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TOWARD ECONOMIC CONTROL IN CHINA

By

H. D. FONG

CHINA INSTITUTE OF PACIFIC RELATIONS

1936

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By

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TOWARD ECONOMIC CONTROL IN CHINA

I. INTRODUCTION

Economic control, largely an offspring of the post-war mal-adjustments within an erstwhile "cosmopolitan" economy, has assumed an increasing importance in proportion to the progress of post-war nationalism and, more specifically, fascism. The Great War has brought about a dislocation in the utilization of world resources which, further intensified and perpetuated by the impossible terms of the Treaty of Versailles, results in the occurrence of the most severe crisis ever known to world history, upsetting almost completely the very basis of the social and economic order which has been so familiar to us for the last hundred and fifty years. The movement for "self-determination" in the arena of politics has been matched by a no less similar development in the economic régime. For under the newly coined terminology of "compensated economy", "directed economy", "controlled economy", "planned economy", "autarchy", "national economic planning", "so-many-year plan" and what not, there have been developed new practices or controls penetrating into nearly every phase of economic activity, no matter whether these controls are mutually coordinated parts of a national system of state control or simply unrelated schemes affecting but certain aspects of the national economy. In the former, as in Soviet Russia, and to a lesser extent in Nazi Germany and Corporate Italy, the whole economic order has been placed under more or less complete state control; while in the latter, as in Great Britain, the United States, France, or even Japan, such control, although partial, has exerted such a profound influence on the national economy as to bring about a fundamental change in its character. In either case, the end of

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laissez-faire is marked by a definite transition to complete or partial collectivism.[1]

The trend toward state economic control is world-wide. China is making but a beginning in the same direction. What differentiates China's attempts at present from those of the industrial Powers is the greater limitations in application, which arise mainly from the essentially medieval and colonial character of her economic organization. China, largely agricultural and relatively undeveloped, has hardly commenced the process of economic modernization. The stage of her industrial development is in its infancy, and not counting the few industrial centres like Shanghai, Hankow, Canton, Tientsin, Dairen, and Wusih, the system of her economic organization remains medieval in character. The almost complete absence of a system of modern transport, which can be best illustrated by the possession of no more than 17,400 kilometres of railways and 84,800 kilometres of motor roads in a country with an area of 11,000,000 square kilometres and a population of 450,000,000, is a serious obstacle in China's transition from local or regional to national economy. Chinese agriculture, the means of livelihood for four-fifths of her population, is characterized by intensive utilization of labor and complete absence of mechanization. The strip system that still prevails is a familiar feature of medieval farming. In industries one can safely assert without fear of contradiction that two-thirds to three-fourths of production are derived from small scale industries of the handicraft type, carried on more in villages than in towns. Fairs and markets, the relics of a medieval economic order, constitute the most extensive channels of distribution, while the multiplicity of standards in weights and measures is beyond the imagination of students in medieval economic history. The credit needs of the peasants are satisfied largely by native banks, pawnshops, and indigenous forms of cooperation, while the common media of exchange are not silver dollars or dollar certificates, but copper coins of all kinds. The recent abolition of likin or *octroi*, the persistence of export

[1] Lippmann, Walter: *The Method of Freedom*, 1934, *passim*.

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duty, the reliance upon indirect taxation as the chief source of governmental revenue — all these tend to stress the fundamentally medieval character of Chinese economy,[2] which hinders greatly any attempt to exercise control over it by the state.

A second obstacle lies in the long period of economic and political domination of China by foreign imperialistic powers, on which western authors have compiled many treatises, bearing titles such as "Foreign Financial Control in China" (by T. W. Overlach, 1919), "Foreign Rights and Interests in China" (by W. W. Willoughby, 1920), and "Economic Rivalries in China" (by Grover Clark, 1932). In his lectures on "The Principle of Nationalism" in 1924, Dr. Sun Yat-sen, founder of the party now in power, had emphatically pointed out the fact that

> "China is everywhere becoming a colony of the Powers. . . China is the colony of every nation that has made treaties with her, and the treaty-making nations are her masters. China is not the colony of one nation but of all."

In summing up foreign economic control in China, Dr. Sun further states:

> "In money value of stolen rights and privileges we lose every year: first through invasion of foreign goods, $500,000,000; second through the invasion of foreign paper money into our money market, along with foreign bank discounts on exchange and interest on our deposits, about $100,000,000; third, through freight charges on our exports and imports, up to $100,000,000; fourth, through taxes, rents, and land sales in the settlements and ceded areas at least $400,000,000 or $500,000,000; fifth, through special privileges and private business of foreigners $100,000,000; sixth, through the speculation business and various other fleecing games, hundreds of millions. These six kinds of economic domination cost us an annual loss of not less than $1,200,000,000."[3]

The accuracy of Dr. Sun's estimate of the loss that China has to incur under foreign economic control may be question-

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[2] For detailed treatment and reference, see my article on "The Economic Ills and Economic Control in China", *Quarterly Journal of Economics and Political Science* (later abbreviated as QJEPS), April, 1936 (in Chinese).

[3] *San Min Chu I* (The Three Principles of the People), tr. by Frank W. Price, Commercial Press, 1929, pp. 38, 52-53.

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ed, but his general theme represents a true state of things which few students of Chinese economic affairs today would deny. Since the Opium War of 1841-42 China has lost not only territories, but also the full exercise of a variety of basic sovereign rights of an economic character which together make up an impressive list: tariff autonomy, coastal and inland navigation, railway construction, landholding, mining, manufacturing, trading, banking, note issue, etc. Chinese exports are handled by foreign export firms in China, not by the Chinese merchants themselves, just as Chinese imports are handled by foreign import firms. Foreign manufacturing enterprises in China, especially Japanese, have offered overwhelming competition to those started by the Chinese without the usual assistance of protective tariffs, bounties, subsidies and many other forms of governmental aids. Cotton spinning and weaving is a classic example of a foreign industry on Chinese soil which by its strong competition is making it more and more impossible for the native enterprises to continue their losing struggle. In coal mining — the only extractive industry of some importance in present-day China, two foreign-owned mines alone are supplying almost one half of the total production. In shipping the Japanese and the British are operating two-thirds of the steam tonnage. Banking is another field where foreigners play a leading rôle. Until recently, foreign exchange rates are fixed by the largest foreign bank in China. These foreign banks, enjoying fully the protection of concessions and settlements, have absorbed huge volume of deposits from Chinese military and civil officials — the strongest group of Chinese capitalists. The right to build railways by foreigners has at times led directly to territorial aggression, as is the case with the South Manchuria Railway in the Northeastern provinces, Foreign post offices were abolished only a decade ago, while the customs administration is still partly under foreign control, so as to assure prompt repayment of foreign loans secured by customs revenue.[4]

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[4] See note 2.

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II. FACTORS FAVORING ECONOMIC CONTROL

In view of the medieval character of Chinese economy and of the foreign economic domination of China, economic control by the Chinese state is difficult if not impossible. Any attempt at such a control is necessarily limited both in scope and in effect as compared with that in countries enjoying higher degree of industrialization and fuller sovereign rights of an independent nation. But incomplete and partial as it must be under present circumstances, state economic control in China has in recent years become an issue of imminent national need. Without going into great details, factors favoring such a control in China can be briefly reviewed in passing. Foremost among these is the far-sighted and comprehensive grasp of the need for economic control by Dr. Sun Yat-sen, and the tremendous influence it exerts on the policy of economic reconstruction adopted by the National Government under the Kuomintang regime since 1927. Realizing the need for systematic industrialization of China through the financial and technical assistance of industrial powers, Dr. Sun proposed, in his *International Development of China* published in 1920 (originally lectures given in Chinese in 1918 and entitled *Fundamentals of National Reconstruction*), that "the vast resources of China should be developed internationally under a socialistic scheme for the good of the world in general and the Chinese people in particular." (Preface) The proposal, which embraces the development of a communication system; the development of commercial harbors; the construction of modern cities with public utilities in all railway centers, termini and along side harbors; water power development; erection of iron and steel works and cement works; mineral development; agricultural development; irrigation work in Mongolia and Sinkiang; reforestation in central and north China; and colonization in Manchuria, Mongolia, Sinkiang, Kokonor and Tibet, was in 1928 put into a more concrete form through the provision of a time limit and an approximate budget for its realization by Dr. Sun Fo, his son, in *Outlines of Reconstruction.* Ac-

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cording to the latter, then in charge of the Ministry of Railways, it would take 50 years with a minimum budget of $25,000,000,000 to complete his father's whole scheme, of which $21,900,000,000 or almost nine-tenths is to be devoted to the development of a communication system including the building of 100,000 miles of railways and 500,000 miles of macadam roads; improvement of 1,000 miles of existing canals; construction of 1,000 miles of new canals; large-scale conservancy work for the Yangtze, Yellow, Pearl, Hwai and other rivers; and installation of new telegraph lines, telephones and wireless services. The influence that Dr. Sun's proposal and his son's revision exert on the national economic reconstruction of China is seen not only in the various aspects of Chinese economic control to be described in a later section of the present paper, but also in the various other plans for Chinese economic reconstruction that have been put forward in recent years. Among these we have national plans such as the "Programme and Budget for Material Reconstruction in the Period of Political Tutelage" passed by the National Congress of the Kuomintang Representatives in 1929, the "Six-year Programme for Material Reconstruction" passed at the National People's Convention in May 1931, the "Ten-year Plan for China" drawn up by the League of Nations at the request of China in August 1931, and the "Three-year Plan" of the National Economic Council organized in November 1932; and particular and regional plans such as the "Plan for the Development of Basic Industries in China" drawn up by Dr. H. H. Kung, Minister of Industries and adopted by the Fifth Plenary Session of the Second Central Executive Committee of the Kuomintang in September of 1928, the "Four-Year Industrial Plan" of Mr. Chen Kung-po who succeeded Dr. Kung on January first of 1932,[5] and the "Three-Year Industrial Plan" drawn up by the Kwangtung Provincial Government in 1933.

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[5] For details see Chen, Gideon: *Chinese Government Economic Planning and Reconstruction since 1927*, China Institute of Pacific Relations, 1933.

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A second factor favoring economic control in China arises during the government campaigns against the communist rebels in central China. The communists rebelled in 1927, but no campaign was launched against them until late in 1930. This first campaign, lasting from December 1930 to February 1931, was soon followed by the second campaign from March 1931, the third campaign during the latter part of the year, the fourth campaign in 1932 and the fifth campaign in 1933. At the peak of these campaigns in 1932 over 700,000 government troops were engaged, and the new policy of 70% political and 30% military measures was adopted. The political measures included first the formation for each community of *pao-chia* or a sort of police system based on the family unit, with the purposes of espionage and strict control over the "thoughts" of the people; secondly, an "improvement" of the local administration so as to bring about its subordination to the Nanking government; thirdly, an adjustment of the agrarian situation through the creation of farmers' banks and cooperative societies; fourthly, a stiffening of the blockades of the Sovietized areas, with capital punishment for those breaking it; fifthly, road construction in the regions adjoining the Sovietized areas, in order to facilitate movement of troops; and, finally, the extension of all methods of political propaganda which might possibly help to demoralize the Communist Party and the Red Armies. Of these six measures the first three were applied in the districts recovered from the communists, while the rest were directed towards the communist areas. In the fifth campaign during 1933 the two anti-communist measures, road construction and economic blockade, and a new measure of building forts at short distance near the communist frontier, were adopted as the three key policies for communist suppression. As a result, the communists near Kiangsi and neighboring provinces in central China were almost completely cleared off, and had to seek for new strongholds in Szechuen province. Economic blockade, including measures for controlling all business in the regions adjoining the Sovietized areas, especially the selling of salt and certain other

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daily necessaries the scarcity of which in Sovietized areas constitutes a strategic loss for the rebels, was later applied in similar campaigns against the communists in Fukien, Szechuen, Shensi and Shansi since 1934; so also was road construction for the rapid movement of troops and military supplies.[6]

A third factor favoring economic control in China is the great Yangtze and Hwai River flood in the summer of 1931. Floods have been a recurring terror in Chinese history, and in provinces like Hopei and Kiangsu there was a flood almost every two years during the defunct Manchu dynasty.[7] But few floods have been as extensive in the areas covered and as serious in the losses incurred as that of 1931 in the Yangtze and Hwai River valleys. In this flood 25.2 million farm people in 131 *hsien* of the five provinces of Hunan, Hupeh, Kiangsi, Anhwei and Kiangsu were affected, incurring a total loss of almost two billion dollars. To quote from Professor Buck's extensive study of the situation,[8]

> "The farm population affected is equivalent approximately to the entire farm population of the United States. 45% of all farm buildings in the flooded area were destroyed. 40% of all persons in the flooded area have been forced to migrate either to nearby high land or to other counties for the greater part of the winter season. The houses were flooded so as to be uninhabitable for an average of 51 days. The average maximum depth of water on fields was nine feet. The losses represent the following percentages of winter inventory values: buildings, 43%; livestock, 61%; fuel, fodder, and stored grains, which was more than usual in quantity because of harvest just made, 110%; and farm equipment, 61% .....
>
> "The average total loss per family is $457 Chinese currency. When it is borne in mind that the average farm family has for net earnings about $300 Chinese currency a year, it can easily be seen that not only all earnings for the year but much more has been lost."

In order to combat the destructive work of the flood and to relieve and rehabilitate the vast mass of rural population in an immense area, a huge relief organization, the National

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[6] Yakhontoff, Victor A.: *The Chinese Soviets*, 1934, Chap. VIII.

[7] Mallory, W. E.: *China, Land of Famine*, 1926, p. 43.

[8] Buck, J. L.: *The 1931 Flood in China*, University of Nanking, 1932, pp. 41, 44-45.

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Flood Relief Commission, was set up on August 14th, 1931, which in the course of its one year's existence administered in cash and in kind nearly $70,000,000 through a huge staff numbering at its height no less than 7,000. The procedure adopted was somewhat as follows: the first task was to save the lives of the refugees by providing food, shelter, clothing, and protection against outbreaks of disease. After this work of emergency relief, and when the waters had sufficiently receded, the Commission would attend to the restoration of dikes one metre above the flood level, lest the recurrence of normal flooding should subsequently aggravate a situation already sufficiently desperate. Next, after provision had been made for immediate relief and restoration work, enough resources would have to be kept in hand to assist in the spring sowing. For this purpose loans were granted to flood refugees at a low rate of interest, usually four per cent, through the organization of the so-called "mutual aid" societies with collective responsibility for repayment. Lastly, precautions would be taken against epidemic diseases. The extent to which the above procedure, consisting as it did of emergency relief, engineering and labor relief, farm rehabilitation, and public health, can be illustrated by a few figures selected at random. Thus, according to the Report of the National Flood Relief Commission for the year 1931-32,[9]

> "Relief work extended to 269 *hsiens*. Free relief was granted to just under 5,000,000 persons, and 1,000,000 were relieved in camps. In addition, the Commission distributed more than 500,000 suits of winter clothing and more than 2,500,000 of the needy and sick refugees received medical attention. Advances for farm rehabilitation were granted to 360,000 farmers. Some 2,800,000 were employed on labor projects. Thus, including the families of these laborers, a total of 10,000,000 relieved by the Commission is certainly a conservative figure. The amount of earthwork done by this army of laborers would have built a dyke, two metres high and two metres thick, long enough to encircle the earth at the equator."

