(^{60}\) Sherwood, *Fond Memories*, 138.
amused by Standard’s New York office’s claim that the company had never bribed anyone in China. Instead, he found it necessary and commonsensical to bribe the “industrial and military brass” entrenched in Nanjing so as to get new business. He actually became well-versed in the protocols regarding bribery through his observation and practice, as he learned how much money would be needed, how to mention it discreetly and to whom, and how to manage the tensions between maintaining old acquaintances and seeking new contacts in the administration. \(^{61}\)

Personal networks also played a decisive role in Sherwood’s own promotion through the ranks in Standard’s North China Division. Not only did Sherwood actively engage in social activities with foreign businessmen, he also sought opportunities to establish an amicable relationship with prominent Chinese figures related to Standard’s business. His shared interest in golf with War Minister He Yingqin, for example, led He to give Sherwood a card bearing a message which, as He claimed, would help Sherwood one day. When Sherwood presented He’s “magic card” to the aides of a certain military purchasing officer who originally extorted him for a bribe, not only did the aides immediately allow Sherwood to see the officer, but the officer also appeared to be “more than ready to give [Sherwood] some business.” \(^{62}\) Similar means of introduction, along with company-organized social occasions, such as cocktail parties for all the Chinese air force officers involved in purchasing equipment and supplies, \(^{63}\) proved highly effective and helpful for Sherwood and his colleagues in marketing products to the Chinese military. They thus became an integral part of Sherwood’s daily job. While foreign businessmen also had to pay “squeeze” and establish personal contacts before the Nanjing decade, the great necessity to bribe and to network in the 1930s indicated that the Chinese government and

\(^{61}\) Sherwood, *Fond Memories*, 41, 149-150.
\(^{63}\) Sherwood, *Fond Memories* 155-156.
military had become major consumers of foreign oil. Standard increasingly needed to curry favor
with the Nationalist government in order to continue expanding in the China market.

Statistics from the Chinese government confirmed the success of Sherwood and his
colleagues in forming strong ties with the military. By 1936, Standard had stored 300,000
gallons of aviation fuel for the Nationalist government’s Aviation Committee and started to
cooperate with Asiatic to fulfill orders from the Military Committee for 350,000 gallons of
automobile fuel in Nationalist military bases in Chongqing, Xi’an, Tianshui, Nanchang,
Changsha, Nanjing, Lanzhou, Luoyang, and Hangzhou.64

While Standard employees navigated the Chinese bureaucracy in order to profit from the
rising military orders, Standard’s civilian contracts with local administrations and transportation
companies also rose from the pre-1927 level. In Shanghai, for example, developments in urban
transportation allowed Standard to conclude contracts to supply motor fuel for trucks, engine oil,
and cylinder oil for various other vehicles owned by the Shanghai Municipal Government and
various municipal agencies in Shanghai. (Its fuel supply for smaller automobiles was declined on
the grounds that its Pratts oil for automobiles was inferior to Asiatic’s Shell oil).65 Similarly,
Standard sustained contracts with public transportation companies—such as the Shanghai
General Omnibus Company and the Ford Hire business—while branching out to other emerging
transportation services, especially aviation. In 1930, for instance, the Mei Foo Shield proudly
published a letter from China Airways—operators for the CNAC—stating that the Shanghai-
Nanjing-Jiujiang-Hangzhou airmail-passenger service used SOCONY Aviation Gasoline and

64 Letter, Song Ziliang to Chiang Kai-shek, March 25, 1936, 002-060100-00118-028, Jiang Zhongzheng zongtong
wenwu [Relics of President Chiang Kai-shek] (Chiang Papers), Academia Historica.
65 Shanghai tebie shi gongyong ju [Shanghai Special City Public Utilities Bureau], “Shi zhengfu ji geju qiche
yongyou qubie biao,” [Chart of Oil Products Used by Automobiles of the Municipal Government and Various
Agencies] May 24, 1929, Q215-1-6300, Minguo shiqi shanghaishi zhenfu dang’an [Papers of the Shanghai
Government in the Republican Period] (ROC Shanghai Government Papers), Shanghai Municipal Archives (SMA),
Shanghai, China.
Aircraft No.4 Oil for all entire routes between October 1929 and May 1930, totaling 173,586 miles flown with a 100% performance rate for about four months. Although few of Standard’s contracts and testimonials from the decade have been preserved, its cooperation with the Shanghai government and transportation companies, together with its oil supply to the military, suggest that the company enjoyed an expanding consumer base and that its large market share in China allowed it to grow together with the rising demand for oil.

In addition to its increased sales, Standard had to make drastic adjustments to its ways of conducting business in China to meet rising demand. Most notably, in 1933, SOCONY-Vacuum and Standard Oil (New Jersey) merged their operations in the Far East and formed the Standard-Vacuum Company ( Stanvac), a subsidiary registered in Delaware and eventually encompassing both companies’ markets in China, Japan, India, the Dutch East Indies, South Africa, Australia and New Zealand. Both companies received 50% of Stanvac’s capital stock and earned equal returns on their investment. SOCONY-Vacuum and Standard (New Jersey) both viewed the merger as a way to consolidate their operations in the Far East and increase their efficiency. As Standard (New Jersey) explained in its 1933 annual report, SOCONY-Vacuum, having long operated in Asia, possessed numerous marketing resources as well as storage and distributing facilities “in every important market of the Far East,” but its crude oil supplies were located in California. In contrast, Standard Oil (New Jersey) owned the “large proven crude oil reserves and modern refining facilities in the Netherlands East Indies” through its Dutch subsidiary, the Koloniale, but it did not have marketing outlets in Asia despite its geographical proximity. Both parties thus needed each other’s services and facilities in order to produce oil and sell it to

66 “A Testimonial,” Mei Foo Shield, May-June 1930, 2.207/C79, EMHC, BCAH, UTA.
67 Report of Standard Oil Co. (Incorporated in New Jersey) for the Year Ended December 31, 1933, 9. 2.207/D92, EMHC, BCAH, UTA.
meet Asia’s increasing demand, especially those coming from Japan and China. Moreover, the two companies’ major competitor, Asiatic, owned production and refining facilities in the Indies as well as marketing outlets across Asia. Thus, it was able to deliver large quantities of oil around the region more quickly and at a lower cost. Concerned that their competitors might come to dominate the expanding Asian markets, both SOCONY-Vacuum and Standard Oil (New Jersey) found vertical integration “a normal and logical business step” to place themselves in a comparable business position in Asia to that of Asiatic.

The creation of the Standard-Vacuum Company in the Far East may have owed more to Japan’s modernization than to China’s development. But other indicators in Standard’s performance in China attested to the fact that Standard indeed underwent significant growth in China alone during the Nanjing decade. One of the most prominent changes took place in Standard’s delivery methods. Having used wheel barrows and hand carts to deliver kerosene when it first started to operate in China, in 1918 Standard first imported American trucks to deliver lubricating oil in Shanghai. After purchasing a few more trucks in the 1920s, Standard’s aggressive gasoline sale campaign in 1927 and the increase in its diesel and furnace oil sale resulted in further truck purchases in 1928. As Standard explained in Mei Foo Shield’s 1930 article on the history of the company’s “motor truck fleet in Shanghai,” not only did trucks accommodate more oil and travel at a higher speed, they also prevented fire hazards when workers transmitted gasoline from tankers into filling stations in the presence of smoking pedestrians. The same article also featured a large picture displaying seventeen trucks of different sizes and functions parked side by side on a Shanghai street, proclaiming with pride that

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68 P.W. Parker, “Standard-Vacuum and the Far East: Talk given by Mr. P.W. Parker before the Coordination Group meeting of Standard Oil Company (New Jersey) and Affiliates,” May 25, 1948, 1. 2.207/G120., EMHC, BCAH, UTA.
Standard was “the first oil company in Shanghai to import a gasoline truck and deliver gasoline in bulk.”[^69] The striking picture indicated vividly the changes taking place in Standard’s business practices in China. Just as the transition from the traditional, biomass energy regime to fossil fuels was slowly taking shape in China, Standard itself underwent a transition both in terms of its products and its means of delivery.

In addition to transforming its delivery system, Standard continued to construct pumps and service stations in the International Settlement and the French Concession for foreign and Chinese car owners.[^70] It already started pump construction when gasoline sales in Shanghai first began to climb in 1922, but it improved the service at gas stations and opened its first “super-service” oiling and greasing station in 1929, allowing customers to have their cars greased, filled up, and thoroughly washed. As *Mei Foo Shield* proclaimed, the station achieved an immediate success and showed that “there [was] a demand for real oiling and greasing service in Shanghai.”[^71] Though, as Sherwood recalled from his brief work in Shanghai in 1938, these stations were more geared towards foreign car owners and many of the signs and charts were in English,[^72] they nevertheless were accessible to the few Chinese car owners at that time and contributed to the increase of automobiles on Chinese streets throughout the decade.

By expanding its consumer base and improving and adding new services, Standard tried to meet China’s increasing demand for oil products. Yet, total oil supply—mainly consisting of that of Standard, Asiatic, and Texaco—still lagged behind total demand in China. Fuel shortage

[^70]: Shanghai fazujie gongdongju gonggong gongchengchu yu meifu gongsi guanyu sheli jiayouzhan de laiwang xinjian ji tuzhi [Correspondences and Blueprints between Conseil municipal of the Shanghai French Concession and the Mei Foo Company Regarding the Construction of Gas Stations], U38-1-905, Fazujie gongdongju dang'an [Papers of Conseil d’Administration Municipale de la Concession Française de Changhaï] (CAM Papers), SMA.
[^71]: “Shanghai’s First ‘Super-Service Station,’” *Mei Foo Shield*, September 1929, 2.207/C79, EMHC, BCAH, UTA.
remained one of the primary difficulties in expanding mechanization and motor transportation. The strategic importance of industries utilizing oil, together with problems that arose from the supply gap, alerted some Chinese to the urgency of challenging the foreign oil oligopoly so as to reduce China’s reliance on foreign oil.

**Awareness of Oil Self-Reliance**

Daniel Yergin, in his *The Prize: the Epic Quest for Oil, Money and Power*, stated that the prowess of new military inventions like tanks and submarines in the First World War elevated oil to a strategic priority in many industrial nations. Some keen Chinese observers of the Great War indeed noticed this trend and began to view oil as something more important than kerosene for illumination. In his seminal work on China’s economic development *Shiye Jihua (International Development of China)* published in 1920, Sun Yat-sen noted that it was essential to develop “all of China’s coal and oil reserves” so as to provide cheap fuel for mass-produced automobiles.\(^{73}\) But such discussions often lacked specific goals and rarely translated into action. After 1927, however, the increased centralization of the national government, the exigencies of army modernization, and the looming Japanese military threat led more and more people to scrutinize the dominating presence of foreign oil companies in the China market and to argue for self-reliance on oil with an intensifying rigor.

One common feature of Chinese writings on oil during this period was their consensus that oil would be a crucial part of world geopolitics in the twentieth century. Exclamations like “oil is the blood of the earth” and “controlling oil is controlling the world,” which were often variations of similar sayings by western scholars and politicians, dotted Chinese treatises on oil and world

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powers. Paraphrasing the famous quote by the French Prime Minister Clemenceau that “one drop of oil is worth one drop of blood,” Chinese authors identified the First World War as a turning point in energy history and noted that oil powered all of the prevailing military technologies, including planes, motorized transport, tanks, warships and submarines. Some authors also referred to their readings of western accounts of the war and concluded that Germany’s oil shortage was a fundamental reason for its failure to sustain its military strength and its ultimate defeat. Although ten years had passed between the end of the war and the publication of these Chinese works, the Nationalists’ efforts toward military and political centralization galvanized the discourse on building a national defense system capable of confronting the challenges of modern warfare. European examples of wartime oil supply thus led some Chinese observers to associate oil with China’s own national defense.

What made Chinese interest in oil even more pressing was Japan’s military buildup and the security threats it posed to China. Japanese exploitation of oil in Manchuria in the 1920s, in particular, revealed Japanese military and geopolitical ambitions to secure its oil supply. By 1926, an alliance between the Japanese-controlled South Manchurian Railway (SMR) and the Japanese Navy discovered an oil shale deposit at Fushun, recognized as the richest of its kind discovered in China up to that point. After the construction of processing plants, Fushun grew to be one of the major oil sources for Japan until the end of World War II. As historian Tai Wei Lim has analyzed, the Fushun project carried strong military undertones. Keeping the oil supply within Japan’s sphere of influence free from foreign encroachment, the Japanese Navy provided

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74 Translator’s Preface to Imperialism and the Question of Oil, by Page Apnot (Shanghai: Qizhi shuju, 1929), 2, Guancang mingguo tushu quanwen shujuku [Database of Books Published in the Republican Period] (ROC Books Database), Shanghai Library, Shanghai, China.
76 Zhang Lianke, Guofang, 39.
the technology and experts needed to make shale oil into diesel fuel. The Japanese government also adopted legal and political measures to secure Japanese oil interests in Manchuria, including heavily subsidizing oil plants and monopolizing Manchuria’s oil and other natural resources. Moreover, the increasing Japanese control over Manchuria and its eventual annexation of the Northeast helped provide Chinese labor for plant operations. Like the Chinese Nationalists, Japan was keenly aware of the strategic need for oil self-reliance in order to facilitate military modernization and ensure wartime supply.

Some Chinese, particularly those who actively observed or studied in Japan, recognized Japan’s ambitions. In the preface to Cheng Tiandou’s *Shiyou Lizhuo* [Partial Observations on Oil] published in 1930, air force general Zhang Huichang, one of the pioneer pilots in China and Vice President of the China National Aviation Corporation (CNAC), was impressed by Japan’s constant concerns about oil,

> Despite Japan’s strength and its new machines and technology, Japan still worries about [having inadequate oil supplies in times of emergency]. In contrast, in today’s China, science and technology are far from developed, and we rely completely on foreign countries for oil. If all our aggressive neighbors pressure us and invade us together, we will have no way to handle the threat.  

Zhang Lianke, who studied mining at the Kyoto Imperial University and was working at the Division of Resources in the Ordnance Department at that time, lamented losing Fushun’s oil shale to Japan and urged China to conduct comprehensive geological surveys around the country in order to secure similar resources. Another author, Chen Hanping, further warned that Japan’s systematic oil exploitation in Fushun would soon turn China into the victim of foreign invasions.

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77 Lim, *China’s Quest.*
78 Zhang Huichang, Preface to *Shiyou Lizhuo* [Partial Observations of Oil], by Cheng Tiandou (Gongshang lianyou gongsi: 1930), 1, ROC Books Database, Shanghai Library.
79 Zhang Lianke later directed the evacuation of the Hanyang Steel Factory to Chongqing in 1938 during the Sino-Japanese War.
in the scramble for natural resources. Together, economic imperialism associated with Japan’s exploitation of China’s resources and security threats that resulted from Japan’s military buildup highlighted the urgency for China to secure its oil supply so as to prevent a geopolitical disadvantage in its confrontations with Japan.

