

British American Tobacco Company

Yīng-Měi Yāncǎo Gōngsī 英美烟草公司

The British American Tobacco company was among the most significant of Western companies to have invested in production facilities in China during the first half of the twentieth century. By 1937 it was manufacturing annually 55 billion machine-made cigarettes, distributed largely through indigenous Chinese mercantile networks. In 1941 its assets were seized by Japan; the company was ejected from China in 1953.

The early history of the British American Tobacco (BAT) company provides an example of both successful collaboration and intense competition between Western and Chinese businesses in pre-Revolutionary China. At its zenith in 1937 BAT manufactured and distributed 55 billion machine-made cigarettes to Chinese consumers. By adroitly aligning its manufacturing facilities with an elaborate system of Chinese mercantile networks, BAT was able to peddle its cheap tobacco products extensively throughout the hinterland of the Republic of China, generating substantial revenues for the company's shareholders and for its Chinese partners. At the same time, BAT engaged in fierce competition with independent Chinese cigarette manufacturers—Nanyang Brothers Tobacco Company being the most successful of these—throughout the first three decades of the twentieth century.

Effectively BAT sought to maintain its control over

the technology and manufacturing processes while allowing indigenous merchants the opportunity to profit from their involvement in the distribution and retailing of cigarettes.

BAT had been established in London as an international joint venture between U.S. and British tobacco manufacturers in 1902. The new organization inherited a factory in Pudong, Shanghai, which one of its parent companies, W.D. & H.O. Wills, had earlier acquired. From this base the company began to develop a nationwide system of sales and production, initially dividing the country into north and south for administrative purposes and later setting up a divisional structure based on five regions (Shanghai, Hong Kong, Hankow, Tianjin, and Manchuria). In the beginning most of its Western employees were recruited from the tobacco-growing regions of the United States. The most prominent of these employees was James Augustus Thomas, who was posted to Shanghai in 1905. In turn Thomas formed a long-term working relationship with Wu Ting Seng, a Chinese merchant with close links to the Shanghai Tobacco Guild. Over time Wu's organization—the Wing Tai Vo Tobacco Company—developed into BAT's main partner in China, having found its initial success in the distribution of BAT's popular Ruby Queen cigarette brand.

After World War I the London-based elements within BAT's management strengthened their position, and from this point U.S. influence on BAT in China began to wane, other than in the area of tobacco cultivation. Although BAT itself did not grow tobacco on a commercial scale in China, it provided advice and support, along with a ready market for the leaf, and was thus responsible for the emergence of flue-cured bright leaf tobacco as a cash

Tobacco Industry in China: Better Money or Better Health?

One of the most popular and deadly habits is also the Chinese government's highest source of income. A balance between health and wealth has been hard to come by, but remains a constant goal in China.

The tobacco industry has always been the biggest fiscal pillar for the Chinese government. In 2007, the Chinese tobacco industry, which delivered RMB 388 billion (US\$51.7 billion) taxes and profits to the government, up 25% from 2006, again secured the top position on the corporate taxpayer list. 2007 was the fastest growing year for China's

tobacco industry, as a result of product mix changes and improvements, as well as expansion of premium grade cigarettes.

Smokers are addicted to cigarettes, so is the government treasury. The Chinese government has long been trying to strike a balance between responsibility for citizen health and incentives for such a profitable industry to operate.

Source: Market Avenue: A Guide to Your Business in China. (2008, January 28). *Tobacco industry in China: Better money or better health?* Retrieved March 6, 2009, from http://www.marketavenue.cn/upload/articles/ARTICLES_1380.htm

crop in the regions of Shandong, Henan, and Anhui in the late 1910s.

BAT proved relatively adept at overcoming the political and military dislocations that beset China during the Republican period (1912–1949) and also supported famine relief schemes, partly to promote its corporate image as a responsible Chinese institution. Its operations provided substantial amounts of tax revenues, particularly in the form of transit taxes (*liken*). Despite threats of nationalization by the Republican regime, only after the incursion of the Japanese state tobacco monopoly into China after 1931 did the company find its political position undermined. In 1941, all BAT assets were seized by Japan (with whom China had been at war since 1937), and many of its Western employees were interned for the duration of the conflict. The end of the war permitted a brief renaissance for the company in China, but after the establishment of the Communist government BAT was confronted with

huge tax liabilities and was ultimately forced to withdraw from the People's Republic of China completely in 1953, retaining only its operations in the British Crown colony of Hong Kong as a legacy.

Howard COX

Further Reading

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