The fourth factor favoring economic control in China is the nation-wide crisis caused by the extension of the world economic depression after 1931. The world economic depres-

[9] Foreword by Chairman T. V. Soong.

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sion did not affect China in 1929 but rather two years later, for the obvious reason that China, a silver-using country, was until then not touched by any currency deflation. Silver was depreciated in terms of gold as much as (in fact rather more than) gold appreciated in terms of commodities. The consequence was that China's internal prices either remained stable, in terms of her own currency, or showed some tendency to increase, while remaining, nevertheless, on a favorable competitive basis in terms of gold for external trade. The reduction of external purchasing power caused some falling off in China's exports, but to a less extent than those of most other countries. And her internal trade was not depressed, and indeed tended to expand and thus offset the relatively slight loss on exports. This advantage of silver depreciation was, however, lost when the pound sterling (and with it the rupee) and the yen went off gold in September 1931. The Chinese currency then appreciated in terms of three of the currencies that substantially concern her. Largely for this reason China entered the general depression two years later, in 1931.[10] This situation was aggravated when under the Thomas amendment to the Agricultural Adjustment Act of May 1933 the United States also went off the gold standard. The Chinese dollar began to appreciate in relation to that currency, as it already did to the three other currencies. The Chinese crisis did not, however, reach a critical stage until the passage of the Silver Purchase Act by the United States Congress in June 1934, as a result of which the exodus of silver from China assumed alarming proportions and caused an unprecedented deflation in the Chinese monetary system. The export excess of silver from Shanghai, which amounted to only 8.9 million dollars in June 1934, increased to 19.0 million in July, 65.8 million in August, 42.2 million in September, 37.4 million in October, 36.4 million in November, and 27.5 million in December. The net effect of this great exodus of silver was a total loss of 232 million dollars worth of silver stock from Shanghai during 1934, a loss representing two-fifths of the total silver stock in that port. The first

[10] Salter, Sir Arthur: *China and Silver*, New York, 1934, pp. 5-6.

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significant step towards monetary control, therefore, had to be taken in October of that year, when the Chinese government, besides raising the silver export duty from 2.25% to 10%, imposed an equalization fee equal to the deficiency, if there be any, existing between the theoretical parity with the London silver price and the rate of exchange daily fixed by the Central Bank of China, after making an allowance for the export duty. Some relief was afforded by this measure, but the exodus of silver continued, not through the customs, but in the form of smuggling. By November 1935 it became necessary for the government to take another significant step in monetary reform, namely, the nationalization of silver through concentration at the three government banks, and stabilization of the exchange value of the silver dollar at its existing level through unlimited operations in foreign exchange. All these steps are designed mainly to relieve the consequences of Chinese depression arising from the currency deflation since 1931, and their effectiveness can be best seen in the fluctuations of wholesale prices and cost of living, as given in table I.[11]

Table I. Wholesale Prices and Cost of Living in Shanghai and Tientsin, 1926–1936

	Wholesale Prices		Cost of Living	
	Shanghai	Tientsin	Shanghai	Tientsin
1926	100.0	100.0	100.0	100.0
1929	104.5	111.1	107.9	115.7
1930	114.8	115.9	121.8	118.8
1931	126.7	122.6	125.9	113.8
1932	112.4	113.4	119.1	105.6
1933	103.8	100.6	107.2	92.5
1934	97.1	91.8	106.2	89.7
1935	96.4	95.4	106.6	99.0
Oct.	94.1	94.2	103.9	99.0
Nov.	103.3	100.9	109.2	106.9
Dec.	103.3	102.5	109.3	109.7
1936				
Jan.	104.3	104.1	111.0	111.4
Feb.	105.4	107.1	112.0	114.3
Mar.	106.4	110.5	114.1	115.6
Apr.	107.3	111.5	111.7	112.4
May		109.1		113.7

11 *Nankai Index Numbers, 1935*, pp. 43-45.

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A fifth factor favoring economic control in China lies in the increasing Japanese aggression since the Manchurian incident of September 18, 1931. The forcible alienation of the three provinces in the Chinese Northeast, accompanied by a huge loss in government property of $1,785,000,000, was soon followed by the Sino-Japanese hostilities in Shanghai between January 28 and May 5, 1932, bringing another total loss of $1,560,000,000 to the Chinese Republic.[12] Early in 1933, the Japanese forces occupied Shanhaikwan, the most strategic point south of the Great Wall bordering on the Manchurian provinces, from where the Japanese troops are in a position to descend upon Tientsin and Peiping. Then they invaded Jehol with the resultant forcible occupation, and threatened to carry the fighting to other parts of north China but for the conclusion of the so-called Tangku Truce on May 31, 1933, according to which "demilitarized zones" were established in East Hopei. Before the end of 1935 the demilitarized zones were, under further pressure from the Japanese military, transformed into the "East Hopei Autonomous Government," while the provinces of Hopei and Chahar were virtually made independent of the National Government. At present, smuggling in north China is assuming an alarming proportion, and will before long paralyze the Chinese Customs Service completely if no understanding be reached with the Japanese authorities. Under such constant threat of increasing Japanese aggression which appears to have become more insatiable and unscrupulous as each act unfolds itself, economic control as an imminent measure of self-defense becomes a dire necessity to the Chinese.

III. PRESENT STATUS OF ECONOMIC CONTROL

The main fields of economic activity in which state control is exercised are: transport, trade, finance, agriculture, and industry. The first three branches relate to distribution

[12] *Nankai Weekly Statistical Service*, May 9, 1932.

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or circulation of goods, and the last two to production. For our purpose we may describe the various types of state economic control in the order here named.

A. Transport Control. The principal means of transport in present-day China are of two types, primitive and modern. Wheel-barrows, wooden boats, mule-carts, sedan chairs and covered wagons represent the chief means of primitive transport, resorting in each case to human or animal labor as the motive power. On these, evidently little control can be or has been exercised, aside from outright commandeering during internecine warfares. The modern means of transport, including rail, road, air and water transport, are more easily subject to state economic control. In this type of transport the fundamental control to be exercised is that of co-ordination. Transport coordination, or harmony and concordance between the various common carriers so as to form an integrated system of transport, has in this country been hampered by (1) competition between road and rail transport, (2) competition between road and water transport, or (3) competition between rail and water transport. That the Lanch'i-Chuhsien road and Chuhsien-Kiangshan road have been built parallel to the Kinyu section of the Hangchow-Yushan section of the Chekiang-Kiangsi Railway illustrates the first type of competition, that the Hangchow-Fuyang road and Lanch'i-Chuhsien road are parallel to the Chientang River illustrates the second, and that the Shanghai-Nanking Railway is parallel to the Yangtze River illustrates the third. Indeed, in some sections of the country all three kinds of transport are found in parallel existence with one another, e. g., (1) the Shanghai-Hangchow road, the Shanghai-Hangchow-Ningpo Railway and the Grand Canal in Chekiang province; and (2) the Nanking-Shanghai road, the Shanghai-Nanking Railway and the Yangtze River in Kiangsu province.[13] Of these three types of competition, that between rail and road is particularly significant. A recent investigation for 13 national and 2

[13] Tung, C. H.: "The Need of Coordination in China's Transport," *Monthly Bulletin on Economic China*, October, 1934.

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private railways shows that except along the privately owned Nanchang-Kiukiang Railway parallel competition from the road exists to a smaller or larger extent, although the competition offered by the road is still too weak to give rise to considerable financial difficulties to the railways.[14]

Little attempt at transport coordination has been made by the government beyond the laying down of some principles by the National Highway Planning Commission created under an order from the Ministry of Railways in 1929. These principles require that highways should act as feeders to railway lines and that projected railway lines, if not likely to be built in the near future, should be first built as national highways. This lack of coordination in transport is due largely to the absence of unified central administration and control over the three types of common carriers. At present the central administration over transport is divided among the Ministry of Railways, the Ministry of Communications, and the National Economic Council. In order to remove this division of authority it is now suggested in certain government circles that a new Ministry of Transport be created to undertake central administration over the three means of modern transport, but hope for its realization seems rather remote.[15]

In railway transport, control is exercised in the completion of trunk lines as well as in the construction of new lines. The Lunghai Railway, originally known as the Hailan Railway because it was designed to connect Haichow, the seaport in Kiangsu province and Lanchow, the capital of "Lung" or Kansu province, is, like the Peiping-Suiyuan Railway in the north, a trunk line running from the east to the west in central China. It was planned to traverse over the four provinces of Kiangsu, Honan, Shensi, and Kansu, but until the Manchurian incident of September 18, 1931 it did not go beyond Tungkwan on the extreme western boundary of Honan province. The loss of Manchuria impressed the

[14] *Communications Magazine* (in Chinese), February, 1936, pp. 37-40.

[15] C. M. Chang: "The Problem of Coordination in Central Government Organization," *QJEPS* (in Chinese), April, 1936.

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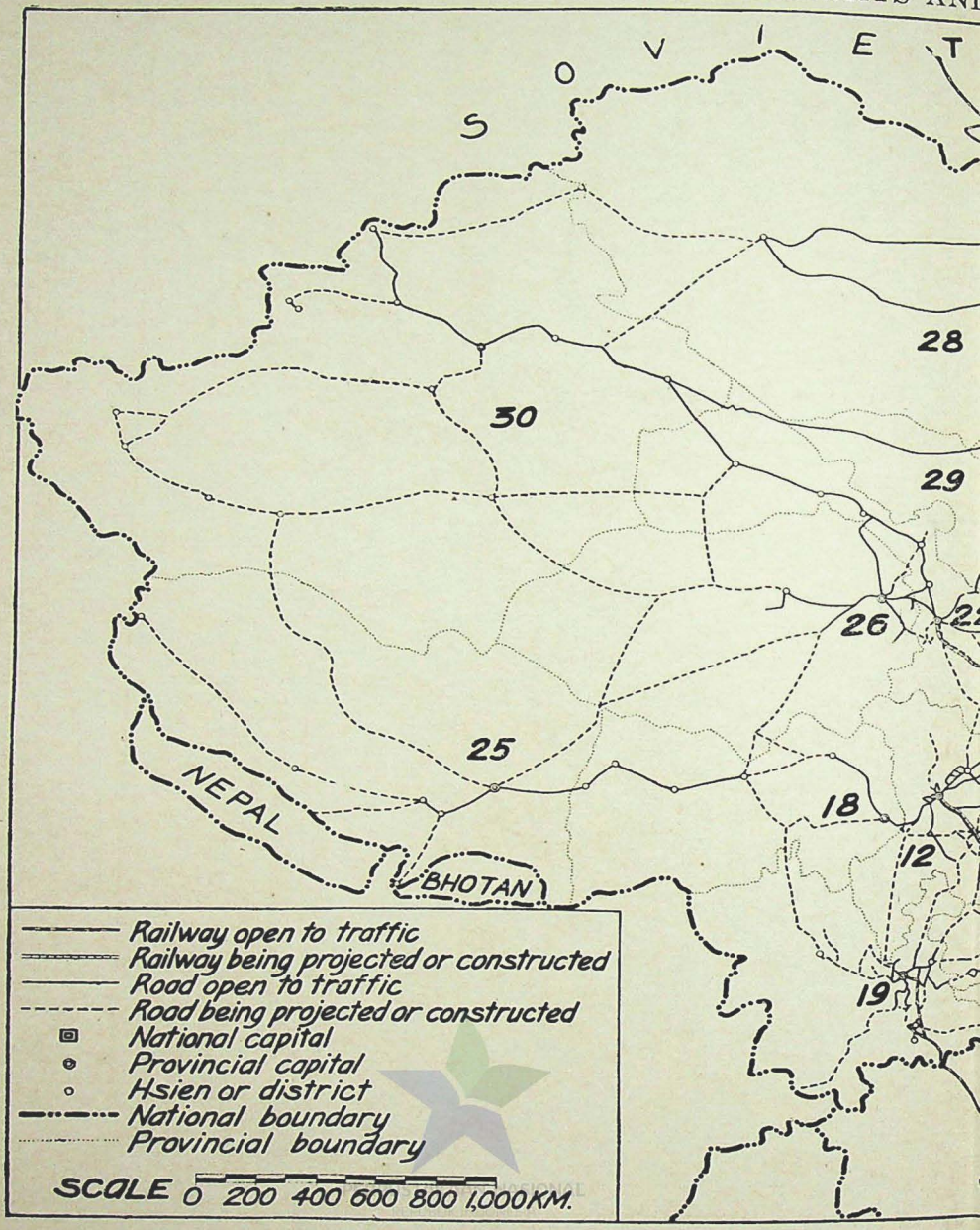
S O V I E T
28
30
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25
NEPAL
BHOTAN
18
12
19
Railway open to traffic
Railway being projected or constructed
Road open to traffic
Road being projected or constructed
National capital
Provincial capital
Hsien or district
National boundary
Provincial boundary
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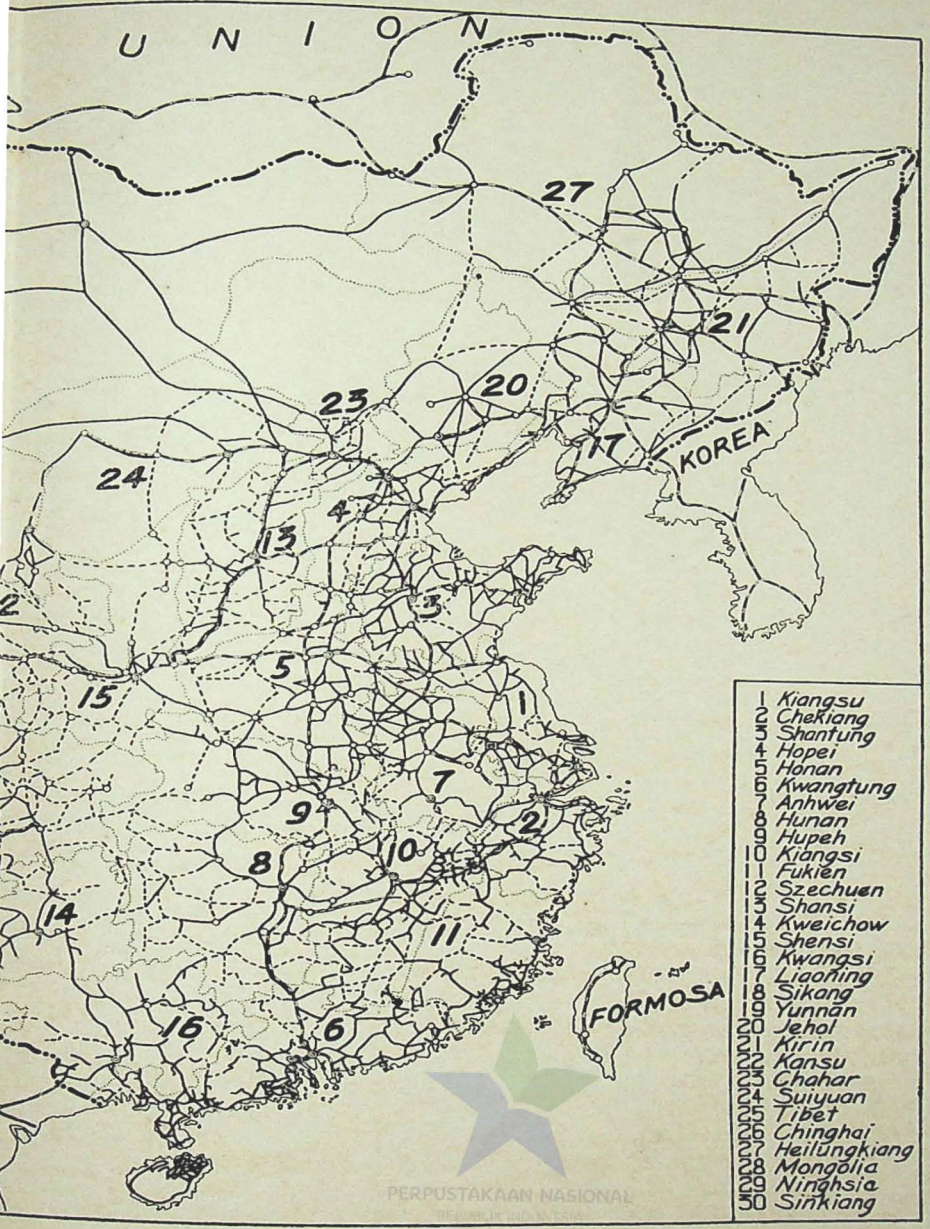
D ROADS IN CHINA, 1936



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National Government of the importance of developing Sian, China's historical capital in Shensi province, by connecting it with Tungkwan, the western terminus of the Lunghai Railway. By 1934 the Tungkwan-Sian section was opened to traffic, and work for extending it to Paochi on the western border of the province will soon be completed. Plans are now under way for the further extension of the railway to Lanchow, the original goal.