Considering oil’s crucial position in modern warfare and the threat posed by Japan’s quest for oil in northeast China, many authors in the late-1920s and the early-1930s concluded that the existing supply of foreign oil in China, though expanding, was inadequate and too insecure for national defense. As Zhang Lianke wrote in 1931,

> When the world is at peace, merchants from all countries seek profits, so they provide various oil products to meet our needs. If a world war breaks out and those countries prohibit oil exports, then none of our country’s automobiles, aircrafts, warships and armored cars will be able to work. Then we will have no national defense. If other countries invade important areas in our country and exploit our resources, then we will have no way to resist.\(^2\)

The profit-seeking motivation of foreign companies haunted China with uncertainties about maintaining a stable and predictable oil supply. Those companies could easily withdraw from the China market if they faced financial losses, disruptions to world trade, or political pressure from their home countries. In contrast, possessing domestic oil reserves would make China less subject to fluctuations in the international oil trade and would allow China to have at least some oil to use for the military and other crucial industries in times of emergency. Furthermore, some authors questioned the sincerity of foreign companies in helping China to develop its own oil industry, pointing specifically to Standard’s historical involvement in China’s oil exploration. Rekindling the nationalistic sentiment against Standard’s 1914-17 joint venture with the Chinese government, Zhang Lianke criticized Standard for abandoning the project hastily despite the oil

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81 Chen Hanping, Preface to *Shijie de shiyou zhanzheng* [Oil Wars in the World] (Shanghai: Shangwu yinshu guan, 1931), 3, ROC Books Database, Shanghai Library.
82 Zhang Lianke, *Guofang*, 34.
potential of unexplored areas nearby. Standard’s plans to install pipelines from Yanchang to Hankou and to set up a large-scale refinery also did not achieve any results. Foreign companies’ priority on short-term returns on investment clashed with China’s long-term interest in finding and exploiting domestic reserves. This conflict made it unlikely that foreign companies would commit themselves to the arduous task of exploration in China without the prospect of a major find of high quality. Cautionary tales of U.S. intervention in the Mexican Revolution which helped secure American oil interests, particularly those of Standard Oil, further alarmed some authors. These authors feared that economic imperialism and political manipulation might come with foreign oil companies’ entanglements in China’s defense buildup.

Having established oil’s strategic importance and the problems of reliance on foreign oil, the authors agreed that it was necessary for the Chinese government to establish a domestic oil industry and seize more control over the overall oil trade in China. Zhang Lianke emphasized the role of state-funded scientific learning and research in the quest to reduce China’s reliance on foreign oil. He argued that geological surveys in the Northwest and the Southeast would help scientists and engineers gain a comprehensive understanding of China’s resources and landscapes. Such research would then allow geologists to identify areas with the potential for oil production and transportation. Research on shale and experiments to extract oil would provide a promising alternative to crude oil; research on substitutes for oil, already conducted in countries lacking domestic oil reserves like Germany, France, and Japan, might allow the Chinese military, industries and households to reduce their demand for oil products without compromising their daily operations. These improvements in science and technology, according to Zhang, needed

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83 Zhang Lianke, Guofang, 35.
84 Chen Hanping, Preface.
government support such as the provision of funding, the establishment of research institutes, and administrative coordination across different provinces and regions.  

As for how to form companies to make use of oil, Cheng Tiandou dismissed foreign investment as “the most dangerous” for the fear of imperialism and manipulation. He also criticized Sino-foreign ventures for granting too much power to foreign companies. Therefore, Cheng concluded that the only way to keep oil interests under Chinese control was to establish Chinese enterprises free from foreign involvement. He listed three potential models for Chinese-owned oil companies: state-owned oil companies following the Soviet model, private-owned companies with policy support in the government, and state-supervised private companies. Though Cheng believed that private capital would allow the industry to grow more quickly, the three possible business models all required a significant level of state involvement to specify China’s goals in terms of oil production, to allocate appropriate state resources to the oil industry, and to fend off foreign encroachment on China’s oil sales and exploitation.

On the consumption side, Cheng noted that the promotion of domestic goods would alert common Chinese to challenges associated with foreign oil. His suggestion belonged to the larger, nationwide campaign to encourage domestic industries, a social movement that had persisted for decades but acquired new momentum as the Nationalist government actively engaged in the movement through exhibitions and policy support. While the Chinese National Goods Movement focused primarily on commodities rather than on heavy industries, Cheng argued that the formation of a nationalistic consumer culture would infuse in the common Chinese the

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expectation to use domestic oil as well. Though Cheng did not think that China’s domestic oil would be able to meet the nation’s total demand, he nevertheless realized that a heightened awareness of nationalistic consumption would encourage the public to see the problems related to excessive reliance on foreign oil and to realize the urgency to develop the domestic oil industry.  

The various authors cited examples in Britain and the United States where the governments executed a clear and consistent policy to pursue their oil interests through supporting research, aiding oil companies politically, and encouraging the consumption of domestic goods. Eager to break away from the dominating foreign influence on China’s national defense and to catch up with industrial nations, these authors thus urged Nanjing to learn from the successful foreign experience and to formulate an overall oil policy that would guide the state to support the oil industry in a variety of ways.

To be sure, despite these authors’ enthusiasm for oil self-reliance, their writings did not reflect the concerns of the larger Chinese public which, as Chen Hanping lamented, “seemed very distant and indifferent.” Even when newspapers and magazines reported news on oil and the great powers, most articles remained too short and simple. It is also hard to gauge to what extent such authors’ ideas influenced policy-making in Nanjing. But the publication of such books indicated that foreign oil companies’ expanding business in the Nanjing decade triggered a sense of uneasiness and insecurity among advocates of national defense. As Nanjing started to implement measures similar to those proposed by these authors throughout the 1930s, tensions between foreign business profits and China’s national interests gradually became apparent.

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88 Cheng Tiandou, Shiyou lizhuo, Chapter 3.
89 Chen, Preface, 2.
Initial Chinese Challenges to Foreign Oil

Standard Oil and the Nationalist government maintained a cooperative relationship in general between 1927 and 1937, but Nanjing’s goal to reduce its reliance on foreign oil constituted a potential challenge to Standard’s continued business expansion in the China market. Nanjing’s policies, however, rarely undermined Standard or resulted in a clash of interests. Standard viewed Nanjing’s actions as benign and at the time barely registered the need to respond in defense. Nevertheless, Nanjing’s actions laid the groundwork for government intervention in the oil industry that would result in confrontations in later decades.

Even before Nanjing took concentrated efforts to develop a national oil industry, it already noticed the tensions between foreign oil and the promotion of national goods and started to stress the foreignness of Standard’s products in government-sponsored exhibitions. Modeled after Japanese exhibitions after the Meiji Restoration, such exhibitions in Republican China displayed domestic commodities and encouraged nationalistic consumption. After myriad exhibitions around China organized by national or local administrations in earlier decades, the relatively stable Nationalist government took an interest in organizing large-scale national exhibitions. The first Chinese National Products Exhibition held in Shanghai in 1928 started with Minister of Industry and Commerce Kong Xiangxi’s admonition that “if you want to understand patriotism, it is completely incorporated in these three words: Use National Products.”

The second exhibition held in Hangzhou in 1929 aimed at similar goals, but it invited Standard, along with other foreign companies, to display their products. Rather than abandoning the goal of promoting national production, the Chinese organizers of the exhibition actually placed Standard’s booth in the Reference Display Section (Cankao chenlie suo) consisting of

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90 Gerth, China Made, 252.
foreign goods—particularly machinery and raw materials essential to economic development—that were intended to “serve as objects of comparison and study with a view toward the improvement of our native industries.” 91 Outside of the Reference Display Section, the five-month exhibition still celebrated domestic commodities and connected them to the development of the Nationalist party-state, inviting political leaders to ceremonies, decorating pavilions with national flags, and eventually ending on October 10, National Day of the Republic of China. 92 The clear demarcation between foreign reference models and Chinese commodities suggested that Nanjing did not think foreign products, including oil, could replace domestic ones or could fully serve the China market. By inviting Standard to display its pumps and gasoline in the Reference Section, Nanjing actually tried to draw attention to the absence of Standard’s Chinese counterpart and encouraged Chinese industries to emulate Standard one day.

Standard, however, failed to grasp, or at least did not claim to have noticed, the underlying motivation behind the invitation to the exhibition. As the Mei Foo Shield’s editorial in October 1929 wrote, Standard simply viewed its inclusion in the exhibition as an advertising opportunity around China 93 and gladly sent a variety of exhibits, including barrels, boxes and cans of oil (especially gasoline) bearing the “Mei Foo” trademark in Chinese, marketing posters for automobile gasoline, pictures of oil drills, and a pump with the English phrase “Ask for SOCONY MOTOR OIL” featured prominently. 94 Notably, Standard focused exclusively on motor fuel in its display and did not send the familiar kerosene lamp or kerosene cans to the exhibition, suggesting that it was determined to market its products to military and industrial

91 Gerth, China Made, 280.
92 Gerth, China Made, 280.
93 “The Exposition,” Mei Foo Shield, October 1929, 2.207/C79, EMHC, BCAH, UTA.
94 Picture of the SOCONY Exhibit, Mei Foo Shield, October 1929, 2.207/C79, EMHC, BCAH, UTA. Here “SOCONY Motor Oil” is the registered brand name of one of Standard’s products, rather than the name of the company. The product brand name was retained after the foundation of Standard-Vacuum.
leaders as well as other Chinese businessmen at the exhibition. Standard’s optimism about its business prospects in China was understandable. There was little indication that China would soon establish its own oil company; even if a Chinese company entered the oil market, it would hardly be able to challenge Standard. Therefore, Standard did not show aversion to Nanjing’s initiative to encourage Chinese industries to emulate Standard.

Nanjing’s interest in oil intensified in the 1930s due to the urgent need for national armaments. The 1931 Mukden Incident, where Japan invaded Manchuria under the pretext of staged railway sabotage, launched armed conflicts between China and Japan that would last more than a decade. In response to military exigencies, Nanjing created the National Resource Commission (NRC) in 1932 to institutionalize the state’s management of its natural resources, as advocates for oil self-reliance suggested in preceding years.

Among the many initiatives of the NRC, the crucial step toward establishing the national oil industry was conducting state-sponsored surveys that sought to gauge China’s oil potential and to refute the myth of China’s oil scarcity. As Tai Wei Lim points out, unlike the 1914-17 joint venture that relied on American experts sent by Standard, surveys conducted by the NRC often intentionally excluded foreign influence which might contain “sinister, hidden aspects of imperialist oil exploitation.” While the methodologies and technologies used by the NRC mainly came from Western countries, the agency recruited predominantly Chinese scientists to estimate the amount of oil resources around the country and to map out regions with great oil potential in order to facilitate exploration.\(^{95}\) These projects provided a scientific and rationalized perspective on Chinese landscapes, and they allowed the Nationalist government to obtain a more accurate understanding of the oil resources that the country possessed. Moreover, as the government

\(^{95}\) Lim, *China’s Quest*, 52-53.
restructured the higher education system to encourage enrollment in science and engineering since 1932, university courses in geology and oil extraction attracted an increased number of students who later worked for the NRC and became instrumental figures in the national oil industry and technocracy. Scientific studies only represented the starting point of China’s oil exploitation; by 1937, the NRC still had not discovered any major oil deposits within China and had not set up any Chinese oil enterprises, but the establishment of the NRC did offer Nanjing a government organ to oversee and coordinate all oil production within China. The NRC’s intentional exclusion of foreign experts from some exploration missions further indicated that its oil interests might clash with those of foreign companies as China’s national oil industry gradually took shape.

Nevertheless, Standard hardly responded openly to any potential conflicts of interests with the NRC throughout the Nanjing decade, possibly because the NRC during the period mainly pursued scientific, rather than business, goals. Even the NRC’s insistence on Chinese leadership in exploration missions hardly affected Standard. The NRC still needed foreign expertise to help it find oil. In 1937, the renowned Chinese diplomat Wellington Koo led a secret mission to “investigate report seepages” in Northwest China, and two geologists sent by Standard accompanied him. During the trip, they noticed seepages in Gansu which would later lead to the discovery of oil in Yumen and the founding of the Yumen Oilfield. But Standard’s participation in the expedition did not motivate it to pursue further exploration of Gansu, either on its own or through a joint venture with China. Many factors may have influenced Standard’s decision, including disruptions caused by the Sino-Japanese War in the same year. But it is likely

97 Lim, China’s Quest, 52.  
98 Letter, Harriet Weller to Earl Whitcraft, February 8, 1979, 2.207/E172, EMHC, BCAH, UTA.
that just as in the 1914-17 joint venture, Standard placed much less value on finding Chinese oil deposits than exploring other regions in the world with more oil potential, whereas the Chinese government held the more pressing interest to acquire domestic oil resources.

Nanjing also contemplated the possibility of increasing state control over the only existing Chinese oil company, the Guanghua Oil Company, by turning the originally private company into a state enterprise. First established around 1926, Guanghua primarily sold kerosene imported from the Soviet Union. The abundance of Russian oil allowed Guanghua to sell kerosene below the market price originally set by Standard, Asiatic and Texaco. Threatened by Guanghua’s advances, the three foreign companies formed an alliance and agreed to cut the price to below that of Guanghua and eventually forced Guanghua into bankruptcy.99

In order to save Guanghua, its president Xu Shiying appealed to Chiang Kai-shek directly in 1935, asking Nanjing to nationalize Guanghua on the grounds that oil was closely connected with national defense. Using the common argument for oil self-reliance, Xu wrote that oil had become crucial for transportation and national defense, particularly for powering motor vehicles and aircrafts used in the military. Arguing that Guanghua’s price wars with foreign companies contributed to the decline of oil prices in China, Xu claimed that foreign countries would take advantage of Guanghua’s bankruptcy “to exterminate the only Chinese oil company, raise the price of oil, and control the oil supply.” Their actions would not only make national defense more costly for Nanjing but also subject China’s defense to the unstable foreign oil inflow. Alternatively, nationalizing Guanghua, as Xu implored, would “save the lifeline of the whole

country’s defense and transportation.”

Nowhere in their exchanges did Xu or Chiang mention kerosene, even though it was Guanghua’s main commodity. Possibly, Xu was considering taking advantage of the growing trend of mechanization and shifting his company’s focus to fuel and machine oil, but it is more likely that he thought associating oil with national defense would draw attention from the administration. Regardless of why Xu chose to emphasize defense products, his appeal and Chiang’s interest reflected Chinese hopes of dissolving the foreign oil oligopoly and achieving self-reliance through domestic companies.

Chiang was moved by Xu’s request and forwarded the letter to the Executive Yuan, the Ministry of Finance, and the Ministry of Industry, suggesting that the government should try to help Guanghua as much as possible to prevent total control by foreign companies over China’s oil supply. Yet, the attempt to nationalize Guanghua failed in spite of official support. In the end, Guanghua sold all of its assets to the three foreign oil companies in order to pay off its loans. It transferred 48% of its clients to Standard and 51% to Asiatic, in return for keeping the name of Guanghua and selling oil for the three companies. Guanghua’s defeat revealed that its lack of domestic reserves and refinery facilities confined it to the sale of foreign oil and severely limited its growth; in order to successfully rival foreign companies, Chinese oil companies needed to first address these problems with the help from the state.

It is uncertain whether Standard and its allies knew about Nanjing’s attempt to rescue Guanghua. When Xu sent his secret letter to Chiang, the three foreign companies had already

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102 Shanghai difangzhi bangongshi, Shanghai duiwai jingji maoyi zhi, vol.2, Chapter 2.
contacted him and offered to purchase Guanghua’s assets, so it is likely that Xu concealed his communications with Nanjing from the foreigners. Standard’s participation in the price war against Guanghua and in the purchase of Guanghua’s assets could thus be viewed as primarily a business activity with few, if any, political connotations. But Xu and Chiang viewed oil as something much more significant than merely a commodity. The Guanghua episode did not result in dramatic confrontations between foreign and Chinese interests, but the difference between foreign companies and the Chinese in their perceptions of the oil trade in China became apparent throughout the process.

