A Brief Analysis on the Opium Export from the Chinese Mainland to Macao During the 1950s American Embargo Against China

Chan-U LAM
Macao University of Science and Technology, Macao, China

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Abstract. Majority of the studies on Macao’s opium history focuses on Macao’s roles in opium trade or opium smuggling during the Qing Dynasty. Comparatively, the opium issue of Macao after the establishment of the New China in 1949 drew almost no attention from the academy. Though it was well-known that the No.933 Legislation issued by Macao Colonial Government in 1946 announced the abolishment of opium in Macao, the opium smuggling activities and opium business in Macao still remained prosperous. However, historians and IR scholars were indifferent to this phenomenon and the reasons behind it. With the British and American official documents and interview with an individual in Macao who experienced that period of history, this article intends to describe the situation of opium export from the Chinese Mainland to Macao as well as the background and reasons which gave birth to this opium business. The opium export during the American Embargo against China was fundamentally different from an ordinary economic or legal sense of opium smuggling. The opium trade during this era was a counter-embargo measure against the American Embargo and the Western coalition in the Korean War. This research may not only provide us with historical information of Macao’s opium history, but also offer us a better understanding of Macao’s roles during the Korean War.

1. Raising the Question

The time axis of current studies on the opium history of Macao ceased to advance at the early twentieth century when the Opium Monopoly System (A Legal Form of Opium Business) came to an end. Besides, due to the Chinese Communist censorship of related historical information since 1949 and Macao Government’s declaration of a total abolishment of opium in Macao on May 28th, 1946, the lack of historical evidence has been hindering historians and IR scholars from moving forward into the contemporary study of opium history during the American embargo against China.

However, a British Foreign Office Record about the General Director of Macao Police Department who was removed from his office due to the continuous growth of opium dens in Macao (Pro&Fo, 1954) seems to imply that the opium business in Macao did not extinct after the 1946 policy but instead remain prosperous during the Korean War. Therefore, in order to have a comprehensive description of the Chinese export of opium from the Mainland into Macao and the reasons behind this phenomenon, the author of this article will try to make full use of almost every piece of American, British and Macanese archives, meanwhile try to approach individuals who were involved in that period of history.

2. The Source and Forms of the Export of Opium

Through a review of the American and British archives, after the establishment of the New China in 1949, the earliest export of opium from the Chinese Mainland to Macao can be traced back to the mid of 1950. Firstly, what the article needed to answer was where did this opium come from and through what kinds of channels?

The American Government believed that “the sale of opium, which is an important source of income for the Chinese Communist government, is controlled by the People’s Opium Suppression Bureau” (Chinese Communist Government Opium Regulation, 1951). Thus, the American Government was suggesting that the Chinese Government was not only informed about the
exportation of opium from the Chinese Mainland to the Western World but also played a crucial role or even being the commander of the opium trade.

In terms of the Communist Leadership in the opium production and trade, the American Government went on to illustrated that “the nominal heads of this Bureau are Po I-po, Minister of Finance, and Yeh Chi-Chuang, Minister of Trade, while the actual head is Wang Feng-chai, who is also head of the North China Opium Suppression Bureau” (Chinese Communist Government Opium Regulation, 1951).

More specifically, from the American point of view, the Chinese officially-supported exportation of opium as a mechanism, was a very well-design and developed system. In other words, different areas in the Chinese Mainland had clear division of labor and were specialized in certain roles.

According to a CIA records, the details of the aforesaid areas which participated in the opium production and trade were as followed:

a. In the Tientsin area, opium trade is handled by the North China Opium Suppression Bureau, which works through the Yu Ta Company, 5 Ao Men Road, 10 District, Tientsin. The Manager of this company is Wang Tzu-tung, aided by Li Tzu-feng and Shou Han-chen.

b. In the Hankow area, opium trade is controlled by the Central China Opium Suppression Bureau headed by Lo Wen.

c. In the Canton are the Lin Chi Company, managed by Jen Shui-feng, controls the opium trade under direction of the South China Trade Bureau.

d. In the Shichiachuang area Kuo Hua-yuan operates a warehouse, raises opium poppies, manufactures opium and also controls its trade.

e. In the North Shensi area, the trade is handled by Chi Kung-kao, who is also in charge of opium poppy growing and manufacturing in that area.

f. In the Jehol area, opium growing and trade control are under the direction of Wu Chih-ho.

g. In Shanghai the Shanghai Liaison Office, headed by Chu Yu-ling, who is also an important member of the Shanghai Public Security Bureau, controls opium transactions. The opium chemical analysis office in Shanghai, under Lin Hsiu-hao, determines the price of the opium through analysis.