A second trunk line, running from north to south, is the Canton-Hankow Railway. This railway is of first-rate importance because with its completion direct transportation from Canton in the extreme south and Peiping in the north can be made possible by means of through traffic arrangement with the Peiping-Hankow Railway. The Hankow-Chuchow section and the Canton-Shaochow section had long been opened to traffic when steps to construct the Chuchow-Shaochow section, the missing link, were taken in 1929. By the time when this paper goes to print, the whole line will have been open to traffic, thus bringing to completion a trunk line traversing the three provinces of Hupeh, Hunan and Kwangtung.

Besides the completion of the two trunk lines, new lines and branches are being laid for military and economic considerations, in provinces including Kiangsu, Chekiang, Anhwei, Kiangsi, Shansi and Yunnan. But lack of coordinated control and difficulty of finance have unfortunately resulted in a lack of uniformity in construction. The authorities in Shansi province have persisted in adopting for the Tatung-Puchow Railway, which has been largely completed, the same narrow gauge as is found on the Chengting-Taiyuan Railway. The Chekiang-Kiangsi Railway, of which the section between Hangchow, the provincial capital of Chekiang, and Nanchang, the provincial capital of Kiangsi, has been opened to traffic, is a light railway.[16] When the whole line is completed through the construction of the Nanchang-

[16] The rail for the Hangchow-Yushan section is 35 lbs., while that for the Yushan-Nanchang section is 65 lbs. Eleswhere in China the rail is usually 80 lbs.

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Pinghsiang section, through traffic with the Shanghai-Hangchow-Ningpo Railway on the eastern terminus and with the Chuchow-Pinghsiang section of the Canton-Hankow Railway on the western terminus will be difficult if not impossible, for here transfer of passenger or freight traffic from one type of cars to the other will be necessary in order to avoid the danger of having to run heavy loads on light rails.

Among other lines recently built are the Hwainan (i.e. south of the Hwai) Railway between Hwai and Yangtze Rivers in Anhwei province and the Nanking-Wuhu and Hsuancheng-Wuhu sections of the Kiangnan (i. e. south of the Yangtze) Railway, and plans are under way to extend the railway as far as Chuhsien in Chekiang province so that through traffic with the Canton-Hankow Railway *via* the Chekiang-Kiangsi Railway may be effected. The Soochow-Chiahsin Railway, connecting Soochow on the Shanghai-Nanking Railway with Chiahsin on the Shanghai-Hangchow-Ningpo Railway, will, when completed, shorten the rail transport between Nanking and Hangchow by over one-half of the original distance. Through traffic between Tientsin-Pukow and Shanghai-Nanking Railways was rendered possible through the installation of a ferry service connecting Nanking with Pukow; similarly, the construction of a bridge across the Chientang River between Hangchow and Kiangpi will facilitate through traffic between Shanghai-Hangchow-Ningpo and Chekiang-Kiangsi Railways. Other developments include the completion of the Yutse-Taiku branch of the Chengting-Taiyuan Railway in Shansi and Pisêcha-Shihping branch of the Yunnan-Annam Railway.

The completion of trunk lines and the construction of new lines and branches, most of which took place since the establishment of the National Government in 1927, are inspired largely by Dr. Sun Yat-sen's proposal referred to above, the *International Development of China.* This work published in Chinese a year earlier (1919) as the second part of the *Fundamentals of National Reconstruction,* contains in two of the six programs a proposal to build 100,000 miles of

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railways in northwestern, southwestern, northeastern, southeastern, central and highland China. In 1928, Dr. Sun Fo placed a definite estimate of $10,000,000,000 for the construction of the 100,000 miles of railways proposed by his father, of which 20,000 miles costing $2,000,000,000 are to be built during the first ten years. For the first six years Sun Fo proposed to have the following groups of railways built:

Group I. 1. Completion of Canton-Hankow Line.
2. Completion of Lung-Hai Line.
3. Tsangchow-Shihchiachuang Line.

II. 1. Nanking-Changsha Line.
2. Nanking-Canton Line.
3. Shaochow-Nanchang Line.
4. Foochow-Nanchang Line.
5. Canton-Yunnan Line with a branch to Kweiyang.
6. Changsha-Yunnan Line.
(In this group 3 and 4 are alternative lines to 2, and 5 is alternative to 6.)

III. 1. Paotow-Ninghsia Line.
2. Chengtu-Chungking Line.
3. Taokow-Tsinan Line.
4. Tatung-Puchow Line.

IV. 1. Paoching-Chinchow Line (This line and II. 6 together constitute an alternative line to II. 5)

Many of the lines proposed for the first six years have now come into partial or complete realization, including I.1, I.2, II.2, II.3, and III.4. Engineering offices were established for I.3 and III.1, but were later abolished for certain reasons. In 1931 the National People's Convention proposed, as a part of the Six-Year Plan, the construction of railways many of which were already included in Sun Fo's plan, as follows:

(a) The Chuchow-Shaochow section of the Canton-Hankow Line to be completed by the end of 1933;
(b) The Tungkwan-Sian section of the Lunghai Railway to be completed by the end of 1932, the Sian-Lanchow section by the end of 1936, and the Grand Canal Station-Taierchuang section by June, 1932;
(c) The Paotow-Ninghsia section of the new Lungsui Railway to be completed by June, 1934;
(d) The Nanking-Chuchow section of the Nanking-Hunan Line by the end of 1934; and
(e) The Tsangchow-Shihchiachuang Line by June 1932.

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Besides the various plans on railway construction directly or indirectly originated by Dr. Sun Yat-sen, other developments have taken place to hasten the completion of trunk lines and construction of new lines and branches. Of these the first is the creation of a Ministry of Railways, with Sun Fo as the first Minister, in 1928. The resolutions passed at the Second Plenary Conference of the Third Central Executive Committee of the Kuomintang Representatives in 1929 provided that two-thirds of the Boxer Indemnity Fund should be devoted to railway construction and that henceforth the Ministry of Railways should be responsible for arrangements concerning projects and initial outlays of all railways in the country, although the provinces were allowed to obtain the sanction of the Ministry to construct, under the supervision of the Ministry, such railways in their respective localities as considered economically advantageous. In the same year the Ministry instructed, for the purpose of devising measures for railway construction, the Reconstruction Bureau of the various provinces to appoint their representatives to participate in the National Railway Planning Commission. In 1931 the National Freight Conference and the National Transportation Conference were convened by the Ministry, while in 1932 another conference was convened to discuss freight services along all national railways under a state of emergency. In the latter year, a Railway Law was promulgated by the Government. Finally, on the First of March, 1936, a New Railway Construction Commission was set up to take charge of new projects of construction in the future.[17]

Despite the recent hopeful developments in railway construction, much however remains to be done before railways are sufficient to meet the needs of the Chinese people. China, according to the latest official statistics for December 31, 1934, has a total railway kilometrage of 13,566, of which 3,542 kilometres or 26.2% are located in the four

[17] For a chronological survey of railway developments in recent years see an article by Tseng Chung-min, in *Chinese Yearbook, 1935-36*, p. 610 *et seq.*

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lost provinces of Liaoning, Heilungkiang, Kirin and Jehol in the Northeast. If we were to include the three foreign concession lines, namely: the Chinese Eastern Railway (2,266 km.), the South Manchuria Railway (1,125 km.), and the Yunnan-Annam Railway (464 km.), the total length of railways in China would have been raised to 17,421 kilometres. On the basis of a total population of 447,000,000, China including the four lost provinces has a railway kilometrage of 39 per million population, but one of 25 without these four provinces.[18] This figure, as shown in table II, compares very poorly with those for the leading nations of the world today.

Table II. Railway Kilometrage in Principal Nations of the World*

Country	Population		Railway Kilometres		Kilometres per Million Population
G. B.	43,200,000	(1921)	32,589	(1933)	754
U. S. A.	122,800,000	(1930)	395,402	(„)	3,200
France	41,800,000	(1931)	41,963	(„)	1,004
Germany	66,000,000	(1933)	58,330	(„)	884
Russia	163,200,000	(1932)	83,400	(1932)	511
Brit. India	263,400,000	(1931)	69,123	(1933–34)	262
Japan Proper	64,500,000	(1930)	22,509	(1932–33)	349
China	447,000,000	(1935)	17,411	(1934)	39

* *Statesman Yearbook, 1935.*

The problem of railway control in China is, on the one hand, the construction of new trunk lines, especially in the northwestern and southwestern regions now still untouched by railways, and on the other, closer administration and operation of the existing lines. The former, requiring considerable capital outlay, will have to be realized gradually, but the latter, being more a matter of internal reorganization because Chinese railways are now almost completely under

[18] For length of the three concession lines see *China Yearbook*, 1933, p. 308 *et seq.* The population estimate is given in an authorizative article by Chen Chang-heng, *Statistical Quarterly* (in Chinese), September, 1935. The four lost provinces have a total population of 29 million and a railway kilometrage of 6,804 including the C. E. R. and the S. M. R.

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state ownership and operation, must be brought about without further delay. Under present arrangements each of the 18 lines is operated as an independent administrative and financial unit, with little co-operation with the other lines except in respect to accounting procedures, through traffic undertakings, and other matters of minor importance. This state of affair, as shown in table III, is especially undesirable for the five trunk lines, two running east and west, and three running north and south. In December, 1934 when the statistics contained in the table were issued, Hupeh-Hunan, Canton-Hankow Southern Section, and Canton-Kowloon were three independent lines, although now they have been reduced to sections of the Canton-Hankow Railway. But no changes have been effected for the other eight lines, which together with the Canton-Hankow Railway really constitute five trunk lines.[19]

Road building, unlike railroad building which began way back in 1876, with the construction of the Woosung Railway, is a more recent growth, and has therefore a more planned and better controlled development. The construction of roads was first begun during the great north China drought famine of 1920 as a measure of relief by the American Red Cross Society, although the constant urging on the Peiping authorities by Lo Kou-shui, the original exponent of highway development since his service as secretary and adviser to the Peiping Ministry of Communications in 1913, had resulted in the promulgation during 1919 by a Presidential mandate of certain regulations for the construction of roads under five categories, namely, international, national, provincial, district, and village. The stimulus given by the American Red Cross Society, caught on the crest of a wave by a group of individuals at Shanghai headed by

[19] Mr. Hung Sui-tao, in an excellent article on "Railway Reorganization and Control", *Communications Magazine*, April, 1933 (in Chinese), pp. 47-58, has ably analyzed the abuses of the system of independent administration and operation for each line, such as unequal development, discrepancy in financial burden, poor service, and absence of a uniform freight rate. He suggests, as an alternative, the adoption of economic region as the basic unit for railway administration and operation.

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Table III. Kilometrage of Chinese Railways in Operation, December 31, 1934*

	Main Lines	%	Main and Branch Lines	%
Trunk lines	*6,118*	*65.8*	*8,504*	*62.7*
1. East-west	2,750	29.6	3,847	28.4
a. Peiping-Mukden	429	4.6	908	6.7
Peiping-Suiyuan	818	8.8	1,124	8.3
b. Lunghai	894	9.6	1,053	7.8
c. Shanghai-Hangchow-Ningpo	274	2.9	365	2.7
Chekiang-Kiangsi	335	3.6	397	2.9
2. North-south	3,368	36.2	4,657	34.4
a. Tientsin-Pukow	1,009	10.9	1,360	10.0
Nanking-Shanghai	311	3.3	433	3.2
b. Peiping-Hankow	1,214	13.1	1,740	12.9
Hupeh-Hunan	417	4.5	575	4.2
Canton-Hankow southern section.	274	2.9	385	2.8
Canton-Kowloon	143	1.5	164	1.2
Minor lines	*1,075*	*11.4*	*1,520*	*11.1*
1. East-west	828	8.8	1,232	9.0
a. Chengting-Taiyuan	242	2.6	346	2.6
b. Taokow-Chinghua	163	1.8	199	1.5
c. Kiaochow-Tsinan	395	4.2	659	4.9
d. Changchow-Amoy	28	0.2	28	0.1
2. North-south	247	2.7	288	2.1
a. Nanchang-Kiukiang	128	1.4	148	1.1
b. Chaochow-Swatow	39	0.4	49	0.4
c. Kiangnan	80	0.9	91	0.7
Total for China	*7,193*	*77.2*	*10,024*	*73.9*
Peiping-Mukden	419	4.5	1,126	8.3
Kirin-Changchun	123	1.3	173	1.3
Ssu-Tao	312	3.4	508	3.7
Taonan-Angangki	224	2.4	259	1.9
Hulan-Hailun	217	2.3	303	2.2
Shengyang-Hailun	257	2.8	415	3.1
Kirin-Hailun	183	2.0	208	1.5
Kirin-Tunghwa	210	2.2	267	2.0
Tsitsihar-Keshan	175	1.9	283	2.1
Total for lost provinces	*2,120*	*22.8*	*3,542*	*26.1*
Grand total	*9,315*	*100.0*	*13,566*	*100.0*

* *Railway Statistics for the Month of January, 1935* compiled by Division of Statistics, Department of General Affairs, Ministry of Railways, Nanking, p. 49. The kilometrage for Changchow-Amoy railway is taken from *China Yearbook, 1935*, p. 302.