Overall, Standard performed well in the China market throughout the Nanjing decade, as it weathered the negative impacts of the Great Depression and urban electrification by tapping into China’s growing military and industrial demand and by expanding its products and customer base. Yet, the fact that foreign companies like Standard were supplying oil to satisfy China’s strategic demand drew concerns from both within the public and the Chinese government about China’s energy security. The initial Chinese challenges to Standard in the 1930s hardly affected Standard’s business operations and thus did not motivate Standard to seek diplomatic assistance from the U.S. government. But the emerging Chinese quest for self-reliance in oil served as the foundation for later development of China’s domestic oil industry. Once the outbreak of total war with Japan in 1937 turned energy security into an acute and vital issue for China, Standard found itself in an especially delicate diplomatic position as a channel for U.S. aid to China and a threat to China’s oil self-reliance.
Chapter 3 The Black Blood in War, 1937-1945

The Second Sino-Japanese War (1937-1945)\textsuperscript{103} left profound impacts on China’s twentieth century in many ways, including the shifting role of oil in Chinese politics and economy. Previously, foreign companies dominated China’s oil business and the only Chinese company, Guanghua, had a much smaller market share in comparison with its rivals. Kerosene remained the key product sold in China. The emerging military and industrial interests in oil were confined to small circles and often failed to translate into actions. By the end of the war, however, foreign oil imports had declined drastically, whereas China had elevated oil to a national priority and was already operating its own oil field in Gansu. These changes, owing largely to wartime events and exigencies, indicated the increasing presence of the Chinese state in the oil industry.

The three major foreign oil companies in China suffered from the disruptive shock of the war on the Chinese market, but they gradually found new ways to maintain and expand their business in wartime China. As these companies cooperated with the Chinese, American and British governments to supply China with oil to defeat Japan, they played a crucial role in the Allies’ war efforts in East Asia, and they also inadvertently contributed to the growth of China’s domestic oil industry. The emergence of Chinese institutions to regulate the oil business, as well as the heavy government and military involvement in oil, set the stage for later conflicts between domestic and foreign interests in China’s oil market. This chapter examines China’s wartime oil development through the lens of the Standard Oil Company.

\textsuperscript{103} The first Sino-Japanese War took place in 1894 and 1895 between the Qing Dynasty and Meiji Japan. It was primarily a naval war and ended with China’s defeat. The war stimulated new waves of reform in China and initiated Japanese imperialist incursions.
Impacts of Japanese Invasion on Standard

Fig. 2 Japanese Occupation of China, 1940 (The red area is the occupied regions)


Although Japan had already occupied Manchuria in 1931 and had been encroaching on northern China throughout the decade, historians generally use the Marco Polo Bridge Incident on July 7, 1937 to mark the beginning of the full-scale Japanese invasion of China. Fighting around the Marco Polo Bridge in Wanping, a fortress near Beijing (known as Beiping at that time), eventually extended to Beijing and Tianjin, and the fall of both cities rendered the entire North China Plain vulnerable to Japanese expansion. In the south, Japan captured Shanghai and began to march toward China’s capital Nanjing in November 1937. In anticipation of the fall of
Nanjing, the Nationalist government evacuated to Chongqing, leaving the capital and its people to a nightmare of rape, looting and massacre that resulted in the death of tens, if not hundreds, of thousands of Chinese civilians and disarmed soldiers.\(^{104}\) By 1940, Japan had occupied most of China’s northern and coastal areas, including most of China’s major port cities (Fig.2). Throughout eight years of war, the Chinese Nationalists and Communists, later joined by other Allied Forces, fought against Japan through open as well as guerilla warfare until Japan’s surrender in 1945.

The fighting between Chinese and Japanese troops, together with the Japanese occupation of port cities, wreaked havoc on the Chinese economy and severely disrupted Standard’s operations in China. In his memoir, Jack Sherwood recorded the anxiety and uneasiness that haunted Standard employees stationed in Nanjing in the months leading up to the fall of the capital. The American employees’ wives and children were evacuated; many employees had left, and the remaining ones hastily prepared to protect Standard’s storage facilities from Japanese air strikes by displaying American flags, piling up sandbags, and building bomb shelters. Standard’s Nanjing office still served the China Air Force, which needed oil urgently in their battle in Shanghai, but “snags in the flow of petroleum supplies” were already emerging.\(^{105}\) Spending much of their time worrying about their families and hiding from bomb attacks, Sherwood and his colleagues were barely able to continue with their work. Eventually, as the Japanese army approached, Sherwood and his colleague, the only two foreign employees in Standard’s Nanjing office, joined other foreigners and an estimated 800 Chinese employees and families to seek

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\(^{104}\) Due to varying interpretations of evidence and the event’s political sensitivity, the exact number of Chinese casualties has been heavily debated among Chinese, Japanese and other scholars. The Chinese government today recognizes a total of more than 300,000 victims, estimated by the 1947 Nanjing War Crimes Tribunal. Other estimates range from 40,000 to 430,000.

\(^{105}\) Sherwood, *Fond Memories*, 166.
refuge on three of Standard’s company tankers (*Mei Ping*, *Mei Xia*, and *Mei An*) under the
protection of the American gunboat, *USS Panay*, anchored in the Yangtze River outside
Nanjing. At a time when their personal safety and property security were at risk, they naturally
prioritized self-protection over sustaining current sales or pursuing new business.

However, even trying to stay away from the war zone did not guarantee security for
Sherwood and his colleagues. On December 12, 1937, the day before the fall of Nanjing, the
three Standard ships where Sherwood and his colleagues took refuge travelled upstream along
the Yangtze River with the *Panay* to avoid accidental damages. All ships had displayed U.S.
flags prominently and Japanese ground troops nearby had already learned about the neutral
position of these ships. U.S. neutrality in the war before 1941 required that neither the Chinese
nor the Japanese troops damage American property in China. Yet, a fleet of Japanese planes
unexpectedly bombed and sank *Panay* while destroying *Mei Ping*, *Mei Xia*, and *Mei An*, even
accidentally injuring some Japanese soldiers on the ground who tried to stop the bombing. In
the end, four foreigners, including the captain of *Mei An* were mortally wounded, dozens were
injured, and Chinese casualties were estimated to be higher despite the lack of exact numbers.

The *Panay* Incident suggested the threats that the war posed for American interests in spite
of U.S. neutrality. In order to avoid provoking the United States to join the war, Tokyo took
immediate actions to appease the U.S. government. Koki Hirota, Japanese Minister for Foreign
Affairs, insisted that the Japanese naval air force failed to recognize the American flags due to
“poor visibility,” and that pilots mistook these ships for steamers carrying Chinese troops fleeing

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106 Sherwood, Fond Memories.
Nanjing.\textsuperscript{108} The Japanese government even sent a gunboat to escort the American \textit{USS Oahu} and the British \textit{HMS Ladybird} to carry survivors from the \textit{Panay} and Standard ships to Shanghai, and another Japanese ship transported all of Standard’s Chinese survivors to Shanghai as well.\textsuperscript{109} Moreover, Japan agreed to pay a $2,214,007 indemnity, $1,287,942 of which was specifically directed to cover Standard’s losses.\textsuperscript{110} The prompt and profuse apologies expressed by Japan suggested that Tokyo did not have the intention to clash with the United States at that time, but even mistakes, confusion and accidents during military operations could easily result in losses of American lives and property.

The U.S. government recognized the danger and condemned Japan for repeatedly contradicting its assurances to respect American interests in China and had “on several occasions... violated the rights of the United States, [had] seriously endangered the lives of American nationals and [had] destroyed American property.”\textsuperscript{111} In addition to the apologies and indemnity that Washington demanded from Japan, the U.S. government also required that Japan provide “an assurance that definite and specific steps have been taken” to prevent similar accidents.\textsuperscript{112} But Washington did not have the determination to pursue further actions, such as entering the war, to avoid further losses. Considering U.S. business interests in Japan and anxious to maintain neutrality due to domestic pressures, the United States recognized “with satisfaction” Japan’s apologies, even though some contradictions in the investigations about the incident remained unresolved. The Commanding Officer of \textit{Panay} still claimed that Japanese planes could have easily recognized \textit{Panay} and the Standard tankers as American ships, but the

\textsuperscript{109} Sherwood, \textit{Fond Memories}, 187.
\textsuperscript{110} Anderson, \textit{Standard-Vacuum Oil Company}, 110.
\textsuperscript{112} Ibid.
U.S. government did not respond to such contradictions, simply stressing that Japan should not attack American citizens and property in China.\textsuperscript{113}

Jack Sherwood’s evacuation from Nanjing and the fate of the three Standard tankers in the *Panay* Incident were a telling example of the losses that Standard went through in wartime China. Though employees in areas not seized by Japan continued working, the evacuation of family members, the impending Japanese threat, and the increasing number of employees seeking transfers and home leaves made it challenging to maintain the peacetime level of sales. Standard could still operate with little interference from the Japanese, particularly in neutral zones like the International Settlement and the French Concession in Shanghai. But as cities with Standard’s offices fell one after another, Standard was undermined indirectly in many ways. Japanese occupation of coastal ports, its control over transportation along the lower Yangtze River, and general chaos in China due to the war severely curtailed Standard’s transportation network and disrupted the company’s operations. As Fig. 1 shows, between 1937 and 1938 the amount of total oil imports in China dropped by more than 40%;\textsuperscript{114} the initial shock of war on Standard and other foreign oil companies in China was evident.

Moreover, accidental damages to company facilities constituted another serious loss for Standard. The three ships destroyed in the *Panay* Incident represented only part of the numerous storage facilities and vessels, particularly in north and coastal China, owned by Standard. Throughout the first years of war, Standard constantly faced situations similar to the *Panay* Incident. In Yichang, for example, Chinese gunboats often came to the vicinity of Standard’s vessels and pontoon; the Chinese government also placed a state-owned coal yard near

\textsuperscript{113} “Note from the American Ambassador in Tokyo to the Japanese Minister for Foreign Affairs.” December 25, 1937,” 020-050204-0023, Foreign Ministry Papers, Academia Historica

\textsuperscript{114} The numbers for the calculation come from Cheng, “United States Petroleum Trade,” 209.
Standard’s property, built permanent buildings, and frequently unloaded ammunition and gasoline nearby. These practices put Standard property in danger of Japanese air raids and prompted Standard to protest repeatedly to the Chinese government through the American Embassy in Chongqing.\textsuperscript{115} In the meantime, the presence of Japanese troops near Standard properties in Yichang, which the American embassy deemed “a circumstance over which American officials or other American nationals do not and cannot exercise control,” also led to Chinese attacks on Standard’s installations.\textsuperscript{116}

In addition, Japan took advantage of weaknesses of American and British companies and granted special favors to Japanese companies entering the Chinese oil market. Edward Chester notes that, while the United States protested against Japan’s attempt to establish an oil monopoly in Manchuria in 1938, Japan took other measures such as “price fixing, the levying of taxes, the establishment of monopolies, and currency restrictions” to drive Standard, Asiatic and Texaco out of North China. These three companies were still able to conduct business in North China between 1938 and 1941, but the many obstacles that Japan created to favor Japanese companies increased non-Japanese companies’ difficulty in gaining profits and consequently reduced these companies’ volume of sales.\textsuperscript{117}

Once the United States joined the war after Pearl Harbor in December 1941, open hostilities between Japan and the United States led Japan to harm American business interests with little inhibition. Soon after the formal declaration of war, the Japanese occupation forces arrested


\textsuperscript{116} Letter to His Excellency Dr. Wang Chung-hui from the American Embassy in Chongqing, August 16, 1940. 020-050210-0007. Foreign Ministry Papers, Academia Historica.

some Americans in China as spies and held them as prisoners of war. Standard employees faced a particularly precarious situation due to the sensitive nature of oil’s industrial and military significance. Sherwood himself was imprisoned in 1942; his Japanese interrogator accused Standard’s entire China Division of espionage, because the company published reports on North China industries, including “types of machinery, shipping data, oils in [use], productive capacities, number of employees, and credit ratings.” Japan further shut down or confiscated “enemy” firms and property in China, including Standard’s Shanghai office. P.J. Twogood, general manager of Standard’s North China division, was arrested and was “subject to vile treatment... deliberately starved.” Though the United States frequently released Japanese prisoners in exchange for the exemption of Americans including Sherwood and Twogood, by 1945, a number of Standard employees were still stranded in prisons in Japanese-controlled territories, prompting Standard to express to the State Department its “desire to leave no stone unturned” to rescue its imprisoned employees.

Japan’s outright disruption of Standard’s operations in China thus caused significant and long-term damage to the company’s position in China. Even though the oligopoly of Standard, Asiatic and Texaco remained hard to challenge in China after the war, all companies were left with decreased assets, and the departure of many experienced but deeply traumatized “China hands”. No primary source so far has enumerated Standard’s total losses in the war, but Texaco’s complaint that “practically all of the marketing facilities [in China] have been destroyed, removed or badly damaged during the war” suggests that Standard most probably suffered

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118 Letter, P.W. Parker to Albert E. Clattenburg, Jr., August 9, 1945, File 711.93114A/8-945, National Archives at College Park, Maryland (NARA College Park).
120 Sherwood, *Fond Memories*, 267.
121 Letter, P.W. Parker to Albert E. Clattenburg, Jr., August 10, 1945, File 711.93114A/8-945, National Archives College Park.
similar, if not as destructive, losses. The weakened position of Standard and its competitors by the end of the war thus opened up the opportunity for China to challenge their dominance after the war.

**Standard’s Participation in the China Theater**

Standard’s business contraction in Chinese war zones and in Japanese-occupied areas did not spell doom for the company’s operations in China. Throughout the war, Standard maintained an active presence in non-occupied regions. While the sale of kerosene continued to drop (Fig.1), Standard concentrated its activities around Chongqing, the temporary Chinese capital, and along the Burma Road (*Dianmian gonglu*) between Burma and southwestern China, supplying oil for the wartime Chinese military and industries, and assisting the Allies’ war effort. Though hardly any company records regarding its wartime activities in China exist, the coordination of the U.S. government on wartime oil exports, particularly through the Army-Navy Petroleum Board after 1942, suggested that Standard’s position gradually came into alignment with the U.S. government. Standard’s wartime operations in China solidified the transition from kerosene to motor fuel and machine oil in its China trade. The close collaboration between Standard and the Chinese and the U.S. governments further increased Standard’s dependency on state policies of their home and host countries.

The evacuation of crucial industries from East China to Chongqing and its surrounding areas, together with China’s defense against Japan, stimulated tremendous demand for oil in non-occupied regions. More than 200 Chinese factories, which constituted one-third of all factories that evacuated west, settled in Chongqing. By 1940, the industrial zone in Chongqing had 429 factories, including 159 in machinery, 17 in metallurgy, 23 in electricity, 120 in chemical

Unfortunately, perhaps due to the turmoil of war, there exist very few specific data on how such massive-scale industrial relocation affected Standard’s sales, but several facts suggest that Standard and other foreign oil companies profited from the increase in demand. According to Fig.1, total oil imports rose slightly after the initial drop in the first year of war; the amount could probably have risen more drastically if gains in West China had not been offset by losses in occupied areas. By the end of the war, gasoline imports had surpassed the once dominant kerosene sales. Like the American Embassy in China, which moved from Nanjing to Chongqing in 1938, Standard shifted its center from its Shanghai office to the office in Chongqing. An increasing number of wartime correspondences between Standard and the American Embassy took place between their Chongqing offices. In addition, the very fact that so many factories managed to move to Chongqing and that at least part of their relocation involved motor transportation via highways around Chongqing suggests that these factories had access to fuel. While it is hard to gauge whether Standard and its competitors adequately satisfied Chinese demand during the period, Standard did make the effort to recover some losses by engaging in wartime industrial production in West China.

Yet, Standard’s supply for industries in Chongqing, at least in its early years, should be interpreted as a primarily commercial decision rather than a political one. Having suffered
immense losses along the Chinese east coast, Standard naturally seized business opportunities that arose from the high concentration of industrial production around the provisional capital. While operating in Chongqing, Standard also sold oil to Japan and even briefly considered Japan’s proposal in 1938 to form a Japan-dominated oil monopoly in Manchuria. In the company magazine of SOCONY-Vacuum, Standard’s parental company in the United States, an article called “Half a Century in China” appeared in February 1941, detailing Standard’s early ventures in the kerosene trade to China, but it did not mention at all the war in China or Standard’s involvement in China’s military and industrial development at that time. Though Japan had sunk three Standard tankers in China and had caused severe disruptions, its demand for motor fuel and machine oil still far exceeded that of China.

