

## Reversals of Fortune in the Tea Industry Part I: Tea and Horse Trading



*"Bring back the good old Brezhnev days!"*

The image of this cartoon poster by D. Oboznenko, from 1989, appears in David Courtwright's *Forces of Habit*. According to Courtwright, *In communist Russia of the 1980's*, "Millions of ordinary citizens drank to combat the boredom and sterility of life in a communist state." Gorbachev's attempt to limit alcohol consumption unraveled as the social and economic welfare of the average Russian continued to erode. This poster would have been banned prior to glasnost. To many, it was a parody of the times, as many saw life's simplest pleasures less attainable. [For example, Russian tea production was on a steady decline, resulting in higher prices and lower availability of this popular Russian staple.] During this time, approximately 11,000 deaths due to ethanol and related poisonings were recorded.

Soviet Georgia was once the largest supplier of tea to the U.S.S.R., achieving peak production of 143,000 metric tons in 1983. The Chernobyl disaster of 1986 had a devastating effect on production levels, when over half of the tea plants had to be uprooted. In 1992, only 55,000 tons were produced. The last official production figure available is that of 2004, when only 11,000 tons were produced. As of this writing, the last foreign company to have packing facilities in Georgia has closed its doors, with no plans to reopen. Russian imports of Georgian tea account for only 1-2% of total tea imports, and the future of Georgian tea is unclear, at best.

Throughout the history of tea, we find a recurring pattern of trade imbalances, supply shortages and surpluses, and political frictions that often result in war. For the first installment of this series on *Reversals of Fortune in the Tea Industry*, we go backwards in time to nine centuries before *perestroika*.

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## *Reversals of Fortune in the Tea Industry, Part I*

China's military history is at least as old as its tea. During the Song dynasty, tea and China's military were so closely linked that a bureaucracy was formed to manage the aligned affairs of the international tea trade and military procurement—specifically horse trading.

Paul J. Smith has written a lengthy account of this agency, *The Tea and Horse Agency*, in a five hundred page book entitled *Taxing Heaven's Storehouse*. It is a truly fascinating book, but one which may be a bit daunting for those looking for a casual read. All of the quotes in this article are from Smith's book, which was published in 1991 by the Council on East Asian Studies at Harvard University.

For centuries, China's military defenses were composed of five key elements: walled fortifications (including the Great Wall); a vast army, which during the Song dynasty numbered well over a million men; an advanced armaments manufacturing capability that provided iron and steel weapons, as well as a variety of explosive devices; an extensive navy to patrol and defend China's vast coastline; and, last but not least, a force of mounted soldiers (cavalry) that could counter the fierce nomadic warriors that posed a constant threat. At the time of the Song, China was able to supply all of the elements of this defense system except for one key element: the war horse.

Song China's domestic horses, due to both size and temperament, were ill-suited for war. Neighboring Tibet, on the other hand, had a surplus of superior war horses. Since all trade with China at this time flowed through Tibet, it was mutually beneficial for the two countries to maintain friendly relations. China's other neighbors were more interested in conquest than trade, and thus would not like to see China's cavalry properly equipped. Tibet, therefore, became China's principal supplier of war horses. Of course, this meant that China's source of war horses was quite remote from their most hostile neighbors.

Toward the middle of the eleventh century, China's cavalry of 60,000 men had access to only about 12,000 war horses, and few of the horses were in prime condition. Horse trading with Tibet was not well organized, and if China was to successfully defend herself, something drastic had

to be done. The horse trade between Tibet and China was initially based on a barter system, with silver, silk, and salt being the standard commodities of exchange. Silver was the preferred medium of exchange for Tibetan traders, since it was easy to exchange for other goods. Without alternatives, the expanded trade with Tibet was sure to deplete the central treasury's silver supply, and there was only so much silk and salt that could be delivered at the time of exchange.

To solve the problem, a currency system was devised, utilizing *salt certificates*, which were loosely backed with silver. Tibetan horse traders were paid in salt certificates, which could be readily exchanged in neighboring Szechuan for silver or commodities of equal value, based on the salt certificates' denomination.