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Dr. C. T. Wang (Minister of Foreign Affairs, 1928-30), resulted in the formation of the National Good Roads Association of China in May, 1921, popularly known as the "Good Roads Movement". This organization has played a considerable part in educational propaganda for better roads, by encouraging the people throughout China to tear down the ancient city walls and build roads as well as stimulating private interests to form motor bus transportation companies. Meantime, the China International Famine Relief Commission, organized in 1921, was emulating the notable precedent set by the American Red Cross Society in doing considerable practical work of road building as a preventive measure for famines. During the early years of the Kuomintang régime the National Reconstruction Commission urged upon the provinces the desirability of creating provincial highway bureaux for the immediate construction of highway systems. Various *hsien* or district road bureaux throughout the provinces held conferences throughout 1928, as a result of which many new bureaux were created; but later on these *hsien* highway bureaux were reorganized and amalgamated with the provincial bureaux of reconstruction. In January 1929 steps towards the coordination of the provincial and district highways into a national system were taken when the Ministry of Railways issued a ministerial order for the organization of a National Highway Planning Commission. Upon the invitation of the Commission each respective province was requested to send a delegate from the Provincial Bureau of Reconstruction to a Highway Conference which was convened in Nanking on February 20, 1929. In addition to the delegates from 19 provinces, three representatives were appointed directly from the Ministry of Railways. This Commission, after three months' study, presented the plans for a national system of highways which were endorsed by the Minister and placed before the State Council and the Legislative Yuan for final approval and adoption. As a result thereof highway laws were promulgated in September, 1929, as the first step towards the realization of this national plan. The plan divided the national highways into two classes, namely, China Proper lines and frontier defense lines. The

latter were selected solely from the viewpoint of national defense, while the former, designed to connect the different provincial capitals with Nanking, were guided by the principles that (1) highways should traverse the most populous and most productive districts, pass through the most important commercial centers of the provinces, act as feeders to railway lines, and be the most economical both in the cost of construction and in maintenance; that (2) provincial highways either already in existence or definitely scheduled for construction should be linked together to become national highways if their importance warrants; and that (3) projected railway lines, if not likely to be built in the near future, should be first built as national highways. The plan calls for the supervision by the Ministry of Railways of the construction of 67,553 *li* or 38,911 kilometres of national highway over a period of twenty years at a total estimated cost of 364 million dollars, but the China Proper roads are to be built within the next ten years.

The above plan, which was contained in the highway laws of 1929, may be said to represent the efforts of Dr. Sun Fo, then Minister of Railways, to put into concrete form his father's rather vague proposal to have "one million miles of road built in a very short time as if by a magic wand".[20] The influence that it exerts on the highway development of China is beyond doubt a very great one. Beginning with 1,185 kilometres in 1921, the length of roads in China increased successively until there were in 1929, the year during which the above plan was incorporated into the highway laws, a total of 34,444 kilometres. After 1929 the highway development was greatly accelerated, for up to December, 1934 — the latest date for which data are available — it had reached a total kilometrage of 84,809, an increase of one and one half times in the short span of five years. In this development, new factors, such as need for rapid transport during communist suppression campaigns and labor relief to the

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20 *International Development of China*, p. 162. For an excellent account of highway development in China see A. Viola Smith: *Motor Roads in China*, U. S. Trade Promotion Series No. 120, U. S. Government Printing Office, Washington, 1931.

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refugees of the great Yangtze River valley and subsequent floods, are, in addition to the old factors already enumerated, at work. Magnitude of development is, of course, not identical with expansion of control. But scientific planning as exemplified in the 1929 highway laws is an important factor to be reckoned with in China's programme of road construction since 1929. And the fact that the National Economic Council has since May, 1932 organized a Road Office for the systematic construction of highways, at first in three, but now in ten provinces, represents another forward step towards highway control in China. This office, reorganized in December of the same year into a bureau, has adopted as its policy the cooperation with the provincial governments and with private interests in order to stimulate, control, and guide their activities by the grant of loans for roads, the construction of which was considered desirable. The selection between the various systems of highways lies in the hands of the National Government, and is dictated by considerations of general policy and the interests of national defense. Consequently, a plan was drawn up in 1932 for a system of highways, first for the three provinces of Kiangsu, Chekiang and Anhwei, and during the latter part of the year for these and the bordering provinces of Hupeh, Honan, Hunan and Kiangsi. The Roads Bureau prescribes the location, quality and kind of roads to be built, and in selected cases grants loans at low rates of interest to cover about 32% — in some cases more — of the building costs, placing at the disposal of the provincial authorities its advice and expert engineers.[21] The seven-province road project contemplated the construction of eleven trunk lines of a total length of 11,591 km. and 63 branch lines of a total length of 11,033 km., making a grand total of 22,624 km., of which 15,591 km. were open to traffic in December 1934. Since the beginning of 1934 the bureau has further extended its activities to include the building of over 1,139 km. of roads in Fukien province, of which 604 km. were completed in the early part of 1935. In the Northwest, owing to the poverty of the provinces, the National Economic

[21] League of Nations, *Report to the Council Committee of Technical Collaboration with China*, by Dr. Rajchman, Nanking, 1934, p. 30.

Council has undertaken the entire responsibility for the building of two main trunk roads — the Sian-Lanchow road with a length of 746 km. and the Sian-Hanchung road of about 420 km. long. The construction of these two highways will render the two Northwestern provinces of Kansu and Shensi accessible to the rest of China, and is the pre-requisite for the development of that great region so frequently subject to drought famine.[22] In short, the Roads Bureau had contributed, at the end of 1934, to the construction of a system of roads of more than 16,000 km., in the provinces of Kiangsu, Chekiang, Anhwei, Kiangsi, Hupeh, Hunan, Honan, Fukien, Kansu and Shensi. At present, it appears to be less concerned with the technical questions of road construction than with the development of road transport and research so as to discover the most economical fuel and the vehicles best adapted to local resources and requirements.[23]

The road development during the last decade and half has given China, by December 1934, 84,809 kilometres of roads open to traffic, while 14,972 kilometres were then under construction and 50,878 kilometres were being projected, thus bringing a total of 150,659 kilometres of roads for China as a whole. Not counting the roads in the four lost provinces of Liaoning, Heilungkiang, Kirin and Jehol, the total kilometrage of roads reaches 135,116, of which 73,922 kilometres are open to traffic. The roads, as shown in table IV are serving not only as feeders to the railways in 20 of the 30 provinces in China, but in the other 10 provinces where no railway has as yet been built, as the sole modern means of land transport. In the latter group of provinces which, being mostly in the frontier, are less densely populated and developed, the length of roads per 1,000 kilometres of area is much shorter than in the former group. Indeed, China, as compared with either U. S. A. or Great Britain, falls miserably behind in the construction of roads. Whereas in China each kilometre of road serves an area of 158 square kilometres, it

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22 *Chinese Yearbook, 1935-36*, pp. 300-302.

23 *Report of the Secretary of the Council Committee on His Mission in China* (January-May, 1935), by Robert Haas, Geneva, 1935, pp. 9-10.

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Table IV. Highways and Railways in China by Provinces, Dec. 31, 1934 (in kilometres)*

	Roads Open to Traffic	%	Per 1,000 Sq. Km. of Area	Railways in Operation	%
I. *Provinces with railways*					
A. *Lost provinces*	*10,887*	*12.8*		*6929*	*39.8*
1. Liaoning	3,191	3.7	12.7	2,132	
2. Kirin	2,852	3.4	10.1	602	+3,391**
3. Heilungkiang	2,514	3.0	4.4	723	
4. Jehol	2,330	2.7	13.4	81	
B. *Other provinces*	*54,268*	*64.0*		*10,489*	*60.2*
5. Kiangsu	3,769	4.4	35.7	1,047	6.0
6. Chekiang	3,121	3.7	31.0	637	3.7
7. Anhwei	4,208	5.0	29.5	431	2.5
8. Kiangsi	4,652	5.5	27.7	213	1.2
9. Hupeh	3,240	3.8	17.8	437	2.5
10. Hunan	2,076	2.4	9.6	341	1.9
11. Honan	3,064	3.6	17.8	1,651	9.5
12. Fukien	3,263	3.8	27.0	28	0.2
13. Yunnan	1,233	1.5	3.1	464	2.7
14. Kwangtung	11,244	13.3	50.3	598	3.4
15. Shantung	5,520	6.5	36.0	1,245	7.1
16. Hopei	1,793	2.1	12.8	2,213	12.7
17. Shansi	2,056	2.4	12.7	426	2.4
18. Shensi	1,509	1.8	7.7	13	0.1
19. Chahar	2,167	2.6	8.4	280	1.6
20. Suiyuan	1,353	1.6	4.4	465	2.7
II. *Provinces without railways*	*19,654*	*23.2*			
21. Szechuen	2,611	3.1	6.5		
22. Kweichow	1,185	1.4	6.7		
23. Kwangsi	3,828	4.5	17.4		
24. Ninghsia	2,839	3.3	9.4		
25. Kansu	1,353	1.6	3.6		
26. Ch'inghai	906	1.1	1.2		
27. Sinkiang	1,528	1.8	0.9		
28. Sikang	575	0.7	1.2		
29. Outer Mongolia	3,779	4.5	3.3		
30. Tibet	1,050	1.2	1.1		
Total	*84,809*	*100.0*		*17,418*	*100.0*

** Including 2,266 km. for the Chinese Eastern Railway and 1,125 km. for the South Manchuria Railway.

* *Highways in China*, Bureau of Roads, National Economic Council, Nanking, April, 1935; *Railway Statistics for the Month of January, 1935.*

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serves only 1.62 in U. S. A. and 0.18 in Great Britain. The problem of road control, besides stressing on its greater coordination in construction and operation under the Road Bureau of the National Economic Council, should therefore be primarily one of its greater extension, especially in the frontier provinces now still not served by railways.

Shipping control is complicated by the fact that under a series of treaties concluded since the Opium War of 1841-42 China has to share the right of inland navigation with 15 foreign powers including Great Britain, the United States, Belgium, Brazil, Denmark, France, Japan, Italy, Mexico, the Netherlands, Norway, Peru, Portugal, Spain, and Sweden, although eleven other states which have concluded treaties with China since the Revolution of 1911 have failed to obtain that right, namely, Chile, Switzerland, Bolivia, Persia, Germany, Russia, Austria, Finland, Greece, Poland, and Czechoslovakia. As a result, steam navigation under foreign flags accounts for seven-tenths of the total tonnage entered and cleared in Chinese ports in 1935. In foreign trade foreign steam tonnage claims two-thirds of the total, while in domestic trade it supplies over five-sixths.[24]

Table V. Total Tonnage Entered and Cleared at Chinese Ports, 1935

	Foreign Trade		Domestic Trade		Grand Total	
	Tons	%	Tons	%	Tons	%
British	18,541,804	38.54	41,570,837	43.36	60,112,641	41.75
Chinese	7,622,430	15.85	34,332,855	35.81	41,955,285	29.14
Japanese	9,197,376	19.12	12,721,724	13.27	21,919,100	15.22
Other	12,743,961	26.49	7,247,850	7.56	19,991,811	13.89
Total	48,105,571	100.00	95,873,266	100.00	143,978,837	100.00

According to table V above, the British and Japanese interests have the strongest hold on Chinese steam shipping, supplying respectively 41.75% and 15.22% of the total tonnage entered and cleared at Chinese ports during 1935. The Chinese

[24] The tonnage is mostly steam, there being only two or three percent of the total tonnage composed of sailing vessels. The Customs report shows that for 1930 only 3,905,179 of a total of 155,605,954 tons entered and cleared are of sailing vessels. No data have been published after that year.

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share reaches only 29.14%, thus leaving the remaining 13.89% to a dozen of other foreign nations, especially the United States, Norway, and Netherlands. The domination of foreign interests in Chinese shipping is the more significant since foreign shipping concerns in China are organized in fewer and larger units than Chinese concerns. British shipping in China is in the hands largely of two concerns, the China Navigation Company and the Indo-China Steam Navigation Company, which started their career respectively in 1873 and 1881. The China Navigation Company and its subsidiary, the Taikoo Chinese Navigation Company, has a fleet of about 60 steamers with a gross tonnage of 139,652, with its head office at Shanghai and branches at Hongkong, Canton, Swatow, Amoy, Ningpo, Tsingtao, Chefoo, Tientsin, Newchwang, Dalny, Harbin, Antung, Chinkiang, Nanking, Wuhu, Kiukiang, Hankow, Ichang, Shasi, Changsha, Chungking, Kobe, and Yokohama. Among the leading Japanese shipping companies doing business in Chinese river and coastal ports are the Nisshin Kisen Kaisha (Japan-China Steam Navigation Co.) and the Dairen Kisen Kaisha. The former, which took over the Yangtze River shipping of five companies in 1907, owned in 1934 twenty-four ships of about 52,700 gross tons, and ten tow boats of varying capacity, with a capital of 16,200,000 yen and an annual subsidy of 800,000 yen from the Japanese government. The latter, which took over certain shipping interests of the South Manchuria Company in 1913 and the South China routes of the same company in 1928, operates, in addition to its interests in China, many lines between Asia, Europe and America.

The Chinese shipping companies offer a pitiful comparison to those of foreign ownership, both in scale and in extent of operation. A recent compilation shows that of the 85 shipping companies in China only 7 have each a gross tonnage of above 10,000, while as many as 67 have respectively a gross tonnage between 1,000 and 5,000.[25] Among the

[25] *Chinese Yearbook, 1935-36*, pp. 651-653. The detailed distribution is as follows: 1,001-2,000 tons, 46; 2,001-3,000 tons, 7; 3,001-4,000 tons, 6; 4,001-5,000 tons, 8; 5,001-6,000 tons, 6; 6,001-7,000 tons, 3; 8,001-9,000 tons, 2; 9,001-10,000 tons, 1; above 10,000 tons, 7.

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13 leading companies operating respectively more than 6,000 gross tons are the following:

Table VI. Principal Chinese Shipping Companies in 1935

	Name of Company	When Estab'd	Capital	No. Ships	Gross Tonnage
1.	China Merchants' Steam Navigation Co.	1872	$11,748,251	28	50,750
2.	San Peh Steam Navigation Co.	1914	2,000,000	18	35,870
3.	Ching Kee Steam Navigation Co.	1920	2,500,000	25	33,250
4.	Chung Wei Steam Shipping Co.	1930	?	4	14,720
5.	Hoong An Steam Navigation Co.	1915	1,000,000	14	10,900
6.	North China Steam Navigation Co.	1917	300,000	6	10,700
7.	Chung Tai Steam Shipping Co.	1930	?	2	10,090
8.	Shaw Hsing Steam Shipping Co.	1909	1,500,000	8	9,950
9.	Ta Tung Shing Steam Shipping Co.	1923	500,000	6	8,610
10.	Ningpo Shaohsing Steam Shipping Co.	1908	1,500,000	3	8,170
11.	Ta Ta Steam Navigation Co.	1905	600,000	10	6,660
12.	Ming Sheng Steam Navigation Co.	1925	1,062,500	24	6,500
13.	An Tung Steam Navigation Co.	?	?	2	6,130

Among the Chinese shipping companies the China Merchants' Steam Navigation Co., organized in 1872 as a semi-government enterprise, is the oldest, but, in respect of magnitude of operation or of success of management, is by no means comparable with any of the leading foreign shipping concerns in China. The problem of shipping control in China lies, therefore, in the recovery of the right of inland and coastal navigation which in no independent nation of the world today is shared with foreign nationals, and in the elimination of suicidal competition among the Chinese shipowners through a drastic process of wholesale amalgamation.