In terms of supplying oil for military consumption, Standard consistently sold fuel to the Chinese Air Force in the first years of war, but this practice remained more of a business transaction than a conscious alliance, because the U.S. government maintained nominal neutrality and Standard had also been selling to Japan. In 1940, Standard and other American oil companies exported three times as much gasoline to Japan as they had in the previous three years.

Only after the U.S. government articulated its alliance with China against Japan did Standard start to follow the position of its home country. Previously, the U.S. government had always protested that Japanese expansion in China harmed U.S. interests, but such interests remained largely commercial rather than strategic, and thus the U.S. government did not see the critical need to intervene beyond issuing diplomatic protests. The situation changed in 1940

124 Anderson, Standard-Vacuum Oil Company, 111.
125 “Half a Century in China,” SOCONY-Vacuum News, February 1941, C2.207/E211, EMHC, BCAH, UTA.
126 Anderson, Standard-Vacuum Oil Company, Appendix B.
127 Chester, United States Oil Policy, 297.
when Japan signed the Tripartite Pact with Germany and Italy. Together, the Axis powers held
the potential to coordinate actions on a global scale to threaten U.S. security. Shifting focus from
domestic to foreign affairs, the U.S. government started an intensive military buildup while
providing aid to countries including China. Bolstering Chinese resistance to Japan became a
critical U.S. interest, because it would not only undermine Japanese violation of U.S. business
interests in China but also distract Japan from joining Germany in the war against Russia or
invading European colonies in Southeast Asia.\textsuperscript{128} Moreover, after years of debate, the U.S.
government finally enforced an embargo on oil exports to Japan in 1941 so as to curb Japanese
expansion, a decision that exacerbated the U.S.-Japan hostility and led to Pearl Harbor.\textsuperscript{129}

Standard’s previously isolationist and business-driven stance gradually came into line with
U.S. foreign policy. When the war in Europe broke out, the October 1939 issue of SOCONY-
Vacuum’s magazine published the National Association of Manufacturers’ statement that
“Europe’s problems do affect us, but our domestic problems still must come first.”\textsuperscript{130} But as the
United States started to provide China with supplies to strengthen its national defense, Standard
engaged in various initiatives to implement U.S. support. Once the United States formally
entered the war, Standard became even more integrated into the Sino-U.S. military alliance.

The key program that Standard was involved in was the supply of oil for military needs
along highways in Southwestern China. Just one month after the Marco Polo Bridge Incident,
Chiang Kai-shek accepted the proposal to construct the Burma Road (Fig.3) linking Kunming
and Lashio in the British colony of Burma so as to ensure that China had access to the Indian
Ocean in case Japan blockaded China’s east coast. Once the road was opened in 1940, foreign

\textsuperscript{128} Herring, From Colony to Superpower, 534.
\textsuperscript{129} Yergin, The Prize.
\textsuperscript{130} “American Industry is Opposed to WAR,” SOCONY-Vacuum News, October 1939, C2.207/E211, EMHC,
BCAH, UTA.
supplies destined for China were able to land at the Burmese coastal city of Rangoon before they were transported by rail to Lashio; they then travelled along the 717-mile-long Burma Road to Kunming and finally reached Chongqing through the Dianqian Road. As Chongqing became China’s military and industrial center during the war, the Burma Road served as one of the two crucial supply lines for the Chinese army, the other being the Sino-Soviet frontier.\textsuperscript{131} Both Britain and the United States utilized the Burma Road to transport outside supplies to China, and the monthly tonnage that reached Kunming rose rapidly.\textsuperscript{132}

Transportation along the Burma Road made the availability of oil a prerequisite for the war effort of the Chinese Nationalists and their allies. As Figure 4 demonstrates, despite the long distance and the extremely diverse and challenging terrains between Lashio and Chongqing, due to the strategic location of the Burma and the Dianqian Roads, trucks still had to travel back and forth to keep supplying the military. In 1941, the U.S. State Department noted that “fuel was one of the greatest problems” on the Burma Road as well as on the Alma Ata-Lanzhou highway connecting Russia with Northwestern China.\textsuperscript{133}

Consequently, adequate motor fuel had to be available along both highways to ensure the smooth


transport of supplies.

Since Britain had been fighting against Japan and the United States had been supporting China, the dominant American and British oil companies in China—Asiatic, Standard and Texaco—took the responsibility to alleviate the fuel shortage along these highways. In 1941, the three companies signed a contract with the Chinese Ministry of Communications to establish gasoline supply stations along the Burma Road. Both the American and the British governments strongly supported their efforts and provided assistance, such as by keeping in touch with the Chinese government to clarify confusion about the contract.¹³⁴

The United States’ entry into the war allowed it to incorporate the security of the Burma Road as one of the U.S. military priorities in the China Theater. Prior to 1941, Japan frequently attacked the Burma Road and targeted precipitous but crucial sections like the “Twenty-Four Turns”. In 1940, Britain shut the highway down for three months under Japanese pressure, and Japan’s occupation of Burma in 1942 made the Allies lose the highly strategic supply line. In fact, the U.S. decision to enforce the oil embargo against Japan in 1941 resulted partly from the fact that Japan used the oil that it received from American and British companies to attack the Burma Road.¹³⁵ Starting in 1943, the Allied Forces started to take “vigorous and aggressive land and air operations” with the objective of reopening the

Burma Road to resume supply.\textsuperscript{136} Once the goal was achieved, the three oil companies cooperated to construct oil pipelines between Calcutta and Kunming, each taking charge of certain sections of the road. For Standard, the most celebrated project was the section between Calcutta and the upper part of the Burma Road, directed by G.B. Randels, a pipeline manager of an affiliate of Standard Oil of New Jersey. As the company history applauded, pipeline construction along the Burma Road was “a heroic effort... it meant cutting through disease-ridden jungle and going over 8,500-foot mountains.”\textsuperscript{137}

In the interim years when the Burma Road was shut down, American and British airlift over “the Hump”—the eastern end of the Himalayas—replaced trucks to transport wartime supplies. Standard’s company history verifies that it was indeed involved in supplying oil for the airlift,\textsuperscript{138} and thus the change in transportation methods did not severely undermine Standard’s participation in war, as it simply sold a different product. Together, transportation by air and by highway, both powered by oil, continued to contribute to the Allies’ war effort until the end of the conflict. In 1945, 100,000 tons of supplies were entering China every month by air and by the Burma Road.\textsuperscript{139} Just as the Burma Road and the air routes served as the lifelines for Chinese, American and British forces to fight in the China-Burma-India Theater of World War II, oil was indeed the “black blood” that helped, however insufficiently, sustain the circulation of supplies.

Aviation fuel also helped serve the Allies’ forces in combat. Sales to the Chinese Air Force continued as part of the supplies transported along the Burma Road, but the transaction now had more political connotations, as the United States had become China’s ally first through material


\textsuperscript{137} Larson et al., \textit{New Horizons}, 538.

\textsuperscript{138} Larson et al., \textit{New Horizons}, 549.

\textsuperscript{139} “Joint Chiefs of Staff Minutes,” July 24, 1945, Joint Chiefs of Staff Files, \textit{FRUS: Diplomatic Papers: the Conference of Berlin (the Potsdam Conference), 1945, Vol. II} (Washington, DC: U.S. GPO, 1945).
assistance and then through formally entering the war. Meanwhile, the Flying Tigers, the first American Volunteer Group formed by American pilots and commanded by Claire Lee Chennault, was active in China and Burma between 1941 and 1942, and one of their chief tasks was to defend the Burma Road from Japanese attacks. No source so far indicates which oil company provided fuel for them, but the Flying Tigers were likely to choose Standard because it was an American company and was larger than Texaco, but it is possible that the Flying Tigers chose otherwise for different reasons. Similarly, once the U.S. Air Force entered the China-Burma-India Theater in 1942, Standard possibly served as a key supplier of fuel.

Standard’s participation in war also contributed to military intelligence. Through its decades of marketing experience, Standard had accumulated many maps and data about routes and transportation facilities around China, and such information proved helpful for military forces not necessarily familiar with the Far East.¹⁴⁰

In the end, just as the 1945 SOCONY-Vacuum Annual Report to Employees said, “in all [areas covered by Standard-Vacuum] the Company has mobilized its personnel and facilities to assist the Allies in transporting and distributing petroleum products.”¹⁴¹ Once the U.S. government made clear its position against Japan, Standard followed government instructions to comply with the embargo and to help strengthen and defend China. It acted largely in coordination with Asiatic and Texaco, prioritizing the Allies’ victory over business competition.

Unlike in previous decades, Standard’s trade with China after 1941 was not primarily profit-driven, although the Allies’ victory and the resumption of free trade in China would potentially bring about long-term profits for Standard and other foreign companies. Indeed, due

¹⁴⁰ Larson et al., New Horizons, 549.
¹⁴¹ “SOCONY-Vacuum’s Annual Report to Employees,” SOCONY-Vacuum News, April 1945, 2.207/C177, EMHC, BCAH, UTA.
to wartime oil supply, Standard maintained its presence in China despite heavy losses in Japanese-occupied zones. It also gained closer connections with the U.S. and the Chinese governments, as it focused on military supply and industrial development. Standard’s frequent communication with the American Embassy and the American military turned its attention from private interests to U.S. strategic and geopolitical concerns, while its proximity to the Chinese government in Chongqing and its supply to various Chinese sectors also drew the attention of Chinese technocrats. Though Standard’s China trade had always been subject to political changes, by the end of the war it was clear that the focus of Standard’s China operations became part of the alliance between the U.S. government and the Nationalist regime.

**Chinese Oil and Planning for Reconstruction**

Foreign oil supply helped address some of the critical needs in China’s resistance to Japanese invasion and in the continued development of Chinese industries. But the dominance of foreign oil companies in supplying oil for China during this national emergency heightened the urgency for China to defend its resource security, namely through developing indigenous sources of oil and regulating oil imports. Otherwise, just as some Chinese officials and intellectuals worried in the 1920s and the 1930s, any disruptions in foreign oil imports, whether intentionally or unintentionally, would render China defenseless in modern warfare. Due to the Sino-U.S. wartime alliance, both the U.S. government and Standard Oil were largely supportive of China’s exploration for domestic oil, but the emergence of China’s oil industry, partly resulting from such support, gradually posed a potential threat to foreign businesses in the long run.

While Japanese military threats had already triggered concerns about China’s resource security and had resulted in the establishment of the National Resource Commission, the full-scale Sino-Japanese War further pressured China to ensure reliable domestic supply of critical
resources, including oil. In his 1938 speech in Chongqing titled “Our Country’s Economic Policy during the War of Resistance”, Weng Wenhao—founding director of the National Resource Commission and head of the Ministry of Economic Affairs—reiterated the Chinese stance on resource accessibility:

Our country has long depended on foreign goods and material. If imports stopped, then a lot of industries would face fundamental difficulties. The way for our country to resolve this problem is that it should strive to increase the production of important material in the hope of self-sufficiency.142

While some intellectuals previously debated whether the central state should take control of development toward self-sufficiency, Weng’s position in the Chinese government and the national emergency that China faced made him believe that only state control could help China achieve its goal. Raising the examples of the United States, the Soviet Union, and Germany, he concluded that all major powers in the modern era enforced centralization when dealing with foreign policy, national defense and macroeconomic planning. In particular, the flow of natural resources concerned the entire nation and thus should fall under the coordination of the central state.143 Following this line of thought, the Ministry of Economic Affairs and the National Resource Commission took actions to push China toward domestic production of resources.

The NRC continued its geological surveys after total war broke out. In 1938, during one of the NRC’s expeditions to look for oil, surveyors returned to Gansu, where Standard geologists had discovered oil seepages during the 1937 expedition led by Wellington Koo.144 This time, Chinese surveyors discovered potential reserves and set up an oilfield in Yumen in 1939. Tai

144 Letter from Harriet Weller to Earl Whitcraft, February 8, 1979, 2.207/E172, EMHC, BCAH, UTA.
Wei Lim points out that the Yumen Oilfield, which remained the largest in China until the discovery of Daqing in 1959, resulted mainly from Chinese solidarity and ingenuity rather than foreign assistance. The alliance between the Chinese Nationalists and Communists against Japan allowed the two hostile parties to cooperate and develop Yumen together. In 1939 the Nationalist government borrowed from the Communists in Yanchang “old American drills with Japanese steam engines dating back to 1906”; twenty oil workers from Communist Yanchang also aided the drilling project.¹⁴⁵

Moreover, due to the difficulty of transporting more advanced equipment to the remote region, technicians at Yumen had no choice but to adopt a variety of creative and makeshift technologies for drilling, refining and transportation. Such technologies included using a wok made from two large oil barrels to refine oil and transporting oil in containers made of sheepskin.¹⁴⁶ These novel, but often primitive, strategies sometimes compromised the quality of oil production, but they nevertheless allowed Yumen to gradually increase its output. Two years into its operations, in 1941 Yumen produced 3,000,630 gallons of crude oil.¹⁴⁷ Oil from Yumen constituted a significant portion of the Nationalists’ total oil production of 1.06 million gallons of oil between 1939 and 1944.

The Yumen Oilfield still faced numerous difficulties throughout its operations. Makeshift technologies could not fully compensate for the lack of equipment and infrastructure. Not all oil produced in Yumen was able to reach the Chinese military in time due to limited routes; the harsh climate in Yumen frequently froze pipelines in winter.¹⁴⁸ Nevertheless, Yumen was the

¹⁴⁵ Lim, China’s Quest, 61-63.
¹⁴⁶ Lim, China’s Quest, Chapter 3.
¹⁴⁷ Lim, China’s Quest, 72.
first large-scale oil exploration and extraction project coordinated by the Nationalist government; the exploitation of shale oil in Fushun, which predated Yumen, was initiated by the Japanese. The NRC further established the Gansu Oil Bureau (Gansu youkuang ju) in Chongqing in 1941 to manage large-scale production in Gansu. The location of the bureau in China’s provisional capital rather than near the actual oilfield suggested that the Nationalist government kept Yumen’s operations under firm central control. By establishing the Yumen Oilfield and creating relevant government institutions, Nationalist technocrats, such as Weng Wenhao and Yumen’s general manager, Sun Yueqi, gained experience with state-controlled oil production from drilling to transportation. Together with concurrent production in Sichuan and Xinjiang, the Yumen Oilfield marked the beginning of the modern Chinese oil industry.

However, Chinese leadership and creativity in the development of the Yumen Oilfield did not imply that foreign oil companies were merely irrelevant bystanders. Rather, Standard and the U.S. government actively interacted with Chinese authorities throughout the process. The NRC noted that old equipment owned by China and makeshift substitutes for unavailable machinery were not sufficient for the expansion of production in Yumen. Thus, the NRC purchased equipment from the United States during the war. Standard’s long-standing operations in China and its connections with the Chinese government and military made the company an obvious choice for the NRC, and the latter bought storage tankers and other equipment from Standard to address crucial needs in Yumen. Already aiding China and planning to extend the Lend-Lease Act to China, the U.S. government was supportive of the NRC’s endeavor, as it applauded

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Chinese engineers for achieving positive results from their project.\footnote{151}

Yet, American equipment played only a limited role in the development of Yumen. Not only did some equipment require a steep learning curve for Chinese technicians,\footnote{152} the majority of equipment purchased by the NRC was also lost in transit due to fighting in the Pacific and in China. Less than 30% of the equipment actually reached Yumen.\footnote{153} By 1942, the U.S. government still noted the “lack of refining equipment and drums” in Yumen.\footnote{154} These difficulties resulted in the continuation of makeshift technologies, but American support for Yumen still showed that neither the U.S. government nor Standard Oil was opposed to China’s quest for domestic oil production. To Washington, the increase in fuel supply as a result of Yumen’s development would strengthen China against Japan; to Standard, Yumen’s relatively small scale hardly constituted a serious threat to the company’s position in China.