Within these 7 areas of the Chinese Mainland, which grew poppies, manufactured and exported opium, “Tientsin and Canton are the two most important areas for the export of opium from China, mostly to Macao and Hong Kong. For export purposes, the Chinese class opium as a special drug”. Besides, in order to secure the transportation to Hong Kong and Macao, “opium is carried from Tientsin to Hong Kong by the Chun Sheng and the Hu Nan. These ships have naval escort part of the way and unload their cargo to junks at the prearranged point”.

Canton as the nearest mainland province to Hong Kong and Macao while being one of the most important opium bases in China, Lin Chi Company which managed the opium trade in Canton was almost undoubtedly became an extremely developed opium company in the Mainland. “Lin Chi Company has been established with its head office and main distribution center in Peiping, and branches throughout the country. The Manager in Yang Ching-yu. Opium is graded and prepared for shipment at the Lin Chin Company’s head office, 9 Ta Tien Shui Ching Hutung, Peiping, and in various other places in other cities. The packages usually appear to contain native medicine and herbs. The Lin Chi Company is under the control of the Committee of Finance and Economics, which is the link between them and the Chinese Communist Government”. Sharing similar relation with the Chinese Government, “Lu Ho Company is believed to be an important channel through which the sale and distribution of opium is effected”.

Although the official archives did not categorize Canton as an important opium manufacturing province, the geographic closeness to Hong Kong and Macao has enabled Canton to be a crucial entrepot for the export of opium to Hong Kong and Macao. For example, “on October 31st 1951, the Kwangtung provincial government authorities received 2,200 pounds of opium from Hankow. It was sent for storage to the former Kwangtung Provincial Bank warehouse in South Canton. On 2 and 3 November, 1, 100 pounds of this opium was sent via the Canton-Kowloon railroad to Shenchuan to be forwarded for sale in Hong Kong. On 5 November, the reminder was sent by truck to Chungshan to be forwarded for sale in Macao”.

Besides the administrative involvement into the opium export to Macao and Hong Kong, the South China Bureau of the Chinese Communist Party also played an active role in this business. “The South China Sub-Bureau’s Special Commodity Sales Bureau received 28 metric tons of opium from Northeast China. This was stored in the Bureau’s warehouse. Liu Yun-ho, deputy director of the Bureau went to Hong Kong and Macao to sell the opium” (Shipment of Opium from Northeast China, 1951).

In terms of the export routes to Hong Kong and Macao, the aforesaid Hankow-Canton-Hong Kong & Macao landway was only one of those options. The other optional seaway route was Dairen-Canton-Hong Kong & Macao. “In August 1950, the Chinese Communists have openly shipped opium from Dairen overland to points on the borders of Hong Kong and Macao. The first shipment was brought to Chienshan across the border from Macao in August 1950 by Yeh Hsiung, also known as Yeh Yuan, who is an employee of the Kwangtung Provincial Government. Yeh was aided by three assistants. This shipment was turned over to local garrison units of the Chinese Communist Army to be sold”.

Additionally, the CIA found that “the Chinese Communist Army regularly sells opium in order to defray expenses. Actual sales and public handling are managed by private concerns or by firms whose connection with the Communist Government is secret. A brokerage firm handling the details of any gold or opium sale backed by the Communist Government must obtain a guarantee from a top-level official, which is done by paying a direct charge in advance. The purpose of the guarantee is to insure care and secrecy, so that the government will not be mentioned; if there is a leak, the dealer can be made the scapegoat”.