Under the present conditions, shipping control has made some beginning, although not in directions that tend to conform with the above expectations. The attempts already made include through water-and-rail freight service, reor-

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ganization of the China Merchants' Steam Navigation Company, and centralization of control under the Marine and Navigation Bureaux of the Ministry of Communications.

In common with the movement for coordinated transport in England and the United States, China moved on to a program of coordinated water-and-rail transport in 1931. In that year at the 15th Through Traffic Conference, the China Merchants' Steam Navigation Company and the Ministry of Railways formulated 12 principles under which the future through water-and-rail freight service is to be conducted, at ports served by both of them whenever feasible. Based on these principles the China Merchants' Steam Navigation Company signed a number of agreements with the leading national railways of the country, including Lunghai, Kiaochow-Tsinan, Shanghai-Nanking, Shanghai-Hangchow-Ningpo, Peiping-Liaoning, and Nanchang-Kiukiang, as well as the privately owned Kiangnan Railway. The heaviest volume of through freight has come from the Lunghai Railway, which line has recently undertaken to build a new port at Lien Yun Kang near Haichow as its eastern terminus. The volume of through freight coming from the new port to Shanghai amounted to 140,000 tons in 1934, yielding the China Merchants' Steam Navigation Company a freight earning of $470,000. The volume with other railways has been less but is growing.

The reorganization of the China Merchants' Steam Navigation Company from a semi-government to a wholly government enterprise in 1932 is a forward step towards the control of Chinese shipping interests. The measures adopted after the nationalization of the company are related to the three aspects of (1) reorganization of administration, (2) improvement of physical facilities, and (3) readjustment of finance. An important improvement made in administrative reorganization is the introduction of the purser system as a substitute for the old compradore system on board many ships, thus eliminating the abuse of farming out the passenger accomodation except the saloon to the compradore who pays the company a lump sum of contract money and reimburses him-

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self by collecting from the passengers. In connection with the abolition of this system has come the elimination of the tipping system on board ships, under which the tea boys are not paid regular wages but have to depend on tips from passengers for their livelihood. Similarly, with the increase in salary scale the commission offered to branch managers as an incentive for soliciting more freight has been abolished, and under rigid inspection the smuggling of pidgin cargo by passengers and crews has been put to an end. In respect to the improvement of physical facilities a contract was concluded in August, 1933 between the Company and the Board of Trustees of the British Boxer Indemnity Funds for a loan to build four coasting steamers, at a cost of £339,230. These steamers, built in Great Britain by two dockyards, were completed and delivered at the end of 1934. Extensive repairs have been made to wharves and godowns in Swatow, Chinkiang, Wenchow, Changsha, Canton, Shanghai, Hankow, Nanking and Tientsin. These constructional and repair activities have called for an adjustment of the company's finance. Experts were engaged to work out a comprehensive plan for financial readjustment of the company's twenty-two million dollars' outstanding obligations, and results obtained are said to have been satisfactory. Taking the averages of the four preceding years as the basis, receipts from freight for 1933 increased by 29%, from godown by 33%, and total of all receipts by 31%.[26]

For years the administration of marine and navigation affairs in China was in the hands of the foreign-controlled Maritime Customs, and attempts after the fall of the Manchu régime to recover this right did not succeed until the establishment of the National Government after 1927. To facilitate the administration of marine and navigation affairs, and in accordance with the laws for the Organization of Marine and Navigation Bureaux, promulgated by the National Government in December, 1930, the Ministry of Communications established a Marine and Navigation Bureau at Shanghai

[26] On shipping control see the article by Monlin Ho and Felton Chow, in *Chinese Yearbook, 1935-36*, pp. 642-65.

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to supervise marine and navigation affairs in Kiangsu, Chekiang, and Anhwei provinces; a second one at Hankow for Hupeh, Hunan, Szechuan and Kiangsi provinces; a third one at Tientsin for Hopei, Shantung and Liaoning provinces; and a fourth one at Harbin for the Sunghua and Heilung Rivers, which however ceased to operate since the alienation of Manchuria in 1931. At first the bureau of Shanghai, Hankow and Tientsin had under them 31 sub-offices divided into first, second and third classes and under these there were 70 registration offices, but in 1932 the sub-offices were abolished and the registration offices were reduced to 50 in number for the sake of economy. During the same year further steps were taken to reduce possible conflicts with local authorities through the substitution of registration offices by marine stations at important ports along the principal rivers and the coast. Thus the bureau at Shanghai has under it five stations, that at Hankow four stations, and that at Tientsin four stations. As the bureau at Canton was not organized for certain special reasons, the Amoy and Foochow stations were established to supervise the shipping and navigation affairs of Fukien province. Meantime, to facilitate the administration, and to meet the requirement by the Code of Maritime Law and Law for the Registry of Ships, 46 ports of registry were named in August, 1933, of which those having no bureau or station were to be supervised by the nearest bureau or station. After these measures of reorganization of the marine and navigation administration, better cooperation between the government and the shipping interests was promoted. Members of the administration became conscious of the true meaning and real purpose of their work, while merchants became more amenable to the laws. On March 2, 1934 a Shipping Conference was called by the Ministry in order to devise ways and means for promoting the shipping industry, to which commissioners of all the marine and navigation bureaux, chiefs of marine and navigation stations, representatives of the shipping trade associations and shipping companies, and a number of technical experts were invited to attend and

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participate in the discussions. Among the resolutions passed the more important included: (1) that shipping organizations all over the country should advocate and organize cooperative activities along all lines; and (2) that a meeting should be called by the Shanghai Shippers' Association and the China Merchants' Steam Navigation Company, with a supervisor from the Ministry, to select a certain number of experts to organize a Shipping Cooperative Planning Committee, and that a scheme for cooperation should be completed and reported within six months. The committee was formed in April, and the plan for cooperation, after having been mapped out by the experts, was submitted to the Ministry of Communications in September. After being amended according to instructions from the Ministry, it was finally adopted in November. It consisted of 34 items, the most important of which called for the establishment of the Chinese Shipping Cooperative Society to handle shipping cooperative affairs. An office was formed to make preparations for the organization of the society, and regulations consisting of 30 articles were drafted and approved by the Ministry.[27]

B. Foreign Trade Control. — The need for foreign trade control lies in the simple fact that during the whole period from 1864, when customs data were first recorded, to 1935, a period of 72 years, only for six years (1864, 1872-76) was the balance of trade favorable to China. As a result, China sustained during the whole period a total unfavorable balance of trade of 7,541 million Haikwan taels, or 2,564 million U. S. dollars on the basis of the 1931 rate of exchange. This trade balance is rendered the more unfavorable when the fact is made plain that China has also an import excess in treasure. China during 1888-1935 had a net export excess of 538 million dollars of gold, but an import excess of 1,003 million dollars of silver, thus giving a net import excess of 465 million dollars of treasure. This sum, together with an import excess

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[27] See article by Dr. Chu Chia-hua, Minister of Communications, in *China Press Weekly*, Shanghai, July 27, 1935.

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of commodities of 11,080 million dollars during the same period, gives an unfavorable balance of visible items of 11,545 million dollars.[28]

Without delving into a detailed discussion of China's international balance of payments, we may roughly state that much of her unfavorable balance of trade is offset by the heavy foreign investments in China, which, according to the comprehensive estimate by Professor Remer, amounts to 3,243 million U. S. dollars[29] — a sum 26% larger than China's total unfavorable balance of trade during 1864-1935 (2,564 million U. S. dollars). Such investments, if designed to promote her industrial development, are welcome to China; and many of our economists have tried to dispel the alarming outcries of the people against the uninterrupted excess of China's imports over exports simply because such excess is needed for China's industrial development. Dr. Sun Yat-sen has in fact worked out an elaborate scheme by which the immense amount of capital released from war undertakings after the Armistice, estimated to be $120,000,000 per day, can be utilized for the common benefit of China and the capital-supplying nations alike. For according to Dr. Sun, "the natural resources of China are great and their proper development would create an unlimited market for the whole world and would utilize the greater part, if not all of the billions of dollars worth of war industries soon to be turned into peace industries."[30] But an analysis of the history of foreign investments in China proves a different story. In our introductory section enough has been said on foreign economic domination of China which, we may add here, is exercised chiefly through the means of foreign investment. Foreign railways in China, such as the Chinese Eastern Railway or the South Manchuria Railway, become at once instruments for politico-economic exploitation; while foreign shipping

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[28] Ku, Y. T.: "Foreign Trade Control and China," *QJEPS*, April, 1936, p. 592.

[29] *Foreign Investments in China*, 1932, p. 70. For China's balance of payments see Ho, Ping-Yin: *The Foreign Trade of China*, 1935, p. 19 *et seq.*; League of Nations, *Balance of Payments, 1934*, Geneva, 1935, p. 70 *et seq.*

[30] *International Development of China*, p. ii.

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penetrates, for similar purpose, into the very heart of China — the Yangtze River Valley. Foreign mines and factories in China, with superior technique, organization and finance, are incontestable rivals to her nascent industries; while foreign banks, insurance agencies, import and and export firms are performing functions which in other countries belong as a rule to their own people. In other words, foreign investments have helped to modernize China in the same manner as British investments have, for example, helped to modernize India, with the main difference that whereas in India foreign investments have come mainly from Great Britain in the interests of the Empire, in China they have come from a dozen foreign nations in the interests of the respective foreign nations, notably Japan, Great Britain, Russia, the United States, France and Germany.[31]

The situation becomes more serious if we pause to analyze the contents of China's foreign trade. China's import excess, which before 1930 seldom exceeded 300 million Haikwan taels, mounted rapidly to 415 million in that year and 525 million in 1931, reached the peak of 657 million in 1932, and began to decline to 471, 371, and 220 million in the following three years 1933-35, is composed, not of capital goods indispensable to a country's industrialization, but of raw materials and manufactured goods for consumption needs, as well as of smuggled goods such as opium. Beginning with 1868 and taking every subsequent tenth year 1878, 1888, 1908, 1918, 1928 and 1933 as examples, we may note that among the eight principal articles of import only three articles, namely, iron and steel, machinery, and railway materials, can be considered as capital goods. These three articles, however, do not appear invariably in all of the eight chosen years, and whenever they actually appear, their place is, except in 1933, not higher than the fifth, and in other cases, lower than the seventh and the eighth. The first five places are occupied by consumption articles including textiles such as raw cotton, cotton yarn, and cotton goods; food (cereals, sugar, fish and fishery products) and tobacco; and liquid and solid fuel (table VII).[32]

31 Cf. *San Min Chu I*, p. 39.
32 Ho, *op. cit.*, pp. 34-35.

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Table VII. Principal Imports in Order of Importance

(in 1,000,000 H.k. Tls.)

	1st		2nd		3rd		4th	
1868	Cotton goods	18.48	Woolen fabrics	5.77	Cotton	3.85	Cotton yarn	1.59
1878	„ „	13.50	„ „	4.87	Cotton yarn	2.52	Fish & fishery Products	2.05
1888	„ „	30.94	Cotton yarn	13.49	Cereals	9.63	Woolen fabrics	5.09
1898	Cotton yarn	39.29	Cotton goods	38.32	Liquid fuel	11.91	Cereals	10.44
1908	Cotton goods	64.72	Cotton yarn	46.17	„ „	27.41	„	26.57
1918	„ „	95.80	Sugar	60.02	Cotton yarn	55.57	Tobacco	30.39
1928	„ „	170.34	„	98.69	Liquid fuel	78.58	Cereals	68.73
1933	Cereals	195.20	Liquid fuel	82.66	Cotton	63.12	Cotton goods	41.45

	5th		6th		7th		8th	
1868	Solid fuel	1.36	Fish & fishery products	0.84	Iron & steel	0.70	Sugar	0.51
1878	„ „	1.14	Iron & steel	0.99	Cotton	0.97	Timber	0.91
1888	Fish & fishery products	3.78	„	2.30	Liquid fuel	2.21	Solid fuel	1.65
1898	Sugar	9.01	Solid fuel	5.35	Fish & fishery products	4.67	Iron & steel	4.30
1908	„	19.61	Railway materials	13.55	„	9.46	Solid fuel	8.70
1918	Liquid fuel	29.66	Cereals	23.01	Iron & steel	18.41	Fish & fishery products	15.16
1928	Cotton	68.51	Tobacco	60.56	Woolen fabrics	36.51	Iron & steel	35.19
1933	Iron & steel	39.35	Paper	28.15	Machinery	27.36	Sugar	26.89

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Foreign trade control in China is probably the most difficult, for under the unequal treaties concluded with the foreign powers since the Opium War of 1841-42 she was unable to exercise the minimum control of an independent nation until the restoration of tariff autonomy in 1929. Since then the Import Tariff of China has been revised three times, in January 1931, May 1933 and July 1934. From 1842 to the autonomous tariff of February 1929, China under the unequal treaties could only impose a uniform tariff of 5 per cent on all imports — a rate sometimes equivalent to only 2½% because of price rise. In the new tariff of 1929 she was able to enforce a tariff schedule ranging from 7.5% to 27.5% which was however substantially the same as the graduated interim schedule provisionally agreed upon by the foreign delegates to the Special Tariff Conference of 1925-26. In the 1931 revision nearly 10% of all imports showed decreases in rates, 43% remained unchanged, 21% showed an increase of 2.5%, 9% one of 5% or 7.5%, and 17% one of 10% or more *ad valorem*. Further increases, particularly on cotton and manufactures thereof and sea products, were made in the 1933 revision, but on account of opposition from Japan which was particularly hit by the increase, the 1934 revision had to lower duties on these goods and a few classifications of paper, while imposing higher rates on raw cotton, metals, metalware, machinery, tools, metal manufactures, animal products, groceries, cereals, fruits, medicinal substances, seeds, spices, vegetables, chemicals and pharmaceutical group, dyes, pigments, paints, varnishes, mineral and vegetable oils, raw and manufactured timber, wood, bamboos, rattans, and straw group.

With the restoration of tariff autonomy and the increase in tariff rates, the problem of smuggling has assumed its expected magnitude. Consequently, the Customs Preventive Service was inaugurated in 1931, while on June 19, 1934 the Customs Preventive Law was promulgated and put into effect. But new political development, especially since the creation of the "delimitarized zones" after the Tangku Truce of May 31, 1933 and of the conversion of these zones into the "East Hopei Autonomous Government" in 1935,

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the smuggling situation has taken a new turn and assumed the nature of an armed inroad in open defiance of customs authorities. Thus reports a leading British paper in China:[33]

> "I saw no smuggling. I only saw 38 vessels of all sorts and sizes lying out in the bay and discharging cargo into dozens of sampans, and the beach as busy as the Bund here in Tientsin in the height of the season. You can't call that smuggling any more. That's Free Trade. It is not even a free port; it is a free coast nowadays."