In addition to providing equipment, the United States also sent technological assistance at the request of the NRC to Yumen. In January 1945, the U.S. State Department and the Petroleum Administration for War sent two petroleum experts, Martin J. Gavin and Andrew N. Mackenzie, to China, “for the purpose of obtaining full data as to what immediate steps might be taken to maintain and expand the production, refining, and distribution facilities of the [Gansu] Oil Fields so as to achieve the maximum potential supply of oil from this source for war needs in that theatre.”\footnote{155} Again, the U.S. government emphasized wartime priorities and supported the NRC’s attempt to expand Yumen’s operations, with little worry that such expansion might challenge
American firms in China.

For the NRC, however, the Yumen Oilfield was more than a wartime supplier; it represented one of the first steps toward a state-controlled national oil industry. The wartime oil shortage, the NRC’s rapid expansion due to war production, and the NRC’s experience in operating the Yumen Oilfield strengthened NRC technocrats’ resolve to develop the oil industry when planning for postwar reconstruction in the last few years of war. The focus of Weng Wenhao’s writings and speeches after 1943 turned from ensuring wartime supply to considering postwar development and he viewed oil as an instrumental part of his economic ideas. “Postwar reconstruction must be the development of a planned economy, and thus industrial production must be planned production,” said Weng, emphasizing that the central government should coordinate and determine “the categories, the quantity, and the quality” of production by all state-owned, province-owned, or private-owned factories.156

Weng identified oil, along with several other materials like iron, coal and electricity, as “fundamental products for the national economy” that should be only run by the state rather than by provincial governments or by private enterprise.157 The rationale behind his proposal lay in the need to reduce the wide gap between oil production in China and in other countries. When Weng wrote an overview of China’s economic situation in 1943, he provided a table comparing the production of coal, steel, oil, and electricity in the United States, the Soviet Union, Britain, Germany, Japan, and China. He left the cell for China’s oil production blank, in stark contrast to the United States’ enormous oil output of 170,000,000 gallons. Oil production in Yumen, Xinjiang, and Sichuan, no matter how groundbreaking it was to China, remained negligible in

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156 Weng Wenhao, “Zhongguo gongshang jingji de huigu yu qianzhan” [Review and Outlook of China’s Industrial and Commercial Economy], in Kexue yu Gongyehua, ed. Li Xuetong, 545-546.
comparison to that of industrial nations. Only through careful planning coordinated by the government, Weng argued, could China fully develop its oil industry toward the ultimate goal of self-reliance.\footnote{Weng Wenghao, “Zhongguo jingji jianshe gailun” [An Overview of Chinese Economic Development], January 1943, in Kexue yu Gongyehua, ed. Li Xuetong, 501.} The leadership role played by the NRC and the Gansu Oil Bureau in Yumen’s development was an example of state-planned oil production, and Weng intended to continue and expand this model after the war.

As head of the Ministry of Economic Affairs, Weng’s ideas heavily influenced the Nationalist regime’s preparation for postwar reconstruction. The “Outline for Postwar Industrial Development” (Zhanhou gongye jianshe gangling), passed by the Nationalist Party in August 1943, demonstrated the Nationalists’ determination to enforce economic planning and state ownership of crucial industries. It stated that different industries could only work in coordination if the state planned for postwar industrial development. In regard to oil, the outline decreed that Chinese oil companies that produced on a large scale should be owned by the state.\footnote{Weng Wenhao, “Zhanhou gongye jianshe gangling” [Outline of Postwar Industrial Development], in Kexue yu Gongyehua, ed. Li Xuetong, 558-559.} Because it was hardly possible to establish oil companies on a small scale, this regulation implied the Nationalist regime planned to nationalize the domestic production of oil.

Before the war ended, Standard did not view the trend toward central planning in China’s oil industry with alarm. State ownership of oil enterprises, as Weng proposed, only applied to Chinese companies. Besides warning that China’s reliance on oil imports harmed China’s energy security, neither Weng nor the Nationalists’ \textit{Outline} referred to foreign oil companies as a threat. Weng did not want to stop foreign oil imports; he only stressed that China should not rely on foreign supply. Yet, state control of China’s oil industry potentially prevented foreign companies from exploring for oil on their own. Foreign companies might only be able to exploit Chinese oil
if it formed some kind of partnership with the Chinese government and/or domestic companies. This limitation still did not severely harm Standard’s interest, because Standard considered China more as a market than as a producer and did not expect China to produce a large amount of oil.

In fact, rather than curtailing Standard’s opportunity to participate in the production of oil in China, the Chinese government continued to seek collaboration with Standard, because American equipment and investment remained crucial for China’s oil development. But China’s goal to achieve self-reliance influenced the Chinese government’s priorities during negotiations. In 1943, Standard and Asiatic started to discuss with the Chinese government the possibility of jointly developing oil resources in Xinjiang.

Just like the 1914-17 joint venture between Standard and the Chinese government to search for oil in Shaanxi and Yanchang, the negotiating parties were both interested in the prospects of the collaboration, but the discussion eventually failed due to the differences in their expectations for the project. While Standard only hoped to profit from this venture, the Chinese government had larger goals in mind. Hoping to bolster domestic oil production and reduce China’s reliance on foreign oil during and after the war, the Chinese government hoped that Standard could also aid “the transportation and refining of indigenous crude oil production already developed by the Chinese Government”, help refine indigenous crude oil rather than imported crude oil in China, and discuss the correlation of the distribution of domestic oil with that of imported oil. These three demands exceeded Standard’s expectations and suggested that providing its technology and investment for China might actually undermine the sales of imported oil in China. As a result, Standard suspended the negotiation to reevaluate the overall oil situation in China until Weng
Wenhao approached Standard again in 1945 and proposed resuming the discussion informally.\textsuperscript{160} Negotiations between Standard and the Chinese government would continue into the postwar years. This episode reflected Standard’s caution toward China’s ambition for oil self-reliance, and it also demonstrated the Chinese government’s attitude toward foreign oil companies. As it had not yet achieved oil self-reliance, China still needed foreign imports to meet the rapidly growing domestic demand for oil, particularly in anticipation of postwar reconstruction, and it also hoped to borrow foreign technology and expertise to advance China’s oil industry. Therefore, the Chinese government remained cooperative with foreign oil companies, but its interest in oil self-reliance was inherently at odds with the desire of foreign companies to tap into growing demand created by China’s industrialization.

The Sino-Japanese War fundamentally altered the environment where Standard operated. The war and Japanese occupation made Standard lose a large portion of its market in China, but military and industrial needs in the Southwest enabled it to work closely with the U.S. and the Chinese governments, and made oil a crucial part of the Sino-U.S. military alliance. Meanwhile, wartime fuel shortages motivated China to establish the Yumen Oilfield in Gansu and to use it as a model for postwar state-controlled development in the domestic oil industry. Once the war ended in August 1945, Standard found itself confronting the need to continue participating in the Sino-U.S. alliance on the one hand and the rise of potential Chinese competitors favored by the Chinese government on the other. The previous two decades of the politicization of the oil trade with China and the Chinese drive toward oil self-reliance would finally culminate in a series of conflicts as the United States actively participated in China’s postwar reconstruction.

\textsuperscript{160} Letter from P.W. Parker to the Secretary of State, June 11, 1945, File 893.6363/6-445, NARA College Park.
Chapter 4 Postwar Reconstruction, 1945-1949

Once the Second Sino-Japanese War ended in 1945, the Nationalist government started to implement reconstruction plans that had taken shape during the war. China’s postwar economic planning never achieved the results that the Nationalist government had hoped for, because it was only partially implemented and ended abruptly once the Chinese Communists defeated the Nationalists in the 1946-49 Civil War. But the postwar years witnessed the rise of state control over a variety of crucial industries, including oil. Regulations by the NRC, the establishment of the Chinese Petroleum Corporation (CPC), and the issuance of the new Company Law represented key attempts by the Nationalist government to oversee domestic oil production and regulate foreign oil imports, in order to reduce China’s reliance on foreign oil and to pursue oil self-sufficiency.

The United States played an important role in China’s economic reconstruction by providing financial, technological and personnel aid. While the U.S. government remained ambivalent in the late-1940s about whether to support the Nationalists against the Chinese Communists,\(^{161}\) geopolitical priorities urged it to find an ally in East Asia so as to keep Soviet eastward expansion in check. Given Japan’s defeat, China became the only power in the region that could potentially serve this purpose. Moreover, strengthening China could also help American businesses profit from the China market. Due to oil’s strategic significance in national defense and in industrial production, the U.S. government found it in its best interest to ensure that China maintained a sufficient supply of oil, whether domestic or foreign. While the U.S. government also valued establishing an economically liberal environment to secure American

companies’ long-term commercial interests, pressing geopolitical concerns still took precedence. Standard Oil, as one of the largest American companies in China that had already worked with both governments, inevitably participated in the postwar Sino-U.S. alliance by providing China with imported oil on the one hand and helping to develop China’s domestic oil resources on the other. Nonetheless, tensions between free trade and state control were brewing. This chapter explores how the political implications of Standard’s operations in the Sino-U.S. alliance and China’s resource security increasingly subjected the company to conflicts with the Chinese government between 1945 and 1949.

**Aiding Postwar Reconstruction**

China’s postwar demand for oil grew rapidly, primarily due to the needs of military and civilian transport. Immediately after the war, the return of the Nationalist government, army, and industries from West China back to the East required fuel. As Wang Shoujing from the Chinese Embassy in the United States wrote to the Director of Fuels and Lubricants Division of the U.S. Office Quartermaster General on September 24, 1945, China needed “a non-interruption of the supply of liquid fuel in western China”, because “there is no alternative but to depend on” the pipeline between Calcutta and Kunming, which supplied the Allies along the Burma Road during the war, to fuel the eastward movement of the Chinese government and army.\(^{162}\) Meanwhile, industrial needs during postwar reconstruction, along with military buildup aimed at confronting the Communists, further increased demand at a rate exceeding that in preceding decades. As the American Chargé d’Affaires in China, Walter Robertson, wrote to the Secretary of State in 1945, “it is of particular interest to note that the Chinese Government’s expressed desire that foreign oil

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companies resume business and rehabilitate their facilities in China.”  

In fact, one month prior to his letter, Song Ziwen, President of the Executive Yuan, met with three Standard Oil representatives in Chongqing, stating that “the large size of the market for oil in China, especially gasoline, will be unprecedented.” He urged that Standard should cooperate with China by restoring oil facilities destroyed in the war, keeping products at a reasonable price, and maintaining the oil supply during possible emergencies.  

The U.S. government and American companies were eager to respond to this need. On the one hand, the presence of the U.S. military around China and U.S. involvement in various reconstruction programs in China made it crucial that there be adequate oil to allow Americans to carry out their projects effectively. Under the coordination of the U.S. Army-Navy Petroleum Board (ANPB), the U.S. military imported diesel for the Navy, aviation fuel, lubricants, and other products, often signing contracts with oil companies to store and to distribute military-owned oil. For reconstruction programs headed by the United Nations Recovery and Rehabilitation Administration, such as the Yangtze River Conservancy Project and the Yellow River Project, the ANPB declared itself “vitally interested.” Therefore, the ANPB “[developed] possible military product substitutes and [instructed] the area officers in the Pacific to deliver those products”, helped UNRRA negotiate contracts with commercial suppliers, and provided advice for UNRRA on issues like oil distribution.

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164 Minutes of Meeting between Song Ziwen and Standard Oil Representatives, November 9, 1945, 003-010307, NRC Papers, Academia Historica.
165 The Yellow River Project was a major UNRRA rehabilitation task in China. After the Nationalists redirected the river in 1938 as a military maneuver to deter Japanese forces, the redirection led to a devastating flood that destroyed large spans of farmlands and killed hundreds of thousands of people. During postwar reconstruction, UNRRA tried to help the Chinese seal the breach and reclaim the farmlands.
In addition to providing oil directly, the United States also aided China financially so that China had the means to acquire much needed resources. By 1948, the United States had provided 2.9 billion dollars in aid to China and some of the aid was directed specifically at oil imports. In 1948, for example, Standard’s Chief Executive Philo W. Parker noted that, “out of the $463,000,000 which the Economic Coordination Administration is now giving to China, $65,000,000 has been ear-marked for petroleum products.” The funding allocation aimed at increasing China’s ability to “obtain some necessary imports” in a time of economic difficulty.\textsuperscript{167} Such aid helped the Chinese army to procure a variety of oil products from major oil companies through the coordination of the NRC and the Central Trust of China.\textsuperscript{168}

With active U.S. government and military efforts to incorporate oil into their aid programs, the “big three” oil companies all participated in China’s postwar reconstruction. According to ANPB’s Far East distribution conferences, these companies primarily supplied oil to satisfy “militarily essential civilian requirements” and made contracts with the U.S. military to help with their oil supply.\textsuperscript{169} They also helped fuel some of the UNRRA programs, although UNRRA acknowledged that its need for oil was overestimated because it lacked adequate tractors, trucks, and locomotives due to social unrest, financial problems, and difficulties in transport. For other non-militarily essential civilian demand, the ANPB had less oversight but nonetheless mentioned that each company handled such demand from its own imports.\textsuperscript{170} Standard took its involvement in the ANPB seriously, usually sending out multiple high-level representatives, including its

\textsuperscript{167} P.W.Parker, “Standard-Vacuum and the Far East”, talk before the Coordination Group Meeting of Standard Oil Company (New Jersey) and Affiliates, Atlantic City, May 25, 1948, 2.207/G120, EMHC, BCAH, UTA.

\textsuperscript{168} Telegram concerning the third round of oil purchase by the Ministry of National Defense in the second half of 1946, February 12, 1947, 003-010303-0522, NRC Papers, Academia Historica.

\textsuperscript{169} The British Asiatic played a relatively smaller role than the two American companies, but it still participated in ANPB’s distribution conferences and received product orders from the Chinese government.

\textsuperscript{170} Minutes of Army-Navy Petroleum Board Far East Petroleum Distribution Conference, June 5, 1946, RG 59, Lot 110, Box 5, NARA College Park.
Vice President, Chief Engineer, and Manager of its China Division, to ANPB meetings.\textsuperscript{171}

Outside ANPB meetings, Standard’s daily operations in China also reflected its hope to profit from reconstruction. The end of the war allowed it to return to its division headquarters in Shanghai and to resume marketing in previously occupied areas that used to be the center of its China trade. Meanwhile, its wartime experience in China’s interior, along with inland industrial development, expanded its market and incentivized it to distribute more oil beyond coastal ports. Under the authorization of the Chinese National Control Commission of Liquid Fuels, Standard flew Chinese flags on its vessels along the Yangtze River in order to facilitate transport without violating Chinese regulations on foreign vessels’ inland river travels.\textsuperscript{172}

Foreign oil imports were largely successful at the beginning of reconstruction. As Figure 1 shows, the total amount of gasoline imports jumped from 54,787,000 gallons in 1937 (the highest before and during the war) to 93,982,000 gallons in 1946, and further rose to 143,348,000 gallons in 1947. The amount of other liquid fuel imports in 1947 was triple the largest prewar level in 1934.\textsuperscript{173} It is worth noting that domestic oil production was expanding in the meantime, so that the increase in imports only represented part of the total oil supply that China had.

Only partial data exists for the import allocation of each company, but the following chart (Fig. 5), compiled based on data from the NRC, offers a peek at how Standard performed in the first year of postwar reconstruction. The NRC data did not contain kerosene at all, even though Cheng noted that kerosene still took up more than one-fourths of total oil imports.\textsuperscript{174}

\textsuperscript{171} Minutes of Army-Navy Petroleum Board Far East Petroleum Distribution Conference, June 5, 1946. RG 59, Lot 110, Box 5, NARA College Park.
\textsuperscript{172} From Standard Vacuum Company to Secretary of State, July 29, 1946. RG 59, Marshall Mission Records, 1944-48, State Department Records: Division of Chinese Affairs – Reference Subject Files, Box 50, Entry 1104, NARA College Park.
\textsuperscript{173} Cheng, United States Petroleum Trade, 208-209.
\textsuperscript{174} Cheng, United States Petroleum Trade, 208-209.
distribution of imports among the “big three” oil companies did not depart significantly from that in prewar years. They each took the lead in importing different products, and Standard imported the most in total. But the growth in total demand and supply allowed each company to enjoy a rise in revenue as a result of reconstruction.