3. The Reason for the Opium Trade: Macao’s Economic Hardship and Betrayal of the Embargo

Since the establishment of the New China, the restriction against poppy planting, opium manufacturing, consuming and trading was a well-known regulation in the Chinese society. Meanwhile, the Macao Colonial Office prohibited any activity related to opium in Macao in 1946. Therefore, if only by looking at the internal governance of the Chinese Mainland or Macao, one can hardly explain the motivation of the opium exportation by the Chinese Government and why the Portuguese Colonial Office which was well-known for its anti-communist sentiment seemed to maintain an appeasement on the opium export to Macao. Therefore, the reason for the existence of the opium export lies in a bigger international background, i.e. the Korean War and the related American Embargo against China.

On January 1st 1950, the Coordinating Committee (CoCom) with member-states from the Western Bloc led by the United States and U.K. started to operate in view of limiting exportation of strategic materials from the West to the Communist Bloc including the Soviet and the Communist China. Followed by Chinese dispatching of troops in the Korean War, the United States began to take the Communist China as a significant face to face enemy, and established a China Committee (ChinCom) in 1952 which tended to apply a more restrictive embargo against China. In the same year, in order to avoid Macao being a loophole of the embargo, under strong recommendation by the British Government, Portugal was invited to join the Cocom and ChinCom and applied embargo against China. Although the Chinese Mainland was the target of the American embargo, the external trade of Macao was simultaneously suffering from a very terrible circumstance which puts the Macao Colonial Office in a contradictory position. Despite the fact that Macao as a colony of Portugal was part of the embargo coalition, but in view of forbidding the Chinese Communist to obtain strategic materials from Macao, the Hong Kong Colonial Office has promulgated 5 pieces of Administrative Legislation during 1950 till 1952 to limit export from Hong Kong to Macao. Moreover, due to the mistrust of Macao’s effectiveness in the implementation of the embargo against China, the U.S. Government began to limit export to Macao through the famous “licensing system” (Washington AP,1950). In other words, Macao became a de facto target of the Western Embargo.

Contradictory, Macao as a colony of Portugal had to directly implement embargo against the
Chinese Mainland. On January 23rd 1952, under great pressure from Lisbon and the Western allies, the Governor of Macao promulgated the No. 1:207 Administrative Legislation through which the Commercial Coordination Commission was founded to examine the export and import between Macao and the Chinese Mainland (The Regulations of Hong Kong, 1953).

Unfortunately, Lisbon did not give any sympathy to the Macao Colonial Office regarding its terrible economic situation. According to the British Consulate in Macao, “Dr. Lobo on instructions from the Governor, has presented a request to Lisbon that the Portuguese representative on the Paris Group should make an urgent demarche to have certain strategic materials exempted from the embargo list in order to enable Macao to recommence a minimum of trade with China”. From Macao’s perspective, this kind of proposal was quite necessary and justify, because “a total trade block between the Mainland and Macao will lead to disintegration of Macao’s economy”.

The indifferent attitude taken by Lisbon has disappointed the Governor and Chief of Economic Bureau in Macao. The Chief of the Economic Bureau told to the British Consulate in 1953 that “the relations between the Government of Macao and the home government have become increasingly strained”. Meanwhile, according to the British Consulate “Macao cannot survive without food from, and trade with, South China, and that since the Chinese insist on a barter basis of strategic materials Macau has little option but to acquiesce; if such trade cannot be permitted legitimately, then the resources of the province must be turned in to sustaining its life-line by illegitimate means”. Lobo told the British that Hewas ready to “mobilize all available resources to put smuggling back onto a properly coordinated footing. He plans to instruct the various licensing authorities of the administration to issue import and re-export licences to all dealers who can land the goods in Macau, leaving it to them how to do so”.

Macao’s economic hardship during the American embargo against China as well as its asymmetric dependence on the living materials from the Chinese Mainland forced the Macao government to turn a blind eye on the Communist barter trade for strategic materials with opium, rice and other agricultural products.