The above situation is possible because in 1935, to quote from the customs *Report of Trade, 1935*,[34]

> "On land the smugglers took advantage of the fact that the restrictions placed upon Chinese armed forces in the "demilitarized zone" prohibited Customs officers functioning therein from carrying fire-arms, and they consequently carried on their activities under armed escorts who were for the most part Koreans. A situation thus arose where unarmed Customs officers attempted to enforce the laws on armed smugglers, and, although the former made every effort to exercise their authority, they were constantly exposed to the threat of violence and on many occasion became the victims of organized attacks in the course of which they suffered serious personal injuries, and from which they had no form of redress. The situation was aggravated in September by the virtual cessation of Customs preventive activities at sea opposite the stretch of coast between Lutai and Chinwangtao. This was brought about because of a demand that Customs armed vessels should cease to operate within three miles of the coast included in the "zone", and smuggling by sea from Dairen became uncontrollable in the districts concerned."

The effect of organized smuggling in North China stretches beyond ordinary imagination. It upsets completely the only instrument of import control at the disposal of the Chinese government, and from the viewpoint of revenue has a particularly striking effect in weakening the financial position of the Chinese government. According to the customs authorities in Shanghai, the loss of customs revenue from August 1, 1935 to April 30, 1936 totalled $25,506,946, of which the month of April alone accounted for $8,000,000 or almost one third. Calculating on the basis of the loss for April, the annual loss of revenue would have amounted to

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33 *North China Daily News*, May 2, 1936.

34 *The Trade of China, 1935*, Vol. I, p. 9.

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about one hundred million dollars,—a sum representing one—third of China's total customs revenue and one—ninth of China's total revenue.[35]

In addition to tariff policy, monetary devaluation since November 4, 1935 may be considered as another means of import control. On that date the Chinese silver dollar was definitely pegged to the pound sterling at the rate of about fourteen and one half penny to the dollar, as compared with that of 17.56 pennies for October, 18.33 for September, 18.86 for July, and 20.30 for May,—the highest rate for any month during 1935.[36]

In respect of exports, the control exercised takes the form of (1) inspection and testing of exports, (2) embargo, and (3) government encouragement through reduction or exemption of export duties. The Bureau for the Testing and Inspection of Commercial Commodities, subordinate to the Ministry of Industries, was established at Shanghai in March 1929; at Hankow in June, 1929; at Tsingtao and Tientsin in August, 1929; and at Canton in June, 1930. The commodities tested and inspected have gradually increased until they now reach over two dozens in number, including staple exports such as cotton, silk, wood oil, tea, beans, egg and egg products, bristles, furs and skins, intestines, fruits, etc. The value of commodities tested and inspected from July 1933 to June 1934 reached $138,000,000 for Shanghai, $146,000,000 for Hankow, $111,000,000 for Tsingtao, and $90,000,000 for Tientsin. Figures for Canton are not available.[37]

Embargo is usually sanctioned for necessaries, especially cereals, and silver, the country's currency standard, and is lifted when need for it has ceased to exist. Thus embargo on rice and other cereals was abolished on October 13, 1933 and that on wheat flour on January 17, 1934. Embargo on silver export was sanctioned on November 4, 1935, and still remains in force except for the three government banks

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35 *Ta Kung Pao*, a leading Chinese daily, May 16, 1936.
36 *Nankai Index Numbers, 1935.*
37 *Chinese Yearbook, 1935* (in Chinese), N544-61.

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in which the nation's silver stock is now concentrated as reserves for note issue.

Government encouragement of exports through reduction or exemption of export duty is frequent in recent years. The Export Tariff of June 1, 1931 fixed both specific and *ad valorem* duties at 7.5%, but a reduction in the rates was made in June 1934 revision in view of the general depression in the export trade. In a further revision promulgated on June 25, 1935, the rates for no less than 138 of the 270 items are either reduced or entirely abolished. Thus, the export duty on 88 categories of merchandise—including matches, cotton yarn, cotton piece-goods, alcohol, sea products, fruits, cigars and cigarettes—is abolished; while that on 50 other categories—including eggs, oils and animal bones—is reduced. These reductions and exemptions, it is estimated, will mean a loss of three million dollars revenue to the customs annually. Export duty on silk was abolished on May 18, 1932; and that on rice, paddy and wheat on February 1, 1933.[38]

C. Financial Control.—Financial control in China has made much headway since the establishment of the National Government, especially since 1929. Budgetary control, reorganization of the tax system, consolidation of the internal debts, and unification and control of currency, are the principal features of this control.[39]

Budgetary control has under the Nanking régime made a promising beginning. The large proportion that military expenditures claim in the national budget and the uncertain prospect of a united China even at the present moment would upset all attempts at budget-making. Nevertheless, hopeful beginnings towards this direction are not lacking in recent years. As a result of the proposal of T. V. Soong, Minister of Finance, to the Fifth Plenary Session of the Second Central Executive Committee of the Kuomintang which sat at Nan-

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[38] *Chinese Yearbook, 1935-36*, pp. 1261-70.

[39] Much of the data contained in this section are drawn from a comprehensive article on "Public finance" by P. T. Chen, *Chinese Yearbook, 1935-36*, pp. 1163-1376.

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king from August 7 to 16, 1928, a National Budget Committee was created by the Government on August 26, 1928. Because of military uncertainly this committee soon passed into a mere nominal existence and its functions were assumed by the Central Financial Reorganization Committee established on September 3 of the same year, which was in turn replaced by the National Finance Committee organized in April, 1929, — a committee intended to be the highest financial supervisory organ of the Government and still in inactive existence today. The Finance Minister's proposal that the military expenditure should be kept strictly within the annual limit of $192,000,000 recommended by the National Economic and Financial Conferences held in 1928 was adopted in principle by the National Military Reorganization and Troop Disbandment Conference convened in January, 1929; but was doomed to failure as soon as revolt against the National Government broke out first among the Kwangsi clique and then among the Kuominchun. In 1930 a forward step toward budget-making was taken when on February 26 the Government promulgated a set of regulations governing the Trial Budget for the 19th fiscal year ending June 30, 1931, which among other things prescribed the technique and procedure of budget-making and demarcated the national and local revenue and expenditure.

This first budget law of 1930 establishes a precedent which has until now been followed as an annual check on national economy, — that of making a draft budget for the nation every year. The organ created to prepare these budgets is the Directorate-General of Budgets, Accounts and Statistics, the relevant regulations for the organization of which were promulgated on November 25, 1930. This organ, which is under direct supervision of the National Government, is divided into three sections, namely, (1) annual accounts section, (2) accounting section, and (3) statistical section. It is the first section that is in charge of all investigations relating to the preparations for budget-making, compilation of estimates and budget and recording of appropriations as provided in the budget. The 1931 Budget Law, promulgated on November 2, made changes in respect to the budget-making

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clause in the 1930 Budget Law, on the basis of which draft budgets have since been prepared by the annual accounts section of the Directorate-General. The following is a comparison of the draft budgets, designated as "estimates", and the actual budget itself.

Table VIII. National Expenditure of the Chinese Government

	Estimate	Budget
1931-32	$893,335,073	$682,990,864
1932-33	788,346,637	671,924,755
1933-34	828,921,964	828,711,688
1934-35	918,111,034	
1935-36	957,154,006	

It is plain from the above comparison that with the lapse of time the estimated expenditure comes nearer the budget expenditure, and in that way the budget-making process is assuming greater semblance to reality.

The reorganization of the tax system is another significant feature in Chinese financial control. No better index of its significance can be found than in the increase of tax revenue during recent years. Table 9 shows that with the exception of 1932-33 — the year when the loss of the Manchurian provinces was producing effects on the national finance,—the tax revenue has witnessed a steady increase, in terms of million dollars, from 260.3 in 1928-29 to 461.7 in 1929-30, 535.0 in 1930-31, 615.2 in 1931-32, and 828.7 in 1933-34. During the six years from 1928-29 to 1933-34, the customs revenue increased, in terms of million dollars, from 179.1 to 352.4, the salt revenue from 29.5 to 177.4, and the revenue from consolidated taxes from 53.3 (during 1930-31 — the first year of their introduction) to 105.0. The combined revenue from these three kinds of taxes is contributing 72.4%, 88.3%, 83.8% and 76.6% to the total national revenue during the four fiscal years 1930-31, 1931-32, 1932-33, and 1933-34.

The reorganization of the tax system involves a reorganization of the customs and salt administrations, and the establishment of the internal revenue administration. The

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Table IX. Tax Revenue in the National Budget of China, 1928-1934†

(Amount in million dollars)

	1928-29		1929-30		1930-31		1931-32		1932-33		1933-34	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Total revenue	*434.4*	*100.0*	*539.0*	*100.0*	*714.5*	*100.0*	*683.0*	*100.0*	*671.9*	*100.0*	*828.7*	*100.0*
Customs duty	*260.3*	*59.9*	*461.7*	*85.7*	*535.0*	*74.9*	*615.2*	*90.1*	*586.1*	*87.2*	*659.7*	*79.6*
Salt revenue	179.1	41.2	275.5	51.1	313.0	43.8	369.7	54.1	325.5	48.4	352.4	42.5
Consolidated taxes	29.5	6.8	122.1	22.7	150.5	21.1	144.2	21.1	158.1	23.5	177.4	21.4
Rolled tobacco					53.3	7.5	88.7	13.0	79.6	11.8	105.0	12.7
Cotton yarn	27.7*	6.4*	36.6*	6.8*	46.0	6.4	62.1	9.1	53.7	8.0	70.9	8.6
Flour					2.3	0.3	17.1	2.5	15.4	2.3	18.0	2.2
Match	2.0	0.5	3.9	0.7	4.1	0.6	5.6	0.8	5.5	0.8	5.8	0.7
Cement					0.7	0.1	3.3	0.5	4.1	0.6	4.9	0.6
Cured tobacco					0.3	—	0.6	0.1	0.9	0.1	1.9	0.2
Other											3.6	0.4
Taxes	*22.0*	*5.1*	*23.6*	*4.4*	*18.2*	*2.5*	*12.6*	*1.8*	*22.9*	*3.4*	*24.9*	*3.0*
Tobacco and wine	3.5	0.8	6.8	1.3	8.6	1.2	7.6	1.1	9.5	1.4	13.1	1.6
Stamp	3.0	0.7	5.4	1.0	6.1	0.9	4.8	0.7	5.1	0.7	8.4	1.0
Mining	0.1	—	?		?		?		?		1.6	0.2
Bank note issue									3.1	0.5	1.5	0.2
Stock exchange											§	
Provincial	14.5	3.3	11.4	2.1	3.5	0.5	0.2	—	5.2	0.8	0.3	—
Parcel post	0.9	0.2	—	—	—	—	—	—	—	—	—	—

* Also including kerosene.

§ Only $25,200.

† *Reports* of the Ministry of Finance for respective years.

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restoration of their autonomy since 1929 and the consequent increase in tariff rates, which account for the rapid growth of customs revenue, have been touched upon in our section on trade control, but other aspects of the reorganization of the customs administration may also be mentioned. Of these the first is the abolition of the *Shui Wu Shu* (i.e. Tax Administration) which used to have nominal control of the customs administration under the Peking régime, and its substitution by the *Kuan Wu Shu* (i.e. Customs Administration), an integral part under the direct supervision of the Ministry of Finance. Following this, further steps restoring customs administration were taken in rapid succession. A ministerial order dated November 13, 1928, required that amortization funds appropriated from the customs revenue for the redemption of domestic loans are to be deposited with the Central Bank of China, not in foreign-owned banks as before. On February 28, 1929, the Ministry of Finance issued an order instructing the Inspector-General, which according to the Agreement of 1906 shall be always a British subject as long as British trade exceeds that of any other state, (1) that with the exception of cases of experts not available from the Chinese staff, the customs administration should not thereafter engage additional foreign staff members; (2) that both Chinese and foreign staff members might be retired with pensions at the discretion of the I. G.; (3) that thereafter Chinese staff members might be appointed to the office of commissioner of customs by the Ministry of Finance upon the recommendation of the I. G; and (4) that equal opportunities should be accorded to Chinese customs inspectors who might be promoted to offices above that of inspectorship. In April, 1929, a further order from the Ministry required that Chinese be thereafter used as the official language of the customs service. On March 1, 1932 all remitted revenues were to be concentrated in the Central Bank of China organized since 1928, thus putting to an end the 1911 demand of the foreign diplomatic corps which, on the pretext of safeguarding the foreign loans secured by customs revenue, required that all customs re-

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venue should be deposited with the Inspector General of Customs, who was to have charge of these funds for the service of foreign loans and who as a matter of fact withheld from the customs sufficient receipts to meet the principal and interest payments of foreign loans and remitted to the Chinese Government only whatever was left over, depositing all the time the customs revenues with foreign banks.

Other controls exercised in respect of the customs administration include the collection of import duties on a gold basis (customs gold unit equivalent to 40 cents of old U.S. gold dollar) on February 1, 1930; the abolition of coast trade duties, transit dues, all native customs duties levied at points more than 50 *li* from treaty ports, and those levied within the 50 *li* area on imports from abroad on January 1, 1931; abolition of all native customs duties levied within the 50 *li* area on June 1, 1931; abolition of the Haikwan Tael and collection of export and interport duties in terms of the standard silver dollar on March 10, 1933; conversion of specific tariff rates to the metric system on February 1, 1934; and enforcement of regulations governing merchandise marks on July 1, 1934.

The growth of salt revenue is due largely to a series of reforms including the recovery and rehabilitation of the salt administration, the readjustment of foreign loans secured by salt revenue, and the reform measures in administration and inspection. Under the Fourth Article of the 1913 Reorganization Loan Agreement between the Government and the "group" banks, which provides for the "reorganization with the assistance of foreigners of the system of collection of the salt revenues of China assigned as security for this loan", all the salt revenues in China were collected by the district inspectorates, each with a foreigner as associate head, these district inspectorates being under a chief inspectorate, also with a foreigner as associate head. In this way, the proceeds were placed under the custody of the chief inspectorate and controlled almost entirely by the foreign chief inspector; and must be deposited with the "group" banks, i.e. foreign banks. Even the engagement and

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dismissal of staff members and district inspectors must be decided by the chief inspectorate, although with the nominal approval of the Minister of Finance. The first attempt to recover China's lost right over salt administration was embodied in Minister Soong's statement on November 16, 1928, which reads to the effect that "while the Inspectorate Service will continue to collect all salt revenue, it will no longer be intrusted with the custody of any funds, except those provided by the Minister of Finance to meet the service of the loans". This statement immediately provoked a joint protest on November 19 by British, French and Japanese Governments, but to no effect; and in subsequent statements, in November 1928 and February 1929, Minister Soong repeated his policy of assuming full control of the salt administration under the Ministry which, says Soong, "is unable to recognize that any of its subordinate organizations can assume functions which, by their very nature, imply a receivership for China's finance."