**Fig. 5**

![Oil Imports by Different Companies, Dec. 1945-June 1946](chart)

Source: This chart is compiled by the author based on “Distribution of Oil Imports by Different Oil Companies, December 1945-June 1946,” 003-010101-0572, NRC Papers, Academia Historica.
Note: It is unclear which company “Zhonghua” (China) refers to. It is not the Chinese Petroleum Corporation because that company was established in 1946 and its Chinese name is “Zhongguo shiyou gongsi”.

Despite the growth in imports, looming problems prevented oil companies from fully taking advantage of China’s reconstruction, and the optimistic outlook of the U.S. government and American companies in 1945 and 1946 soon turned into frustration and disappointment. Detailing the many obstacles that Standard faced in China, the company’s Chief Executive Philo W. Parker complained in 1948 that, “of all the Standard-Vacuum areas, China undoubtedly presents the most chaotic picture” and that U.S. aid failed to improve China’s economy or to help defeat the Communists. Rampant inflation destabilized currency exchange and led to economic
depression, weakening foreign companies’ financial position and reducing Chinese consumers’ buying power. The Civil War between the Nationalists and the Communists constantly disrupted communications as well as rail and road facilities, making it difficult for Standard to operate smoothly. Even though Parker was confident that China’s national and provincial governments would always need more oil regardless of the political or economic situation, these problems prevented Standard from further expansion.175

But social unrest was not the only factor that limited the operations of American oil companies in China. Between 1945 and 1949, the increasing Nationalist efforts to control the economy and to regulate foreign firms in China constantly strained the Sino-U.S. economic relationship, making oil companies reluctant to invest heavily in China and diverting their attention from business operations to political matters. The drafting process of the new Company Law and the foundation of the Chinese Petroleum Corporation, in particular, accentuated the conflict of interests between China’s quest for oil self-reliance, U.S. geopolitical concerns, and American firms’ business incentives.

**Standard and the New Company Law**

The drafting process of China’s new Company Law in 1945-46 represented the Nationalist government’s vision of the relationship between the state and the economy in postwar China. One key feature of the new law that distinguished it from its predecessors was its inclusion of foreign companies. As William Kirby explains, in previous decades many foreign companies were registered in their home countries or with their consulates in China. For countries that enjoyed extraterritoriality, their companies did not fall into the jurisdiction of the Chinese

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175 P.W. Parker, “Standard-Vacuum and the Far East”, talk before the Coordination Group Meeting of Standard Oil Company (New Jersey) and Affiliates, Atlantic City, May 25, 1948, 2.207/G120, EMHC, BCAH, UTA.
government. The extraterritoriality system was finally abolished during World War II due to China’s role as one of the Allies. With the end of extraterritoriality in 1943, all foreign companies were required to register under the 1929 Chinese Company Law, but they deemed the 1929 law too restrictive because it did not differentiate foreign companies from Chinese ones. The new Company Law attempted to address the reality of foreign companies in China. It specified special treatment of foreign companies, including exempting them from many tax requirements.176

From the outset, the distinction between foreign and Chinese companies seemed favorable to American firms. But in fact, the law applied a strict definition of “a foreign company” and thus excluded many eligible companies, including Standard, from enjoying the benefits extended to foreign status. The law required that a company “must also have transacted business in the country of its origin” in order to register in China as a foreign company; otherwise, the law would regard the company as Chinese and apply corresponding regulations.177 The requirement aimed to prevent Chinese companies from disguising themselves as foreign firms, but it did not apply to many American companies. Standard, for example, was an overseas subsidiary that specialized in the Asian and Pacific market. It did not conduct business activities in the United States, so it did not count as a foreign company according to the draft. The other three main American companies in China—Texaco, Shanghai Electric Power Company, and Shanghai Telephone Company—did not satisfy the requirement either.178

Though oil companies, largely due to their success in China, were the main foreign firms

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177 From the Embassy of the United States to the Chinese Foreign Ministry, October 31, 1945, 020-050205-0097, Foreign Ministry Papers, Academia Historica.
affected by the restrictive definition, the new Company Law did not intend to specifically target them. Rather, this outcome was part of a larger debate on the role of the Chinese government in foreign trade. The Nationalist government itself was divided on this issue. On the one hand, it maintained contact with the American Embassy and businesses, and it repeatedly extended the deadline for American companies to comply with the registration requirement. On the other hand, it was reluctant to change the requirement, which triggered indignation from the American side as business groups commented that, “the Law is neither simple nor clear... The Law is not modern in the sense that it is not a law similar to that in use by any of the leading commercial nations.”

As the law’s principal drafter Zhang Zhaoyuan explained to the American Embassy, the delay in Chinese response to American criticisms resulted mainly from disagreements among the Nationalist leadership. Sun Ke, President of the Chinese Legislative Yuan, wanted the law to be relatively more liberal, and he actually assured the American Embassy that he understood Standard’s situation and would recognize it as a foreign firm.

In contrast to Sun, some Chinese officials who prioritized the development of indigenous industries were in favor of enforcing stronger regulations on foreign businesses. Weng Wenhao, who had been advocating stronger government control over the economy, joined other “‘isolationist’ or ‘nationalist’” members of the Legislative Yuan and criticized the draft for “[going] too far in providing for the interests of foreign companies.”

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182 From the Embassy of the United States to the Chinese Foreign Ministry, October 31, 1945, 020-050205-0097, Foreign Ministry Papers, Academia Historica.

Even after Weng agreed to compromise in 1946, some proponents of the law continued to highlight the law’s emotional appeal to Chinese nationalism. Ma Yinchu, economist and member of the Legislative Yuan, drew parallels between China’s previous unequal treaty system and potential government compromise in the face of American protests. Established due to decades of Chinese military and diplomatic defeats by foreign powers, the unequal treaty system since 1842 had granted foreign companies privileges at the expense of China’s sovereignty. After the end of extraterritoriality, the new Company Law represented one of the Chinese attempts to replace the unequal treaty system with equal commercial and diplomatic relationships between China and other nations. Ma thus viewed with suspicion the possibility of loosening the law under pressure from the United States. In addition, he worried that the lack of regulation on foreign companies might allow corrupt Chinese officials to launder their illicit capital through foreign-named corporations.  

Jiang Menglin—Secretary General of the Executive Yuan—and “certain Chinese industrialists” also persisted in their opposition to revisions favorable to the United States possibly for similar reasons, particularly for the protection of Chinese industries.

Prolonging the legislative process and presenting their views to the public through speeches and articles, they demonstrated the nationalistic and protectionist significance that some Chinese attached to stronger state control over foreign trade. As China strove to expedite its modernization and to attain equality with other world powers after the war, the trend toward regulating trade and the Chinese economy in general threatened the long-term American interest in keeping China open to foreign businesses.

To defend their existence and autonomy in China, American firms affected by the law

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naturally fought against it. Standard participated actively in interest groups like the National Foreign Trade Council and the China-America Council of Commerce and Industry that urged the U.S. government to take action. Representing “a large number of American manufacturing and exporting corporations and firms,” these interest groups maintained constant correspondence with the U.S. State Department as they outlined basic points of agreement among American companies and provided detailed commentary on specific articles in multiple drafts.

In response, the U.S. government, again considering its commercial interests in China, provided much diplomatic support and engaged in longwinded negotiations with the Nationalists. It also mentioned that the Company Law would harm China’s reconstruction, because it would discourage foreign capital from helping to fund China’s industrialization, but this line of argument appeared only occasionally in U.S. government correspondences.

The American Embassy maintained correspondence with companies and the Chinese government, brought in legal consultants to read the drafts’ English translations and sent drafts to Washington for further critique. As the date when the law would be enforced approached, the Secretary of State James F. Byrnes even suggested that the American Embassy call on Chiang Kai-shek directly to “lay the case before him simply and forcefully” as a last resort. When discussions on the Company Law reached another standstill in 1946, the American Embassy

186 From Blackwell Smith, Vice President and Chairman of the China-America Council of Commerce and Industry, to Woodbury Willoughby, Jr., Assistant Director, Commercial Policy Division, Department of State. October 15, 1945, 020-050205-0097, Foreign Ministry Papers, Academia Historica.
190 The Acting Secretary of State to the Ambassador in China (Hurley), September 11, 1945. 893.5034 Registration / 9-845, FRUS: Diplomatic Papers, 1945, the Far East, China, Vol. VII (Washington, DC: U.S. GPO, 1945).
191 The Secretary of State to the Chargé in China (Robertson), December 4, 1945. 893.5034 Registration / 11-845, FRUS: Diplomatic Papers, 1945, the Far East, China, Vol. VII (Washington, DC: U.S. GPO, 1945).
suggested that the State Department should link the issue with financial assistance to China, making American aid for China’s reconstruction and military buildup conditional on forming a “mutually satisfactory commercial treaty.”

In the end, persistence on the American side, strengthened by the United States’ leverage over China through its financial assistance, persuaded key Chinese officials, including Weng himself, to delete the controversial clauses from the draft. Opposition to the revision remained strong within the Chinese government and public. In fact, when Wang Chonghui, Secretary General of China’s Supreme National Defense Council, assured the U.S. Embassy of the revision, he specifically asked the embassy not to publicize the decision until the Chinese government made a public announcement, possibly for fear that the opposition might plan to frustrate the law’s promulgation and that the revision might trigger public protests. U.S. success in revising the Company Law did not alter the determination of some Chinese to limit foreign companies’ operations; nor did it turn the Nationalist regime away from attempting to centralize the Chinese economy. Though foreign companies avoided being treated as Chinese, they still faced an increasingly restrictive business environment in postwar China.

Standard’s experience was particularly striking due to the strategic significance of its products. Its leadership role in pushing for the revision of the Company Law enabled it to resume peacetime operations with little political interference. But as the Chinese government made serious efforts to ensure resource security, Standard had to confront even more nationalistic policies that threatened to undermine its long-term existence and expansion in China.

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Standard and the Chinese Petroleum Corporation

Building on wartime oil production in Yumen and other oilfields, the Nationalist government aspired to further develop China’s indigenous oil industry after the war. Since foreign capital and technology would be essential for China to reach the goal of oil self-reliance, the Nationalist government engaged in numerous rounds of negotiation with the United States to seek support and cooperation. The establishment of the Chinese Petroleum Corporation (CPC) in 1946 was the culmination of Nationalist efforts to centralize China’s oil industry. It also witnessed the intensification of conflicts among China’s interest in resource security, U.S. interest in China’s reconstruction, and American companies’ interest in business profits.

Even before the foundation of the CPC, American oil companies already regarded government-run enterprises as potential competitors. When China urged Standard and other foreign companies to restore their facilities to refine, store, and distribute imported oil, these companies were doubtful about Chinese intentions, suspecting that the Chinese government would set up its own refineries to process imported crude oil, thus competing with already refined products sold by foreign companies. In fact, Standard even tried to dissuade China from building refineries for imported oil, claiming that doing so would be inefficient and disadvantageous for China.194

It is unclear whether Standard made the proposal based on scientific and economic analysis or simply to discourage potential competitors, but from China’s standpoint, Standard’s suggestion was unacceptable. The writings of Weng Wenhao and other advocates of self-reliance had repeatedly stressed that China should own oil refineries; because domestic oil resources might not adequately satisfy demand, importing crude oil and refining it on Chinese soil seemed

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194 The Chargé in China (Robertson) to the Secretary of State, November 21, 1945, 893.6363/11-2145, FRUS: Diplomatic Papers, 1945, the Far East, China, Vol. VII (Washington, DC: U.S. GPO, 1945).
to grant China more control over its resources and production than purchasing already refined products from abroad. The disagreement on building Chinese refineries touched on crucial interests of both parties. Standard worried that Chinese enterprises might not only break the foreign oil oligopoly but also undermine free competition due to government privileges. China was more concerned about ensuring and coordinating oil production. Since it was unlikely that the Chinese government would cease intervening in the oil industry, the U.S. government worried that potential disputes would make American companies, “hesitate to invest the large sums necessary to restore their properties to pre-war condition.”

The companies’ reluctance to invest, however, did not mean that they refused to participate in China’s oil development. To the contrary, they carefully considered opportunities for cooperation so as to maintain a foreign presence during China’s quest for oil self-reliance. Continuing wartime discussions about a potential partnership, the Chinese government began formal negotiations with Standard, Asiatic, and Texaco after the war. Just two weeks after Japan’s surrender, key NRC figures like Weng Wenhao and Sun Yueqi invited a delegation from Standard, including Clarence E. Meyer, the company’s Vice President in China and Japan, to discuss “the formation of a company for the exploration, producing, transportation and refining of indigenous oil.” The two principal executives of the proposed company would be Chinese nationals. China would contribute at least fifty percent of the capital and the three foreign companies would contribute the rest. Rather than specifying whether the proposed joint company would focus on one region in China, the meeting minutes offered an overview of China’s current oil resources in Gansu, Xinjiang, Shaanxi, Sichuan, Taiwan, and Manchuria, suggesting that the

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company might cover the entire nation. Even though American companies did not see China as a major producer of oil, they seized the opportunity to avoid being excluded from China’s plans. Leaders of American oil companies—including H.L. Schultz (Vice President of Standard-Vacuum) and Henry D. Collier (President of Standard Oil of California)—participated in the China-America Council of Commerce and Industry, anticipating that China would make pro-foreign investment laws so as to encourage foreign capital and expertise to help develop China’s resources. They recognized that China’s goal to “achieve as great a degree of self-sufficiency in petroleum as possible” lay behind its call for “speedy development of domestic oil resources and construction of several refineries.” But foreign companies’ involvement in the process might allow them to stay in China and potentially influence China to make pro-western policies. All three companies eagerly responded to China’s proposal and sent top-level representatives to negotiate. Standard’s C.E. Meyer chaired the foreign delegation and held frequent meetings with NRC leaders beginning in 1945. Consider ing that maintaining a strong Nationalist military and economy was part of U.S. geopolitical priorities in Asia, the U.S. government observed the Sino-foreign negotiations with keen interest. The American Chargé d’Affaires, Walter Robertson frequently reported updates on the negotiations to the U.S. Secretary of State, James F. Byrnes.

China’s demands during the negotiation, however, exceeded foreign companies’ expectations. Though China had previously entertained the idea of a joint venture several times, the 1945 negotiation demonstrated a more ambitious goal on the part of the Nationalist regime.

As Robertson reported, Weng Wenhao proposed that the joint company would “engage not only in production, but [have] as well exclusive marketing rights in China for the imported products of the three foreign oil companies, and also [have] the present storage and transportation facilities of these companies absorbed into the joint company as part of the foreign companies’ [contribution] to the same.” The NRC’s coordination of different oil fields during wartime and the emphasis on state involvement in postwar planning increased China’s motivation to keep oil production and distribution, whether domestic or foreign, under firm control. Weng’s proposal did not go so far as nationalization, because it still recognized partial ownership by Standard, Asiatic, and Texaco. But the proposal implied that the NRC wanted to gain centralized control over foreign oil companies in China, which went against the three companies’ interest to maintain autonomy with little Chinese intervention. Meyer rejected this specific proposal outright and Weng never mentioned it again in subsequent negotiations, but the proposal itself suggested that the NRC had hoped for the possibility to absorb foreign companies’ marketing, storage, and transportation facilities. Its original intention went beyond simply developing domestic oil resources with foreign help.