All of the currency in circulation would not be redeemed for silver at once, so there was ample float to purchase horses even when silver supplies were low. Moreover, Szechuan was a major center for the silk trade and other commodities. Besides the usual silk and silver, Tibetan horse traders developed a taste for a variety of Szechuan market goods, including tea. Thus, in the words of Paul Smith, "the bridge between [Szechuan] tea and Tibetan horses had now been built."

For a few years, the problem of procuring war horses seemed to be solved, as tea became a favorite trading commodity among Tibetan horse traders. Tea suddenly became an important strategic commodity for the central government, and the *Tea Market Agency* was established to oversee production and sales. Oversight was actually total control, for the TMA not only established selling prices, but also dictated how much the farmer would get paid for his tea. To ensure 100% control, farmers were only allowed to sell their tea directly to the TMA.

In a pattern that would be repeated within China for centuries to come, the dictatorial bureaucracy of the TMA eventually broke the very system that they were to oversee. The problems began when the TMA, interested in maximizing their profits, lowered the price that the Szechuan tea farmers were paid. Ignorant of the costs associated with cultivating, harvesting, and manufacturing tea, the TMA lowered the purchase price to a level that was actually less than the cost of production. For survival, the producers suddenly had to become stealthy entrepreneurs.

Risking severe penalties, farmers started selling their best teas directly to Tibetan traders, or to smugglers who would act as intermediaries. The teas of lower quality would be sold to the TMA at the mandated price.

To the Tibetans, the inferior teas offered by the TMA suddenly appeared less tempting, and the traders began to withhold their better horses, while at the same time demanding higher prices. It took some time before the TMA reacted to this predicament, since their interest was tea, rather than horses. As long as their tea could be sold to other markets, their interests were served. There was no direct consequence to the TMA if Tibetan horse quotas were going unfilled, since this was the domain of the *Horse Purchases and Pastures Agency* (HPPA). The tea-for-horses scheme was beginning to unravel.

In an attempt to reform the program, the TMA was merged into the HPPA in 1086, and the combined agency was renamed the *Tea and Horse Agency*. Hereafter, the goals were quite clear: China tea from Szechuan was to be used principally to procure war horses. At the same time, the THA would develop the tea trade in other areas, as long as it did not lose track of the primary goal. To halt the illicit tea trafficking, the existing penalties for smuggling and direct sales would be raised and more aggressively applied.

There were two ways in which the punishments for smuggling became more severe between 1080 and the mid twelfth century, as oversupply and [evolving market dynamics] jeopardized the Intendancy's [TMA and later THA] purchasing power. First, the degree of punishment typically meted out rose over time up the graduated scale known as the five punishments (*wuxing*), comprising the light rod, the heavy rod, forced labor, deportation, and execution. And second, two sets of special codes that increased the gravity of the punishments, the "heavy penalties" (*zhongduan zui*) and martial law (*junfa*), were gradually applied in an increasingly routine manner.

Smith further provides the following example: The penalty for the illegal sale of 40 catties (about 52 pounds) of tea was one year of forced labor. One would have to steal over twice that value of another's property to earn the same punishment.

For a period, the THA was successful in expanding the tea market, as well as procuring

between 12,000 and 20,000 horses annually. Yet the insatiable demand for horses outstripped the market for tea. As a result, the price of horses continued to rise, while tea prices softened.

Attempts were made to limit the amount of tea going to Tibet in order to boost the selling price. However, lively trade in horses had led to an oversupply of tea within Tibet, so such attempts to manipulate the price proved fruitless. This was further complicated by the continued smuggling of tea into Tibet. In spite of the harsher penalties, the small tea farmers were left with few options. The price for tea paid by the THA was still below the production costs, so illicit trade was the only alternative to financial ruin.

In 1142, the THA took further steps to tighten control. Fearing Tibet might one day start producing their own tea, a new law was passed, making the fourth level of *wuxing* the mandatory punishment dealt to those caught selling tea seeds:

If garden householders gathering tea seeds dare to sell to unauthorized people, thereby causing the seeds to be traded or sold to the Tibetans, then both the cultivators and the intermediary buyers will be deported 3,000 *li* [approximately 1,000 miles]. Storehousers (*tingzang*) and carriers (*fuzai*) will be separated one from the other and sent 500 *li* for three years of forced labor. There will be no amnesty reductions of original penalties. All categories of persons are permitted to inform on and seize [suspected smugglers] and will be rewarded with a bounty of 500 strings of cash for each violator. The tea garden of the cultivators involved will be confiscated by the state. Prefectural and county officials who are lax in investigating the problems will be put in penal servitude for two years and fined.