With the restoration of China's right over salt administration, steps were immediately taken to rehabilitate the administration which during the years of civil war prior to the establishment of the Nanking régime has been almost completely disintegrated. By July, 1928, the National Government had actual control of the salt revenue of only three provinces, namely, Kiangsu, Chekiang and Anhwei; but between 1928 and 1929 the Ministry's authority was extended throughout the Yangtze Valley, into Hopei, Shantung, and the Southwest. In 1929, the salt auditorates in Kiangsi and Hupeh were restored, the Fukien inspectorate closed for two years was reopened, while the collectorate in Honan was taken over. In the middle of 1930 the Kwangtung inspectorate, closed for seven years, was reopened. In March, 1931, the Minister of Finance reported that all the inspectorate offices within the country had then been restored. During the last few years recurrent civil warfare in disrupting means of communication has for certain periods stopped both supply and transportation of salt in several important districts. Inroads of bandits and recalcitrant military leaders have also

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interfered with the salt administration in certain districts now and then. Otherwise, the inspectorate service has been fully restored and its functions not only normally maintained but greatly extended, so that many reforms in the assessment of the salt tax and in its administration have been rendered possible in recent years.

For the readjustment of the foreign loans secured by salt revenue quotas amounting to an annual total of ten million dollars were established for the 22 salt-producing districts on October 1, 1928. By September, 1929, one year after the enforcement of the new quota scheme, the position of the salt revenue had become so much improved that the Minister of Finance was in a position to make arrangements for the payment of arrears in foreign loan service since 1926, first of interest and then of principal. On April 1, 1930 the quota was increased by the Ministry by thirty percent for each district so as to meet the high cost of loan service caused by the depreciation of silver in relation to gold, while in 1931 a foreign loan surtax was imposed for similar purpose. Since then the results achieved have been satisfactory, and payment for the arrears of Anglo-French, Crisp, and Hukwang loans has been partly or completely brought about.

The administrative reforms include a series of measures designed to increase the efficiency of administration through concentration of authority, training up of a qualified personnel, prevention of smuggling, abolition of abuses and exactions, standardization of tax rates and weights used, and the promulgation of a new salt law for the provision of a uniform system of taxation and administration. All these have taken place since 1929, and have been largely responsible for the spectacular increase in salt revenue from 29.5 to 177.4 million dollars during the period from 1928-29 to 1933-34.

A third feature in the reorganization of the tax system, in addition to the restoration of tariff autonomy and the rehabilitation of the salt administration, is the establishment of the internal revenue administration under which all national taxes other than the customs duty and the salt gabelle are

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collected and administered. The Internal Revenue Administration, created in July, 1932, had its origin in the merging of the tax services into the consolidated taxes in 1928. Early in that year, all the organs in charge of various taxes and imports on cigars and cigarettes were consolidated into the Rolled Tobacco Consolidated Tax Bureaus under the control of the National Rolled Tobacco Consolidated Tax Department. In February, 1931, when the consolidated taxes on cotton yarn, cement and matches were instituted with a view to compensating the loss of national revenue consequent upon the abolition of likin on January 1 of the same year, no new tax organs were created as they were handled by the Rolled Tobacco Consolidated Tax Department, which was enlarged into the Consolidated Tax Administration. The flour tax, instituted in July, 1928 to supersede the numerous likin levies on wheat, was at the same time put under the charge of the Consolidated Tax Administration and its subordinate organs. Meantime, the two other important national departments in charge of the tobacco and wine tax and the stamp tax were first merged into one department in 1931, and then in July, 1932, they were further amalgamated with the Consolidated Tax Administration to form the Internal Revenue Administration, to which was also transferred in April, 1933, the mining tax formerly under the charge of the General Revenue Depart- formerly under the charge of the General Revenue Department.

Of the nine kinds of taxes under the Internal Revenue Administration today, namely, rolled tobacco, cotton yarn, flour, match, cement, cured tobacco, mining, native tobacco and wine, and stamp, the first six are administered as consolidated taxes, i.e. on the principle that a commodity should be subject to a single tax and be free of any further levy whatsoever throughout the country. This new form of taxation, first applied to rolled tobacco in January, 1928, was extended to cotton yarn, match, cement and flour in 1931, and to cured tobacco in 1933. In respect to the territory in which the tax was enforced, there has been a similar extension. First introduced in 1928 in the five provinces of Kiangsu, Chekiang, Anhwei, Fukien

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and Kiangsi, the system was enforced in Hupeh, Hunan, Shantung and Hopei during the fiscal year 1928-29; in Honan, Kwangtung and Kwangsi during 1929-30; and in Shansi, Chahar and Suiyuan during 1931-32. At present the tax is in force in no less than 15 provinces while arrangements will soon be completed for extending it to Szechuen. The only provinces where the consolidated tax is not enforced are, excluding the four lost provinces in the Northeast, mostly border provinces, e.g., Yunnan, Kweichow, Kansu, Shensi, Ch'inghai and Sinkiang. The extension of the system to these distant provinces is more difficult for obvious reasons, but in these provinces there is little or no manufacture of consolidated tax products.

A third aspect of financial control in China is the consolidation of domestic debts, first in February, 1932 and then in February, 1936. After the establishment of the Nanking régime the financial situation of the National Government grew worse until a crisis was reached in 1932, when the Japanese military, after having occupied the three Manchurian provinces on September 18 of the preceding year, invaded the Shanghai area on January 28. For the deficit in expenditure met with proceeds from domestic borrowing has grown, in terms of million dollars, from 73 in 1927-8 to 100 in 1928-29, 101 in 1929-30, and 217 in 1930-31. Up to the end of February, 1932 there were outstanding 33 domestic loans amounting to the huge sum of $892,420,365, for which the amount of money needed for the reimbursement of principal and interest during 1932 alone would total $185,953,000 — $130,891,000 for principal and $55,061,000 for interest. When the Japanese invasion of Shanghai took place, further borrowings became impossible, and the revenue fell off at the same time so that a serious question arose as to the Government's ability to meet interest and amortization payments. After repeated conference with the Bondholders' Association, the Government adopted on February 26, 1932, a plan whereby all the bonds were to be charged on the customs (the other revenues being entirely cleared of debt charges), the interest rate reduced to a flat 6% per annum,

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and current payments for amortization of principal reduced through doubling the term of repayment of the loans. In order to give assurance of good faith in maintaining the loan service, a national fund committee was formed, to which the Government will hand over for the service $8,600,000 per month, instead of double that sum which would have been needed under the old arrangements. By this operation the Government saved almost $100,000,000 annually in debt charges.[40]

With the internal debt conversion scheme put into effect since February, 1932, there was a respite in government finance. The deficit in expenditure met with domestic borrowing was reduced, in terms of million dollars, from 217 in 1930-31 to 130 in 1931-32 and 86 in 1932-33. But with the deepening of economic depression and the intensification of Japanese aggression, both since the winter of 1931, national finance was again beset with difficulties. The budget deficit covered by domestic borrowing increased to 147 million dollars in 1933-34, and 170 million dollars in 1935-36.[41] Mr. Kann's calculations show that the National Government is faced during 1936 with a total domestic loan service of $186,115,878, including $117,426,462 for principal and $68,689,416 for interest[42] — a sum approximately equal to that before the 1932 internal loan conversion. In February, 1936, exactly four years after the 1932 conversion, the National government made a second effort to reduce the internal debt charges by means of an extension of the life of the existing domestic bonds, through the issue on February 1, 1936 of a "25th Year Consolidated Loan" bearing a total amount of $1,460,000,000, in addition to a new "25th Year Recovery Loan" of $340,000,000. A statement was subsequently issued by the Bondholders' Association, giving full support to this new financial scheme, and at a meeting of

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[40] Kann, E.: "Reshuffling of China's Internal Loans," *Finance and Commerce*, March 2, 1932, pp. 9-10; *Report for the 19th and 20th Fiscal Years, 1930-32*, by the Minister of Finance.

[41] As no reports subsequent to the fiscal year 1933-34 have been published by the Ministry of Finance, the 1935-36 figure represents only estimate total as given in the draft budget for that year. Vide *Chinese Yearbook, 1935-36*, p. 1244

[42] *Finance and Commerce*, Jan. 29, 1936, p. 114.

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the Legislative Yuan on February 7, the Regulations Governing the Issuance of the New Consolidation Loan were passed. According to these regulations, the 25th Year Consolidated of $1,460,000,000 shall be divided into the following five classes, bearing respectively a different length of redemption; class A of $150,000,000 to be redeemed in 12 years, class B of $150,000,000 to be redeemed in 15 years, class C of $350,000,000 to be redeemed in 18 years, class D of $550,000,000 to be redeemed in 21 years, and class E of $250,000,000 to be redeemed in 24 years. The 25th Year Recovery Loan, bearing the same 6% per annum interest as the 25th Year Consolidated Loan, is redeemable within 24 years, and is similarly secured by the customs surplus after providing for all foreign loan obligations.[43]

A fourth aspect of financial control in China is the unification and control of the currency system. The first step in this direction was taken in 1928, when the Central Bank of China, first founded at Canton in 1924 and later at Hankow in 1926, was reorganized and officially inaugurated on November 1 of the year, and when two semi-governmental banks, the Bank of China and the Bank of Communications, were respectively changed into a specially chartered bank for foreign exchange and a specially chartered bank for industrial development. The Central Bank, as a full-fledged government bank with a capital of $20,000,000, was given the important functions "to unify currency, to consolidate the banking system, and to maintain stability in the domestic financial situation", to quote from Minister Soong's inauguration speech. In 1929, further steps were taken towards currency reform when the Government invited Dr. E. W. Kemmerer, who had similar experiences in many countries abroad, to head a commission of American financial experts to study the currency and financial problems of the country, and to make recommendations on the chief phases of financial policy and administration, including monetary reform, revenue policy, budget, accounting control, and the restora-

[43] For Regulations see *Chinese Economic Journal and Bulletin*, February, 1936, pp. 226-8.

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tion of the national credit. These recommendations are embodied in a series of reports, of which the best known is that on currency reform entitled "Project of Law for the Gradual Introduction of a Gold Standard Currency System in China, together with a Report in Support Thereof", which was presented to the Minister of Finance under the date of November 11, 1929. This project, which envisages two main aims, namely, the replacement of China's confused currencies by one uniform and nation-wide system and the gradual introduction of a gold standard, precludes many subsequent reforms largely on Professor Kemmerer's recommendations. Thus, on March 8, 1933, the Standard Silver Dollar Coinage Law, providing that the *yuan* should have a gross weight of 26.6971 gram of silver 880 fine, that is, containing 23.493448 grams of fine silver, was promulgated by the Government as a preliminary step towards the abolition of the tael which had ceased to serve any useful purpose, and whose continuation as a matter of habit and inertia had become a source of complication and needless confusion and expense to the public. The abolition, which was announced to begin on March 1, 1933, was officially sanctioned in an order from the Ministry of Finance which provides that "on and after April 6, 1933, all public and private financial transactions are to be made in terms of silver dollars and not in taels", fixing meantime the conversion ratio of one hundred standard silver dollars to 71.5 taels. For similar objects, the Central Mint started operation on March 1 as the only institution for the coinage of standard dollars, which by the end of the year had already put up a total of $150,000,-000 new currency.

China, being the only great nation still under the silver standard, is constantly subject to the effects of price fluctuations in that commodity. The suspension of gold standard in Great Britain and Japan at the end of 1931 and in U.S.A. in 1933 has brought to China a period of monetary deflation which for the world as a whole had its earlier origin in 1929. The first step taken to relieve the depression was the ratification, on March 21, 1934, of the international silver

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agreement engineered by the American Senator Pittman during the World Monetary and Economic Conference held at London in July, 1933. This agreement was designed to raise and stabilize the price of silver through a four-year program beginning with 1934. India, China, and Spain agreed to limit the total sale of silver from their surplus stocks to about 35 million ounces a year, and the governments of the United States, Canada, Mexico, Peru, and Australia agreed to withdraw from the market a total of about 35 million ounces annually of their mine production of silver. This agreement unfortunately paved the way for silver appreciation which was contemplated under the Thomas Amendment to the Agricultural Adjustment Act of May, 1933 — an inflationary clause authorizing the President of the United States to accept silver up to 200 million dollars' worth on a basis of 50 cents an ounce in payment on the war debts due in 1933 and to issue silver certificates against the silver so received. In June, 1934 a further step towards the same direction was taken when the American Congress passed the Silver Purchase Act, declaring it to be the policy of the United States to raise and maintain the proportion of silver to gold in the monetary stocks of the country at a level of 25 percent by value. After the passage of this act silver began to flow out of China in increasing quantities, and consequently, the silver stocks in Shanghai banks, which up to April, 1934 had all along maintained a consistently upward trend, fell successively, in terms of million dollars, from the peak of 602 in April to 593 in May, 587 in June, 574 in July, 519 in August, and 461 in September. By October the flight of silver had so alarmed the government authorities that an order had to be issued on the 14th of the month raising the export duty on silver (originally levied at 2¼% on April 6), in addition to an equalization charge as follows:[44]

> "In view of the undue rise of silver out of relation to the level of general commodity prices, the National Government, in order to safeguard China's economic interests and protect its currency, has fixed the customs duty on exports of silver, effective on October 15, as follows:

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44 *Chinese Yearbook, 1935-36*, p. 1237.

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On silver dollars, and mint bars, 10% less 2¼% minting charges paid, i.e. 7¾% net.

On other forms of silver, 10% (in lieu of 2¼%).

In addition, an equalization charge will be imposed on exports of silver equal to the deficiency, if any, existing between the theoretical parity of London silver and a rate of exchange officially fixed by the Central Bank of China, after making allowance for the export duty."

The higher export duty and the equalization charge did not check the outflow of silver because of increased smuggling, for silver stocks in Shanghai banks continued to decline until in December when they were reduced to the year's lowest figure of 345 million silver dollars. More success was, however, achieved during 1935, except in North China where smuggling still continued through the demilitarized zones in Eastern Hopei. The silver stocks in Shanghai banks remained at 337 million silver dollars in October, 1935 — the month after which the Government took a more fundamental step in currency control through the promulgation, on November 3rd, of a decree suspending silver as a circulating medium and making notes of the three Government banks the only legal tender in payment of all debts.[45] By means of this decree China went off the silver standard, and had the value of her currency fixed through foreign exchanges. A currency reserve board, with branches at Tientsin, Hankow and Canton, was immediately formed for controlling the issue and retirement of legal tender bank-notes, and for keeping custody of reserves against outstanding bank-notes. The bank-notes issued by the three Government banks, i.e., the Central Bank of China, the Bank of China, and the Bank of Communica-

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[45] The capital of the Central Bank was increased from $20,000,000 to $100,000,000 in 1934, while in April, 1935 the two semi-government banks, the Bank of China and the Bank of Communications, were placed under government control by increasing the government shares as follows:

	Private Shares	Government Shares Before April, 1935	Government Shares After April, 1935
The Bank of China	$20,000,000	$5,000,000	$20,000,000
The Bank of Communications	9,000,000	1,000,000	11,000,000

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tions, shall be full legal tender, while the notes of all other issuing banks shall be gradually retired and exchanged for Central Bank of China bank-notes within a period to be determined by the Ministry of Finance.[46]

The new currency system met with a remarkable success, except in North China and in the two Southwestern provinces of Kwangtung and Kwangsi where political complications did not favor its immediate adoption. This success is attributed by T. V. Soong, Chairman of the Central Bank of China, to a variety of reasons in following terms:[47]

> "There were many influences that contributed to the success of the change. In the first place, monetary and financial conditions before the change were so chaotic that anything, possibly even out-right devaluation, would have been preferred to a continuance of the prevailing uncertainties. Secondly, successful currency changes in many foreign countries made bankers in China realize that the new system was, after all, not without a precedent. Then, too, the virtual prohibition, by the decree of October 15, 1934, of the free transfer of silver abroad, and five months' experience of irredeemable paper currency in North China, had gradually accustomed the people to accept an inconvertible currency. Moreover, the ready cooperation of the foreign banks, and in particular, the "King's Regulation" promptly issued by the British Ambassador, prohibiting British nationals from making payments in silver, did much to help a situation that might have been greatly complicated by the extraterritorial rights enjoyed by many foreign residents and institutions. Finally, the purchase of fifty million ounces of silver by the U. S. Government at the price of 65 cents per ounce provided the Government banks with additional holdings of foreign currency with which to maintain exchange at the level prevailing when the new system came into operation".