Meyer and the U.S. government remained hopeful about the negotiation result in spite of their disagreement with China’s proposal. Robertson observed that, “in any event the fact that the Chinese Government has demonstrated a readiness to permit foreign capital to participate in the development of her petroleum resources is an encouraging sign.” Meyer “left for China in a spirit of confidence” in May 1946 after Weng promised to consider the foreign companies’

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198 The Chargé in China (Robertson) to the Secretary of State, December 7, 1945, 893.6363/12-745, FRUS: Diplomatic Papers, 1945, the Far East, China, Vol. VII (Washington, DC: U.S. GPO, 1945).
proposal to freely expand their activities as private corporations.²⁰⁰ But optimism on the American side soon gave way to confusion, as Meyer heard the news about the formation of the wholly state-owned Chinese Petroleum Corporation in the following month.

On June 1, 1946, the NRC founded the Chinese Petroleum Corporation (CPC) in Shanghai. The company’s establishment directly resulted from decades of discussions about China’s oil self-reliance and the NRC’s planning for postwar reconstruction. As Weng had planned during the war, the CPC became the state-owned oil company that dominated China’s oil industry. Weng Wenhao himself, with his various titles like director of the NRC, head of the Ministry of Economic Affairs, and Vice President of the Executive Yuan, served as founding president of the CPC. His official positions implied that the CPC would work closely with the Nationalist government. Built on the experience of the NRC and the Gansu Oil Bureau, the CPC was responsible for:

1) The exploration, exploitation and management of oil fields and related resources within the country’s territories;
2) The establishment of oil refineries and factories for shale oil, natural gas, and synthetic oil;
3) The distribution and marketing of oil and relevant products;
4) Other areas related to this company.

All of the company’s shareholders came from the NRC and the NRC also appointed the company’s leadership.²⁰¹ Moreover, under the instruction of the Executive Yuan, the CPC established the Oil Products Allocation Committee (youliao fenpei weiyuanhui). The committee had strong administrative power, as its responsibilities included:

1) Managing, examining, and registering the categories and quantities of imported oil products;
2) Allocating the use of oil products;
3) Approving the price of oil products in different regions;

4) Acquiring imported oil;
5) Representing agencies and enterprises to purchase imported oil;
6) Handling currency exchange for payment for imported oil;
7) Other relevant issues related to oil.  

As the CPC’s structure and its responsibilities indicated, it served as more than a company that managed indigenous oil fields and sold domestic products. Rather, its functions, particularly those of the Oil Products Allocation Committee, verged on being a government organ that intervened in the operations of foreign companies as well. In fact, Weng admitted himself that the CPC inherited these responsibilities from the wartime National Commission for Control of Liquid Fuels. Chinese concerns about the negative impact of a foreign oil oligopoly had turned into actions not only to increase China’s domestic oil production but also to exert more oversight and coordination on the activities of foreign companies.

American companies and the U.S. government diverged in their views toward the CPC’s establishment. Upon hearing the news, Standard immediately protested the CPC’s power to the U.S. State Department. In a letter from June 1946, Standard’s Vice President Schultz worried that the CPC would, “be in a position to limit the participation of private enterprises in the petroleum industry in China to any extent it may desire,” pointing specifically to the CPC’s power to ration the distribution of all oil products. One month later, Standard sent representatives, including Parker and Schultz, to the U.S. State Department to obtain views of the U.S. government on potential conflicts with the CPC.

Standard’s key grievance about the CPC was that its administrative power ruled out free

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202 Charter of the CPC Oil Products Allocation Committee. 1946, 003-010101-0424-0030, NRC Papers, Academia Historica.
competition. Its representatives acknowledged that, unlike Poland and Czechoslovakia, which had recently nationalized their oil industries and taken over the properties of foreign companies, China did not nationalize American properties at all. But Parker argued that the existence of the CPC as a state-owned company, not to mention its proposed administrative functions, would undermine free competition, because the Chinese government could easily discriminate against foreign companies and allow the CPC to make decisions detrimental to the operations of foreign companies. As Parker said, “private U.S. enterprise could under no circumstances compete with a Chinese government petroleum company.” He warned that the CPC would discourage American oil companies from continuing to invest in their operations in China, in the same way that China’s overall trend toward nationalization would reduce foreign capital inflow and undermine China’s reconstruction efforts.206

The U.S. government, in comparison, held a more moderate position. While it did not support China’s establishment of state monopolies or the granting of administrative powers to government corporations, it did not feel as alarmed as Standard did by the CPC, because “there was little [the United States] could do in checking this movement” of industrial nationalization all over the postwar world. Furthermore, the U.S. government tolerated the CPC’s actions because, “the basic policy of [the United States] with respect to China was to help her ‘get back on her feet’”. Prioritizing China’s reconstruction and industrialization over commercial concerns about free competition, the U.S. government was willing to compromise free trade if the CPC could bring about industrial development.207 Therefore, the Department of State’s stance of tolerance towards the CPC for the purpose of bolstering the Nationalist regime against the

Communists went against Standard’s long-term goal to keep operating in China’s expanding and industrializing market. In fact, Parker even speculated that it was actually U.S. assistance to China that had made China’s nationalization program possible.\textsuperscript{208} From his viewpoint, China took advantage of U.S. support for its reconstruction to drastically increase state intervention in industries, and the inflow of American aid, both technological and economic, allowed China to found large, state-controlled enterprises like the CPC.

Standard did not object to China’s reconstruction and industrialization, which stimulated more demand for oil; it only asked China not to exclude it from participating in this development. To resolve the problem, Parker proposed “minimum requirements of U.S. oil companies”. First, Standard expected “the Chinese government to agree not to enter the petroleum marketing field with a government-owned company”, which meant that the Chinese government should confine the CPC’s activities solely to exploration and production. Second, carrying on with previous negotiations, Standard and Texaco wanted to form a Sino-U.S. company to develop indigenous Chinese oil, “providing the U.S. companies are given 51% ownership in this enterprise.” American companies would invest up to 80 million dollars “for exploration, production, transportation and refining of indigenous oil”. Even though not all these investments were economically justifiable according to Parker, Standard and Texaco were willing to contribute to China’s reconstruction.\textsuperscript{209} On a more practical level, foreign companies recognized that participation in non-profitable joint projects in China would “protect their marketing business in more lucrative seaboard areas.”\textsuperscript{210}

To make its proposal appealing to the Chinese government, Standard promised that if the Chinese government agreed with these requirements, it would “spend an estimated 30 to 50 million dollars in rehabilitating its pre-war distribution facilities”. With similar contributions from other companies, Parker expected foreign oil companies to invest approximately 100 million dollars in China.  

Standard’s plan seemed to balance the State Department’s concern about China’s reconstruction and foreign businesses’ long-term profits. It also offered rewards for the Chinese government if it satisfied foreign demands. The State Department found the plan reasonable and proceeded to communicate its position to the Chinese government. In his instructions to the American ambassador in China John Leighton Stuart in July 1946, Byrnes emphasized that the U.S. recognized China’s “sovereign right [to] establish [government]-owned industrial units or nationalize existing enterprises,” but that “this [government’s] view is that high risk enterprises such as oil development should be financed by private capital.” The existence of a large, state-owned company generated anxiety among foreign companies about the possibility of nationalization. From the standpoint of the U.S. government, Byrnes reiterated Parker’s point that looming nationalization further discouraged private foreign capital from entering China, which China sorely needed for reconstruction. The U.S. government and American companies thus reached an agreement that they would oppose the CPC’s administrative powers, although the State Department had relatively more tolerance for China’s need to centralize crucial industries due to geopolitical concerns.

The Chinese government, however, took issue with Standard’s proposal in several ways. In

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initial negotiations, Weng immediately rejected the possibility for foreign capital to enter the CPC because “policy of [the] CPC and political considerations are against foreign participation.”213 As a national corporation, the CPC was the epitome of postwar government control over critical industries, so the participation of foreign companies did not fit the purpose of the CPC. The suggestion that foreign companies hold 51% of ownership in the proposed joint company also conflicted with Weng’s insistence during wartime negotiations that China should hold at least 50% capital of the joint company. Weng reiterated this position in the 1946 negotiation.214

In regard to marketing, Weng rejected the proposal that the CPC should refrain from engaging in marketing activities. Instead, he claimed that, “[the] Chinese Government is in [the] oil business ‘to stay’ not only in exploration, production and refining, but in marketing as well.” He did not address the potential marketing privileges that the CPC might have due to its administrative functions, only promising that the Chinese government would guarantee fair competition and that foreign companies could continue to profit from the expanding China market.215 However, without clear explanations about how the Chinese government would refrain from biased treatment of domestic and foreign companies, Standard might not have attributed much value to Weng’s promise.

Even in the areas where the Chinese government was willing to explore cooperation, foreign companies found Chinese motivations dubious. Among the current indigenous oil deposits that needed exploring and refining, Weng urged that foreign companies consider the possibility to jointly develop oil resources in Gansu. In the meantime, he declared oil refineries

214 Ibid.
215 Ibid.
in Taiwan, namely in Takao (today’s Gaoxiong), off-limits to foreign companies due to political considerations. Having just recovered Taiwan after half a century of Japanese colonial control, the Chinese government gained control of the formerly Japanese-owned refinery. While Weng intended to obtain foreign technological assistance for the development of Takao, allowing partial foreign ownership of the refinery would trigger nationalistic outcries against the Chinese government for not securing its own resources. “The people would not stand for it,” said Weng, trying to steer foreign companies’ attention away from Taiwan to Gansu, where China alone could not fulfill the need for investment.  

But the foreign delegation insisted that they would only become involved in Gansu after the Chinese government allowed them to jointly develop oil in Taiwan as well. Otherwise, they worried that China only wanted their capital and services “in remote areas where risks are heavy”. In addition, they were concerned that they might be shut out of future ventures, because Weng viewed the Takao refinery as the model for future Chinese refineries, and he claimed that foreign involvement in a potential Shanghai refinery would be “unthinkable”. This statement made it even more urgent for foreign companies to secure their place in Taiwan.

The Takao-Gansu controversy became more complicated when, in October 1946, the CPC signed a contract with the Anglo-Iranian Oil Company (AIOC), which did not participate in the negotiation, for the latter to deliver 300,000 tons of crude oil to Takao in 1946 and 1947. The contract did not go through a real competitive bidding process. The Chinese government consulted the Arabian American Oil Company (Aramco) and possibly other American companies about the bid, but the NRC claimed that AIOC’s quotes were much more attractive

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217 Ibid.
than those of other companies, so the NRC placed the order with AIOC before the actual time for bidding.\(^{218}\)

Protests and confusion arose within the foreign delegation that was already frustrated by the long-winded negotiation. As noted by Byrnes in an inquiry to the American Embassy in China, American companies were concerned whether AIOC’s contract entailed its investment in Takao and whether AIOC might be interested in Gansu as well.\(^{219}\) While, in reality, AIOC was not financing Takao and would not express interest in Gansu oil until 1947,\(^{220}\) this episode increased the rift between the Chinese government and the foreign oil delegation led by Standard, heightening American business suspicions about preferential treatment to AIOC and the CPC’s regulatory functions. As Acting Secretary of State Dean Acheson wrote to the American Embassy in China, the AIOC bid “foreshadows hardening of trading relationships between the CPC and foreign [companies] with possibility that the CPC might resort to use of regulatory powers if competitive conditions react [to] their disadvantage.”\(^{221}\)

The painstaking negotiations that began during wartime achieved mixed results. By the end of 1946, the Chinese government was “giving serious consideration to [the] severance [of the] production-marketing and regulatory functions” of the CPC.\(^{222}\) The insistence of foreign companies and the U.S. government certainly influenced the NRC’s decision, while these companies’ promises to contribute capital and technology for further oil exploration in China


incentivized the NRC to consider their proposals. By February 1947, “the functions of allocation of imported oil products and determination of prices [had] been divorced from the CPC.” The CPC also planned to dissolve the controversial Oil Allocation Committee. It assured foreign companies that the Chinese government would honor the 1944 Resolution of the Supreme National Defense Council which stated that “government-owned or controlled companies shall enjoy the same but no more rights and privileges than private companies.” Stripping administrative functions away from the CPC’s business activities gave American companies some assurance that the Chinese government would not directly use the CPC to make discriminatory policies and drive foreign companies out of the market. But the CPC remained a state-owned enterprise with Weng Wenhao serving as its President, so it still largely represented the interest of the Chinese government in an effort to centralize domestic oil production and foreign oil imports.

Meanwhile, having clarified AIOC’s connections with the Takao refinery, the three foreign companies were still unable to enter Takao. Nevertheless, because the negotiation no longer tied Takao to Gansu, the lack of agreement on the entry into Takao ceased to deter the companies from the Gansu project. Still interested in fulfilling China’s postwar demand and contributing to China’s reconstruction, these companies sent a survey party to Gansu in order to determine the area’s oil potential, labor relations, and transportation facilities before determining the details of the joint company. By May 1948, the three companies concluded the survey and put forward a proposal. As in earlier surveys, they did not find valuable oil deposits near Laojunmiao in Gansu, where the survey party originally set out to explore. Nor did they find it economically viable to

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223 From C.E. Meyer to Charles Rayner, February 26, 1947, RG 59, Lot 110, Box 5, NARA College Park.
224 Chinese Petroleum Situation, December 18, 1946, RG 59, Lot 110, Box 5, NARA College Park.
225 Ibid.
continue exploring the surrounding area. Nevertheless, they wished to explore other regions in China, including southwestern Ningxia, eastern Gansu and Shanxi, Sichuan, eastern Qinghai, and Taiwan. Instead of setting up a joint company, they hoped to conclude a 60-year exploration and development contract with the Chinese government. The companies would obtain all crude oil developed in the areas explored, whereas the Chinese government would receive a share in the new profit generated from “transportation and refining of indigenous crude developed.”

Through this contract, the three companies tried to advance their interests by taking an active role in China’s development of indigenous oil resources with little government intervention, but the proposal obviously subverted China’s quest toward self-reliance. Weng heard about the proposal with surprise, as it contained ideas never uttered in previous negotiations. He pointed out that the contract might put him “in a very embarrassing position,” because critics might blame the government for granting foreign companies a claim on China’s natural resources. Moreover, he disapproved of the wide span of areas the proposal covered, and insisted on joint exploration.

With the rejection of the new proposal, negotiations between the Chinese government and foreign oil companies did not achieve much progress until the Nationalists’ defeat in 1949. Hyperinflation and social unrest in the Chinese Civil War made it virtually impossible for foreign companies to undertake large investments during the last two years of the Nationalist regime in mainland China. Without the abrupt ending of the Nationalist era, both parties might still have continued to explore other ways of collaborating, but it is doubtful whether prolonged

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226 Minutes of Meeting held on Sunday, April 25th, at 10am, between Dr. Wong Wen-hao and Members of the CPC together with the 3 Oil Companies’ Representatives. May 12, 1948, Petroleum Negotiations, 893.6363/6-1248, NARA College Park.
227 Minutes of Meeting held on Sunday, April 25th, at 10am, between Dr. Wong Wen-hao and Members of the CPC together with the 3 Oil Companies’ Representatives. May 12, 1948, Petroleum Negotiations, 893.6363/6-1248, NARA College Park.
negotiations might have achieved substantial results. As the various controversies between the CPC and foreign companies showed, the Chinese government and foreign oil companies consistently held divergent expectations for their cooperation. The U.S. government often found itself caught in the middle. Its priority to facilitate China’s reconstruction influenced oil companies’ persistence in exploring Chinese oil, but it served more as an observer and mediator, rather than a key negotiator, throughout the process trying to balance its China policy with its responsibility to defend American interests abroad.

The Last Years of the Nanjing Regime

The new Company Law and the CPC certainly alerted the American government and companies to the Nationalists’ determination to strengthen state control over oil and the economy in general in order to achieve oil self-reliance and to strengthen China. But the reality of the last years of the Nanjing regime severely undermined the effects of Chinese initiatives. No matter how strongly Americans reacted against possible Chinese threats to their business interests, the interference of the Nationalist government did not severely reduce their profits. They thus maintained a cooperative relationship with the Nationalist regime in Nanjing until its downfall.