4. The Reason for the Opium Trade: A Counter-Embargo Measure

Since 1950 when the Hong Kong Government started to embargo against the Chinese Mainland and Macao, the transportation of strategic materials through Hong Kong was becoming tougher. Thus, the situation enabled Macao to be a new entrepot option for the Communists. After the Hong Kong embargo and before Portugal joined the embargo coalition, there was a 2 years period during which direct embargo policy was absent in Macao. According to the Chinese Statistics, during this period, Macao’s exportation to the Mainland grew rapidly. According to the U.S. Consulate in Hong Kong, “Communist now hope further develop route Portugal to Macao for items collected in Europe. Several successful shipments already accomplished” (Telegram from the Consul General at Hong Kong (McConaughy) to the Secretary of State Hong Kong, 1951).

In order to mobilize the local Chinese business individuals in Macao and to avoid the fund freezing and trade embargo by the West, the Chinese Government start a new trade mode which was called Barter Trade. According to CIA, “On 19 January 1951, the SS CHUN HSING arrived in Macao towing 14 boats loaded with 700,000 catties of rice. According to Yang Shih-cheng this rice was to be turned over to Mr. Fu of the Nam Kwong Company, to be exchanged for gasoline and machinery” (Barter of Rice for Military Supplies, 1951). With similar method, “more than 5,000 ounces of raw opium were smuggled into Canton, of which more than half is to be smuggled into Hong Kong and Macao in exchange for other commodities” (Chinese Communist Defense Measures, 1951).

Then, why opium was chosen as a commodity by which the Communists exchanged for strategic materials?

Archives did not offer us an answer to this question. Therefore, an interview was taken with Mr. Sin Wai-Hang who was sent by the Communist China to Macao in 1949 to work on the United Front Work and was also involved in many Communist activities in Macao. Mr. Sin recalled that “Within the Barter Trade, the Nam Kwong Company was only involved in the trade between
ordinary agricultural products and strategic materials, neither did it participate in the opium export
to Macao nor did it entrepot any opium to the West. I would assume that because opium was a
special commodity, so the Nam Kwong was not given a role to play. But base on my understanding,
opium at that time was very different from nowadays, because opium, gold and a cashier’s check
issued by major western banks were all able to serve as a mean of payment, like a currency. In other
words, the Communists did not necessarily sell the opium to the dens for money" (Sin Wai
Hang, 2018).

Obviously, if opium was not only a commodity but also a mean of payment, then its value as a
currency would surpass rice or other agricultural products. One should not forget that during the
Korean War, the Western embargo coalition was very vigilant in prohibiting China’s export of
agricultural products to the West for foreign revenues. From this aspect, a huge quantity of rice in
the barter trade would mean a high risk.

According to the CIA, in 1949, Macao and Hong Kong already became entrepot centers for
smugglers in the Far East, and “opium is the most common means of payment and its resale in
Hong Kong and other ports of South China often bring a net 300-400% profit per voyage to the
smugglers” (Smuggling Between South China and Indochina, 1949). Therefore, opium itself has
high economic value with small volume and great liquidity. One may hardly imagine anything
better than opium which should be used as a mediator for barter trade.

On the one hand, 3 to 4 times net profits would mean that the opium export was going to bring
about larger revenue or greater amount of strategic materials comparing to rice and ordinary
agricultural products. On the other hand, a given value of opium was much smaller comparing to
the same value of agricultural products, which would mean bigger chance to get rid of the
inspection by the Customs and Coastal Police in Macao and Hong Kong. Though the data for the
price of opium in Macao during the Korean War was not unfound, but one may refer to the CIA
record in early October 1950, “30 tons of opium arrived in Hong Kong from North China via
Canton. Price of the opium was Hong Kong (HKD) 25-27.5 an ounce” (Chinese Communist Trade
in Opium, 1950). Clearly, besides the profits which could be taken from the opium trade, opium
itself was of high economic value.

In 1950, when the Hong Kong Government began to prohibit exports of strategic materials to the
Chinese Mainland and to avoid import of Chinese agricultural products into Hong Kong or entrepot
through Hong Kong, Macao was destined to be chosen by the Communists for their barter trade for
strategic material with opium. “On 20 August 6,000 ounces of opium were sent to Macao from
Canton by the Chinese Communist authorities in Canton. The opium was shipped by way of
Chienshan and was stored in Huang Sen’s residence in Macao. The proceeds of the sale of this
opium were to go to support Chinese Communist intelligence activities in Macao, and to buy
military supplies for Communist China” (Procurement of War Materials for Communist China,
1951).