Soon thereafter, the law was broadened to apply to the selling of tea shoots as well. Moreover, even *cultivating tea shrubs* was illegal unless the farmer first registered with a "mutual surveillance unit". Unbelievably, restrictions ultimately became even more pervasive and convoluted, making it difficult for the local administrators to understand the difference between ordinary farming practices and illicit practices! Fearing the consequences of lax enforcement of the smuggling laws, administrators started confiscating property for the slightest suspicion of smuggling. So pervasive was the practice that accusations of crimes related to illegal tea practices "were over ten times more numerous than any other category of crime

reported by the Lizhou Circuit Judicial Intendant to the throne.”

The principal cause of deflated tea prices was oversupply. The confiscatory prices paid to the farmers encouraged smuggling, which certainly contributed to the problem, but it was not the primary cause. In another incompetent attempt to halt illicit sales, THA officials started demanding larger quotas from the farmers, hoping that none would be left for illicit trade. The results were predictable. Furthermore, in spite of the THA's efforts to the contrary, Tibet was eventually successful in establishing their own tea production, which hastened the unraveling of the tea-for-horses scheme.

On the horse-trading side of the THA, there was as much incompetence as there was in their management of the tea trade. Horse trading had a well-deserved reputation, and the THA administrators were no match for the savvy Tibetan horse traders. Many of the horses procured by the THA were too old for battle, or too weak to make the long journey to the war zone. With Tibet as their only source, the administrators were forced to take whatever the Tibetan traders had to offer.

Transporting the horses to the battle zones was as much of a challenge as procurement. Horses purchased in Tibet had to travel over 1,600 miles of rough terrain to reach their destination. According to Southern Song “strategist” Hua Yue:

The track from Danchang to Zingyuan traverses twenty-eight towering peaks. Countless numbers of horses plummet from the cliffs to be smashed to bits below.

The weaker horses did not have a chance, and it was not uncommon for half of a convoy to be lost before reaching the battlefield. Once engaged in battle, the life of a cavalry horse was brief, especially when matched against that of a superior enemy. Reflecting on the weakness of the Song cavalry against the Mongol “shock troops” in 1206, Hua Yue observed:

... The enemy's strength derives from its cavalry; their ability lies in riding and archery... The Danchang and Hengshan horse markets are extremely far from the front, and the convoy-relay depots are spaced irregularly. Therefore our nation does not even have two- or three-tenths as many horses

as our enemy, the Jin. Although the horses for the Cavalry Guards and Three Armies of the Capital are said to number many ten thousands, in fact the emaciated, weak, old and sick among them number over half... But the horses of the enemy — it can rain and snow for months on end and they still seem to be leaping; they go over a thousand *li* of sand and rock as fast as if they were flying. As for our horses, when it comes to noon they must be watered; when it gets to late afternoon, they must be fed. But the horses of the enemy — they get to drink without cease during months of pasturing, and then they can go hungry for days on end yet still be ridden without tiring. This is something our horses cannot achieve. How then are we to prevail over them?

The answer is, they did not. Seventy years later the Mongols conquered all of China, marking the end of the Song, and the beginning of the Yuan dynasty. The most famous of the Song scholars to serve under the new ruler, Khubilai Khan, was Zhao Mengfu. He is best known for his paintings of horses, as illustrated below.



Fast-forward seven centuries, and we find tea playing a similar role as it did during the Song. Statistics on tea imports by Russia during the final stages of the U.S.S.R. are a bit sketchy for several reasons, not the least of which is the extensive tea-for-tanks program of that era. There are no public records to show how much tea a Russian tank was worth, or how many tanks actually changed hands in this manner. One wonders if there was an official office of the Russian *Tea and Tank Agency*...

Our series on *Reversals of Fortune in the Tea Industry* will continue in the next issue of the *Upton Tea Quarterly*.