The lack of effective governance, as a result of the Civil War, financial problems, and corruption, handicapped the Nationalist government’s ability to fully execute its economic plans. The 1946 “First Five-Year Plan Program for China’s Postwar Economic Reconstruction” was never more than partially implemented and it did not achieve the expected results. During negotiations about the Company Law, Chinese representatives admitted to the American Embassy that they did not “expect that the company law can be administered effectively for a

few years,” and thus American companies would still retain their advantage over their Chinese competitors.\textsuperscript{229} The slow implementation of economic planning policies, which ended abruptly after the Nationalists’ defeat by the Communists in 1949, prevented American companies from experiencing an immediate shock when the Nationalists attempted to tighten its grip on the economy.

Similarly, the CPC succeeded in rivaling the three dominant foreign oil companies in the China market, but its limited capacity for oil production often made it unable to surpass and replace its foreign competitors. As the American Consul at Shanghai observed in 1948, “the CPC is not as yet capable of facilitating the refining and distribution of an appreciable portion of the demand for the same in the China market’ as most of its plans are still in the ‘dream’ stage.”\textsuperscript{230} Therefore, aside from negotiating for joint exploration, the CPC’s main interactions with foreign companies were far from hostile. Instead, the CPC maintained a working relationship with all three companies as it helped the Chinese military and industrial enterprises to purchase oil from other companies. Carrying out its responsibility to serve as the intermediary between Chinese buyers and foreign suppliers, the CPC signed contracts with foreign oil companies on behalf of the Ministry of Defense to handle its periodic orders for gasoline, diesel, grease, gear oil, and other petroleum products.\textsuperscript{231} The CPC also helped satisfy civilian need for oil. Some of its clients included the National Automotive Supplies Commission of the National Highway Administration, the China Merchants Steam Navigation Company, the Shantou Navigation


\textsuperscript{230} American Consulate General, Shanghai, Transmission of Chinese Petroleum Corporation Report, June 17, 1948. 893.6363/6-1748, No. 588, NARA College Park.

Guild, the Silk Production and Marketing Association (cansi chanxiao hui), etc.\textsuperscript{232} Previously dealing with Chinese clients directly or under the coordination of the U.S. government, foreign oil companies now worked with the CPC to satisfy various military and industrial demand for oil in China. The CPC’s role as the primary intermediary between foreign companies and Chinese buyers indeed allowed the Nationalist government to oversee oil distribution in territories that it controlled, but it still had to depend on foreign supply. Consequently, foreign companies remained essential to postwar oil distribution in China.

In addition to signing contracts with the CPC, Standard also accepted some Chinese trainees, who would return to the CPC after studying in the United States. As part of the U.S. aid to China, the training program aimed at facilitating China’s reconstruction and industrial development, a key interest shared by the Chinese and the U.S. governments. Since the program only had limited, if any, effects on Standard’s business performance, Standard joined other American firms like General Motors and U.S. Steel to educate trainees on a variety of topics of interest, including human resources, inventory control, and public relations.\textsuperscript{233} Even though the relationship between the CPC and foreign oil companies remained strained largely due to the development of an indigenous oil industry, the necessity for the CPC to speed up development and the persistence of foreign oil companies to participate in China’s reconstruction made them cooperate on less controversial issues like importing foreign oil and personnel training.

With the Chinese Civil War looming in the background, the period between 1945 and 1949 witnessed the intensification of efforts by the Nationalist government to pursue oil self-reliance.

While China’s reconstruction encouraged foreign companies to export oil and invest in indigenous oil exploration, Chinese attempts to centralize control over the domestic and foreign oil supply often collided with American business interests and made companies hesitate to make large investments. Standard and other foreign companies barely recovered from their wartime losses. Due to the establishment of the CPC and the general trend toward nationalization, they no longer enjoyed a dominant market share in China. Though weaknesses in the CPC and the Nationalist government enabled foreign companies to maintain a strong presence, social and financial crises constrained these companies’ postwar operations as well. Once the Civil War came to an end, Standard and its competitors found themselves in an exceedingly precarious position, caught between trying to retain the China market and following U.S. policies against Communist China.
Epilogue

[Shanghai, 1949]
May 27th – Friday.
4.00 A.M. All quiet. A rifle shot now and then. Heavy rains.
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4.00 P.M. SURRENDER? Commotion and intensified traffic over Point Island. Trucks with Red flags, soldiers walking.
4.15 P.M. Sampans leaving the Island with civilians for junks in the middle of the river. Looks like PEACE.

---Daily Log Kept at the Standard Oil Pudong Terminal during the Battle of Shanghai, 1949.

Just as Alice Tisdale Hobart fled with her husband and other Standard Oil employees when Nationalist forces entered Nanjing in 1927, Standard faced another potential evacuation in 1949 when the Communist Party took over China. Standard’s experience in early-twentieth-century China was neither smooth nor peaceful, but conclusion of the Chinese Civil War marked a seismic change in its operations in China, as well as in modern Chinese history. The Communists had already captured the Nationalist capital in Nanjing in April; the fall of Shanghai—or the liberation of Shanghai from the Communist perspective—was only one of the many Nationalist defeats that led up to the establishment of the People’s Republic of China in Beijing on October 1. As the Nationalists retreated from mainland China to Taiwan, Standard’s supply contracts with the Nationalist government and its negotiations over domestic exploration faced major adjustments or were aborted altogether. With its division headquarters in Shanghai and most of its Chinese marketing areas under Communist control, Standard needed to decide whether to stay on in China.

The U.S. government took an ambiguous position towards the Communists at first. In April 1949, still uncertain about the war’s outcome, the U.S. government instructed American oil

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234 Log kept at Pootung Terminal during the battle for Greater Shanghai, May 1949, 2.207/E172, EMHC, BCAH, UTA.
companies that they could continue to sell kerosene and gasoline to Communist-controlled ports in order to fulfill civilian demands.\textsuperscript{235} By October, the U.S. State Department still held that position, only stressing that companies needed to remain flexible enough to adjust their operations if U.S. policy changed.\textsuperscript{236} If the Nationalists managed to win the war eventually, the continued supply to Communist-controlled areas might help reduce disruptions in these companies’ operations.

While the U.S. government already limited the export of strategic goods, including aviation fuel, to China in October, it was not until the outbreak of the Korean War in 1950 that the U.S. government decided to further restrict exports to the People’s Republic of China, including requesting that oil companies “adopt a voluntary embargo on petroleum shipments to China, regardless of the source of the petroleum.”\textsuperscript{237} The supply of oil from American companies to mainland China had stopped altogether.

While many of its employees transferred from China to other places, Standard remained in China until 1953, though its operations were severely curtailed. Before the U.S. embargo on oil exports to China, Standard still expected to satisfy at least the civilian demand for oil products. When the municipally-owned Shanghai Public Communication Company was founded in March 1950, Standard’s Automotive Sales Department expressed its congratulations to the company, stating that “we are convinced this new measure will bring great developments to your Company for the benefit of the city’s public transportation facilities and the people of Shanghai.” Standard assured the company of their “entire cooperation at all times”, suggesting that it would continue

\textsuperscript{235} Memorandum by the Secretary of State to the Executive Secretary of the National Security Council (Souers), April 14, 1949, Executive Secretariat Files, \textit{FRUS: 1949, the Far East, China}, Vol. IX (Washington, DC: U.S. GPO, 1949).


to export oil to Communist China.\textsuperscript{238}

But the U.S. alliance with the Nationalist regime in Taiwan, together with new geopolitical priorities of Korean War, took precedence over Standard’s interests. The Communist determination to nationalize the oil industry and to achieve oil self-reliance also posed a stronger threat to Standard’s long-term development than had earlier Nationalist initiatives. In December 1950, the Communist government placed Standard’s financial affairs under state control; the government requisitioned all of Standard’s physical assets in April 1951.\textsuperscript{239} Recognizing that the Communists had no intention to allow Standard to continue its operations in China and in compliance with the U.S. oil embargo on Communist China, Standard took steps to phase out its operations. Central to this were labor negotiations between Standard’s management in China and the newly established labor unions among its workers between 1950 and 1952. In Shanghai alone, Standard terminated 1,123 employees on its payroll in December 1950 and 1,111 employees in January 1951, promising to grant them severance benefits as well as “priority for re-employment” if “the Company’s business conditions improve.”\textsuperscript{240} It closed down or significantly downsized its offices in other cities.\textsuperscript{241} In June 1952, the American Acting General Manager S.J. Bardens was transferred out of China, leaving Chen Jiaofeng, a Chinese employee in Standard’s Operations Department, to take his place.\textsuperscript{242} Finally, on February 2, 1953, the

\textsuperscript{238} From K.F. Liao, Automotive Sales Department, Shanghai Territory, Standard-Vacuum Oil Company, to Shanghai Public Communication Co. March 20, 1950, B260-1-9-38, Shanghai gonggong jiaotong gongsi [Papers of the Shanghai Public Transportation Company], SMA.

\textsuperscript{239} From S.J. Bardens, Acting General Manager, Standard-Vacuum Company, to F.W. Ma, Chairman, Mei Foo Labor Union. May 30, 1952, B128-2-1026, Shanghai shi laodong zhengyi zhongcai weiyuanhui [Papers of the Shanghai Labor Conflicts Arbitration Commission] (Shanghai Labor Papers), SMA.

\textsuperscript{240} Agreements on the Reduction of Staff Between the Management of the Standard-Vacuum Oil Company and the Mei-Foo Committee of the Import/Export Trade Commission of the Chinese Shop Employees’ Labor Union, December 30, 1950, January 17, 1951, B128-2-543, Shanghai Labor Papers, SMA.

\textsuperscript{241} Questions associated with the Standard Vacuum Company’s closing of regional offices and firing of employees, August 30, 1952, B128-2-1026, Shanghai Labor Papers, SMA.

\textsuperscript{242} Letter regarding Standard Oil’s S.J. Bardens’s transfer assignment and the appointment of his successor, June 3, 1952, B128-2-1050-31, Shanghai Labor Papers, SMA.
Industrial and Commercial Bureau of Shanghai’s People’s Government approved Standard’s cessation of all its operations in China. After about fifty years of formal operations in China, Standard’s ambition to capitalize on the China market came to an end, and it would not return to mainland China until the 1970s as Mobil Oil.

The history of Standard Oil in China between 1927 and 1953 was filled with expectations about the potential China’s growing demand for fuel, continual struggles to balance business interests with the political concerns of both the Chinese and the U.S. governments, and setbacks due to wars and other crises that disrupted business activities. Unlike the earliest decades of Standard’s operations in China when oil was a symbol of progress, the period after 1927 witnessed the intensifying politicization of oil as a power source for the military and industrial engines of China in war and peace. Not only did the enhanced strategic importance of oil influence Standard’s business strategies, it also made it inevitable that Standard had to negotiate with both the U.S. and Chinese governments and consider their priorities as well as the company’s commercial interests.

China’s quest for oil self-reliance drove the Nationalist government to gradually strengthen its control over domestic oil production and foreign imports. The prewar discussion about nationalizing the Guanghua Oil Company represented an early attempt to found a state-run Chinese oil company. The establishment of the National Resource Commission, and the wartime exploration of Yumen and other oilfields provided the institutional foundation for postwar centralization, which became manifest in the new Company Law and the Chinese Petroleum Corporation.

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243 Announcement by the Industrial and Commercial Bureau of Shanghai on the Approval for Standard-Vacuum Oil’s cessation of operations, February 2, 1953, B128-2-131-64, Shanghai Labor Papers, SMA.
The development of the oil industry, as part of the larger trend toward state coordination of the economy in Nationalist China, was far from a purely domestic process. Rather, China needed foreign capital and technology at the same time it sought to intervene in the import trade and in the operations of foreign companies like Standard. While China and the United States agreed foreign aid was needed to further China’s oil development, the conflict between American free trade interests and Chinese advocates of state control prolonged negotiations and hardly reached a resolution. The United States was able to use foreign aid as leverage to pressure China to take American business interests into account. The weaknesses of the Chinese government and the limitations of the early stage of oil development in China also undermined the push for economic centralization. But, despite Nationalist China’s compromise, Chinese concerns about resource security continued to drive China toward state control over the oil industry. Once the Nanjing regime ended abruptly in 1949, the Communist Party, which was even more determined to control the national economy and more hostile to U.S. involvement in China’s oil development, quickly tightened its grip on all aspects of oil production and distribution, eventually driving Standard and other foreign companies out of the China market.

Throughout the 1927-1953 period, the U.S. government’s chief concerns were to strengthen China and to safeguard American business interests. It played a relatively minor role in the oil trade with China during the Nanjing decade, but China’s geopolitical significance became a vital security interest for the United States in the war against Japan and in the postwar containment of Soviet expansion. In addition to supporting American companies in China between 1937 and 1945, the U.S. government viewed these companies as key participants in U.S. efforts to bolster Nationalist China as a major ally. Both the U.S. government and American companies expected that China’s indigenous oil development should not exclude foreign capital and should not
threaten the long-term presence of foreign companies in China. The wartime oil supply to China
indeed helped American companies, because it ultimately allowed them to maintain an active
presence in China and profit from the increased demand for oil in the China Theater. However,
postwar reconstruction revealed the underlying tensions between American geopolitical and
business interests. U.S. support for China’s indigenous oil industry could actually increase the
Chinese government’s capability to limit foreign imports and intervene in foreign investment.
The economic and political disruptions of the civil war period between 1945 and 1949 meant
these tensions did not fully play out. The Communist victory actually alleviated this tension on
the American side altogether by converging geopolitical and commercial interests once again.
Through its decision to implement an oil embargo on China, the United States sided with the
Nationalist government in Taiwan, while helping American companies leave the Communist-
controlled China market.

Among the many foreign firms operating in China, Standard strikingly exemplified the
interplay between political and commercial interests in U.S. relations with Nationalist China.
Naturally, Standard was more concerned about its own profits than the overall U.S. strategy in
East Asia. For a short while before the oil embargo, it even considered doing business in
Communist China. Due to the strategic significance of oil, Standard increasingly adopted
diplomatic, rather than purely commercial, means to advance its interests. It thus often took a
leadership position among foreign oil companies in China when negotiating with the Chinese
government and communicating with the U.S. government. But as Standard became intimately
connected with diplomacy, major political change could easily overwhelm its operations. The
PRC’s indignation about foreign predominance in the oil trade led to its seizure of Standard’s
properties in 1951, whereas the U.S. government’s hostility toward Communist China pressured
Standard into the embargo. As the case of Standard showed, short-term business gains were sacrificed in the face of long-term commercial and geopolitical interests.

The period between 1927 and 1953 was only a prologue to China’s modern oil history. In the decades that followed, the state-run oil industry in mainland China witnessed the intensification of oil exploration and production in Xinjiang during the 1950s, the discovery of the Daqing Oilfield in 1959 and the subsequent attainment of oil self-reliance in the 1960s, the return of foreign oil companies into the China market after 1979, the establishment of huge state-owned enterprises like the China National Petroleum Corporation in 1988 and the China Petrochemical Corporation in 1998, and China’s transition in 1993 from being an oil exporter to a gross oil importer. While each of these events had their distinct historical circumstances, the relationship between the Chinese state, energy security, and foreign involvement always figured prominently. The experience of foreign oil companies during the first decades of China’s oil industry showed that such a relationship was not a new phenomenon under the PRC. The Nationalists’ attempts to control oil had already laid the groundwork for the intensification of state efforts in this sector in later decades. At the same time, controversies and negotiations that arose in response to Nationalist efforts indicated that geopolitics and diplomacy had been part of modern China’s oil development from the outset. As fossil fuels continue to play a dominant role in powering China’s growth today, the roots of China’s current concern with the relationship between diplomacy and energy security has a much longer history that stretches back almost a century.
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