Last but not the least, opium was not only used as a mean of payment to barter for strategic
materials, but also as an important financial source for the Communist intelligent activities in
Macao. “The Macao information station of the office of the chief of staff of the Chinese Communist
3rd Field Army Headquarters is head by Chang Lang, who arrived in Macao in December 1950. The
activities of the station obtained part of their financial support from the profits through the sale of
opium in Hong Kong and Macao” (Macao Information Station of Office of Chief of Staff, 1951).

However, if Nam Kwong Company did not participate in the opium trade in Macao, then besides
Yeh Hsiung and his company, who else or what other companies were responsible for the opium
export from the Chinese Mainland to Macao?

According to a CIA record in August 1951, “in late June the Chinese Communists shipped 5,000
ounces of opium from Canton to Macao, where it was stored in the Wan Chai area by the Kuang
Sheng Company. About 1,500 ounces of this opium was later moved to the Hsin Kuang
Transportation Company in Chion Shan. Those in charge of the sale of opium are Lao Ping-shan,
Huang Sen, Huang Chuan, and Chen Pei (Chinese Communist Economic Activities, 1951).
5. Some Limits in the Research

This article might be one of the earliest researches on Macao’s opium history after the establishment of New China. And there was still a question which was not yet answered by this article with the archives it got. Whether all the opium exported from the Chinese Mainland to Macao during the Korean War was of governmental behaviors? In other words, was there any non-governmental player?

According to a pro-KMT newspaper quoted by CIA, “in His-chiang, Kwuang-tung, some corrupt peasant association cadres banded with local government officials to raise about 100 mu of poppy plants in Lo-ting, Te-ching, Yu-nan, Hsin-hsing, and Yu-fuhsiens. To hide the poppy plants from the view of passersby, sugar cane and maize are plated around them” (Discusses Narcotics Sales and Poppy Growing in China, 1951).

Additionally, in 1952, “many cadre members of local military organizations in Kwangsi have used their positions for personal gain by participating in smuggling activities, selling gold, opium, etc.” (Political Training Class for Cadre Personnel, 1952).

These two records implied that there was some non-governmental arranged opium manufacturing and trade. However, no evidence so far tells us whether the opium grown by the corrupt individuals were smuggled into Macao.

6. Conclusion

According to the official historical archives which have been found, first of all, it was able to confirm the existence of continuous opium export from the Chinese Mainland to Macao during the 1950s which contained considerable quantities of opium. Although the data for the quantities of opium trade was not in detail, but according to the date of the archives and through the interview, one may assume that the activities of opium export to Macao mainly concentrated from 1950 to 1953. And this period was exactly the time from the PLA’s dispatch to Korean Peninsula to the signature on the Korean Armistice Agreement.

During the Korean War, the United States enhanced the Western Embargo against China by demanding Hong Kong and Macao to limit their trade with the Chinese Mainland. The embargo policies issued by the Hong Kong Government which prohibited export of strategic materials to the Chinese Mainland and limited import of agricultural product from the Mainland, gave opportunity for the raise of Macao as a substitute entrepot for the Communist barter trade.

Portugal was invited by the U.K. to join the embargo coalition in 1952 while the Macao government was urged to initiate a direct embargo against China. But ironically, Macao was suffering from the mistrust of and embargoed by its western allies at the same time. These contradictory identities brought about strong repercussion from the Macao Colonial Office against the American embargo.

From the counter-embargo perspective, the Chinese Government understood that the barter trade would be a practical way to evade the embargo inspection and fund freezing. Besides, the Macao Government had to keep a blind eye on the communist trade in Macao since the colony was highly dependent on Chinese living materials. In order to promote the effectiveness of barter trade and minimize the risk from embargo, the Chinese Government chose opium as a mean of payment which has high economic value and was recognized as a kind of hard currency in Macao and Hong Kong.

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