As a result of this revolutionary change in China's monetary system, not only have rates of foreign exchange been held remarkably stable, but, domestic exchange business, with the exception of that in Kwangtung, Kwangsi, and Yunnan, has been handled at par for a nominal charge of one and a half per mille for remittances between different provinces and one per mille for those within each province. The silver stocks in Shanghai banks, however, have been reduced, in terms of million dollars, from 337 in October to 288 in November, 276

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46 *The Trade of China, 1935*, Vol. I, pp. 6-7.

47 "The Monetary and Financial Situation in China", by T. V. Soong, in *Finance and Commerce*, April 8, 1936, p. 391.

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in December, and 147 in January, 1936, after which date some increase raising the total to 158 for April, has been registered. This reduction should not cause so much alarm as before the promulgation of the decree on November 3, 1935, for much of the silver now exported from China will be or has been devoted to the accumulation of foreign exchanges necessary to maintain the fixed parity of the Chinese dollar at roughly 14½ d. or 30 cents U.S. dollar.[48] But that China has since the introduction of the new currency system entered into a period of monetary inflation cannot be disputed. The note issue has, for instance, been more than doubled in amount, rising, in terms of milion dollars, from 417 in October to 549 in November, 615 in December, 1935, 762 in January, 783 in February, 816 in March and 849 in April, 1936.

New developments since the November decree include, besides the promulgation on January 11, 1936 of the Regulations Governing Subsidiary Coins according to which nickel coins of 20-, 10- and 5-cent denominations and copper coins of 1- and ½-cent denominations will be henceforth issued by the Central Mint for circulation, the new currency order dated May 17 by the Minister of Finance which announces to the effect that:

"1. It will continue to be the policy of the Government at all times to maintain adequate reserves against note issue consisting of gold, foreign exchange and silver, the silver portion of the reserves to have a value equivalent to at least 25 per cent of the note circulation;

2. For the purpose of completing the reform of the Chinese coinage system, the Government will issue silver coins of 50 cents and one dollar denomination."

The above order will on the one hand enable the Government to dispose of a considerable portion of its silver reserve for the accumulation of gold and foreign exchange, and on the other introduce new token coins of 50 cents and one dollar

[48] According to Mr. E. Kann, noted foreign financial expert in Shanghai, the silver reserve for an estimated total circulation of $1,037,000,000 amounts to $554,000,000 at the end of April, 1936. See *Finance and Commerce*, May 27, 1936, p. 587.

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denominations. So far fineness and weight have not been indicated, but it may be taken for granted that both will be much reduced when compared with the previous issues. Indeed, the lower the weight and fineness, the greater will be the quantity of silver economized for other purposes such as the accumulation of gold and foreign exchanges.[49]

D. Agricultural Control — Agricultural control in China assumes both a negative and a positive aspect.[50] The negative aspect of agricultural control embraces the reorganization of the land taxation system with a view to reduction and fairer distribution of the tax burden on the owners of land as well the prevention of recurrent floods and droughts through the construction of irrigation canals and wells, the building of levees and sea walls, dredging operations and afforestation; while the positive aspect of agricultural control aims at greater production through crop improvement and extension as well as closer organization through the promotion of cooperative credit, supply, marketing and production.

Land tax reform or control consists of the transitional step of prohibiting new surtax levies or reducing old ones on the one hand, and of the fundamental solution through land value taxation on the other. The first step taken towards the alleviation of land tax burden of the peasants is the emphasis placed by the representatives to the Second National Financial Conference held at Nanking during May 21-28, 1934. This conference laid down four principles for the prohibition or reduction of land surtaxes as follows: (1) that land surtaxes shall not exceed the basic land tax, and in districts where the basic land tax is comparatively light the total of the basic land tax and the surcharges shall not exceed the sum equivalent to 1% of the value of the land; (2) that beginning from the current fiscal year, no provincial

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[49] See interesting article by Koh Tsung-fei on "The New Silver Coinage and the Silver Reserves", *Finance and Commerce*, May 27, 1936,

[50] Much of the data contained in the present section may be found in a paper on the *Rural Economic Reconstruction in China*, by Franklin L. Ho, China Institute of Pacific Relations, 1936

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or *hsien* government shall be allowed to increase the existing surtax on land under any circumstances and irrespective of whether or not the existing land surcharges exceed the basic land tax; (3) that the levying of temporary surcharges by any local subdivision by apportionment shall be strictly prohibited, and that provincial authority shall formulate rules restricting the assessment of surcharges for purposes of local improvements; and (4) that those surcharges collected for specific purposes shall be discontinued upon the expiration of the prescribed term and when the *raison d'être* for such surcharges does not exist any longer. These principles, although not yet fully carried into practice, had already achieved gratifying results, for by the end of 1934 it was officially reported that a total reduction of $6,921,521 in land surcharges had been effected in the eight provinces of Kiangsi, Chekiang, Hopei, Hupeh, Hunan, Anhwei, Kiangsu and Suiyuan and the municipality of Peiping, with another sum of $4,602,144 soon to be reduced in eight provinces.[51] Meantime, an order from the National Government on June 8, 1934 prescribed that hereafter no new land surcharge was to be ever introduced.

A fairer redistribution of the land tax burden can be effected only through the substitution of the present system of land taxation based on the permanent settlement of 1713 by a system of land value taxation which requires a careful registration of land titles preceded by a modern cadastral survey. Land value taxation, first advocated by Dr. Sun Yat-sen in his lectures on the People's Livelihood Principle, is embodied in the Land Law promulgated in 1930 and enforced since March of 1936. But thus far land value taxation has been introduced in only four municipalities, namely, Tsingtao, Shanghai, Hangchow and Canton; while elsewhere the progress made has been largely in the direction of cadastral or semi-cadastral surveys. Cadastral surveys were attempted under the Peking regime in certain parts of Kiangsu,

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[51] *Report on the Reduction of Land Surcharges and Miscellaneous Taxes in Various Provinces and Municipalities, December, 1934*, Ministry of Finance, Nanking, 1935, (in Chinese), pp. 23-24.

Chekiang and Heilungkiang provinces, and, since the establishment of the National Government in Nanking, have been carried out, partly or wholly in the provinces of Kiangsu, Chekiang, Kwangtung, Yunan, Kiangsi, Anhwei, Hunan, Hupeh, Honan, and Ninghsia and in the municipalities of Shanghai and Nanking. But because of the diversity of methods employed and of the haphazard manner in which these surveys have been carried out, the results achieved are incomparable with the efforts spent. One notable exception to this statement is the aerial survey in Nanchang, Kiangsi province, which has been found to be both time-saving and economical, and which the Land Department of the Ministry of Interior is contemplating of extending to the other parts of China. A quicker and less expensive process than the cadastral survey is the reporting of land titles by the owners themselves — a sort of semi-cadastral survey. After much experiment in Chekiang, Kiangsu and Anhwei provinces, a workable procedure, first perfected in Tangtu Hsien of Anhwei province, has been found by which land titles properly registered may serve as an adequate basis for land value taxation, and today no less than ten provinces are introducing the system.

Famines arising from floods and droughts have imposed recurrent losses upon the farming community. During the 1931 Yangtze flood, for instance, each of the 4.2 million families affected by the flood suffered an average loss of $457, — a sum considerably higher than the average annual income of $300 per family.[52] The means employed in controlling the famines, aside from the development of a better transport system described in a previous section, include the construction of canals and the digging of wells in drought famine areas and the building of levees and sea walls, dredging operations and afforestation in flood famine areas. The construction of canals for irrigation purpose is an ancient Chinese device, and one of the oldest major projects and practically the only one maintained through the centuries

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52 Buck, *op cit.*, pp. 10,45.

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at maximum efficiency is the scheme that provides water to the Chengtu Plain in Szechuen province. In recent years canal construction has again come into vogue. It was first proposed by the China International Famine Relief Commission formed after the Great North China Drought Famine of 1920-21, but with the participation of the National Economic Council since 1934, greater progress has been made possible. The canals constructed until the present include the Sato-Minsheng Canal in Suiyuan province, Weipei or Kinghui Canal and Lohui Canal in Shensi province, and the Yunting Canal in Ninghsia province, all since 1929. The digging of wells as a preventive measure against drought famine has been practiced in Hopei and Shantung provinces, first under the American Red Cross Society in 1920-21 and then under the China International Famine Relief Commission in 1928-29. The value of such wells is sufficiently proved by the much higher value of land and the crop which it returns on irrigated than on non-irrigated land — higher by one or two times. Among the flood prevention measures the most important include the construction of levees and dredging operations. Work of this kind has claimed the main attention of almost every one of the hydraulic engineering establishments in China, i.e. the Yangtze River Commission, the Grand Lake Hydraulic Engineering Commission, the Hwai River Commission, the Yellow River Commission, the North China River Commission, the Yungting River Board, the Haiho Technical Bureau, the Kwangtung Conservancy Board, etc. The largest undertaking is of course that by the National Flood Relief Commission which, besides dredging five riverlets in North Kiangsu for a length of 93 kilometers, repaired 3,925 kilometers of levees along the seven rivers of Yangtze, Hwai, Kan, Han, Yin, Sha and Yihlo, at a total cost of $70,000,000 during the 1931 Yangtze and Hwai River Flood. Sea walls are very useful in protecting the lives and properties of the inhabitants living along the seashore, and have been constructed in Chekiang, Kiangsu and other coastal provinces. Afforestation as a preventive measure against floods has been little resorted to in China, largely because of the lack

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of resources and short-sightedness of policy. This is borne out by the fact that the average percentage of forest area to the total land area in China is only 8.4%, and that in addition to this area, China has another 31% of the total land area which is bare though suitable for forest growth.

A third aspect of agricultural control is crop improvement and extension. The low crop yield as obtainable in China is obvious after a comparison of the average yields for principal crops during 1928-31 in various countries. The yield of rice per hectare is 18.9 quintals in China, but 34.2 quintals in Japan, 46.4 quintals in Italy and 61.3 quintals in Spain; it is but slightly higher than the world average of 15.6 quintals. The yield of wheat per hectare is 7.3 quintals in China, but 8.6 quintals in Argentina, 9.9 quintals in U.S.A., 13.1 quintals in Europe (excluding U.S.S.R.), 16.9 quintals in Japan, and 29.6 quintals in Netherlands; it is lower than the world average of 9.6 quintals. The yield of cotton in China, 1.9 quintals per hectare, compares favorably with 0.9 quintals in British India, 1.5 quintals in the world, and 1.8 quintals in U.S.A., but poorly with 2.1 quintals in Brazil and 4.5 quintals in Egypt.[53] Other examples may be cited, but suffice it to say that despite the intensive system of farming in vogue in China, the crop yield in most cases is small. This is the more important since China is a country with little animal husbandry, but depends largely upon crop production for eking out a livelihood. Under such circumstances it is but natural that positive control of Chinese agriculture should begin with the most fundamental need of crop improvement and extension.

The principal method employed in crop improvement is crop breeding, as improved seed resulting from breeding gives a greater return per unit of land than a change in methods of cultivation or soil treatments, and can be extended to farmers more easily than information on spraying or

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53 *Annex* to Dr. Rajchman's Report, Nanking, 1934, pp. 190-191. Data are compiled by Professor Dragoni of the University of Rome.

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fertilizing under the present general level of farmers' education in China. In crop breeding, the National Agricultural Research Bureau of the Ministry of Industries, although still in its infancy because of late organization in 1932, has already made a promising beginning. It is endeavoring to establish close cooperation between the various organizations in different parts of the country. The Bureau has ten cooperating stations in nine provinces for breeding and regional tests of wheat, nine stations in nine provinces for cotton tests, five stations in six provinces for rice tests, and eleven stations in nine provinces for fertilizer tests. The Cotton Industry Commission of the National Economic Council is another government institution doing extensive crop improvement work. Among the educational institutions, the University of Nanking has three substations and six cooperating stations in eight provinces. The Agricultural College of National Central University at Nanking has also a number of cooperating stations for regional tests of promising strains and varieties, especially for rice. In all, there are in China today 121 stations carrying on crop breeding work, distributed over 18 provinces, especially Kiangsu (27), Hopei (12), Shantung (11), Honan (10), Kiangsi (7), and Chekiang (7). 56 stations are engaged in cotton breeding, 48 in wheat, 38 in rice, 17 in kaoliang and bean, 16 in corn, 15 in millet, and decreasing numbers in other crops such as barley, tea, sugar cane, hemp, Irish potato, sweet potato, tobacco, etc. As a result of all these attempts, it is stated by one authority that "improved strains of the most important crops in China, such as wheat, rice, cotton, soy bean, kaoliang, and millet, have been developed through pure line selection, showing increases in yield of 30 per cent or more over varieties commonly cultivated. For example, a strain selected from Acala cotton, an imported variety which has been acclimatized at Nanking for 15 years, in addition to a high yield, gives a staple as long as 1 5/8 inches. The staple of those strains of Acala which were imported from the United States in 1931 and 1932 is shorter than this selection at Nanking. In other

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words, a superior strain has been isolated by individual selection."[54]

Cooperation as a form of agricultural control has been a familiar feature of European economic development during the second half of the nineteenth century, and of Asiatic economic development during the prsent century. The difference in these developments lies mainly in the fact that whereas in western Europe cooperation is largely a spontaneous growth from the masses below, in Asia it represents a policy of promotion from above, largely through the government. This is true of cooperative development in Japan and India, and no less so in China. In China rural cooperatives were first organized in 1923, in the province of Hopei under the auspices of the China International Famine Relief Commission, but since the establishment of the National Government in 1927 the movement has been greatly extended until today no less than 26,224 societies with a total membership of 1,004,402 can be found in 16 provinces and 3 municipalities. The rapid extension, especially since the Yangtze flood of 1931, was brought about largely through the transformation of the so-called "mutual aid", "self-help" or "preparatory" societies into cooperative societies, first in the provinces seriously affected by the flood, notably Kiangsi, Hunan, Hupeh and Anhwei, but later on in other parts similarly affected by other disasters—in the recovered communist area in Kiangsi, Honan, Hupeh and Anhwei after 1932; in Hopei after the devastation wrought during the Sino-Japanese conflict during 1933; and in the Yellow River flood area in Hopei, Honan and Shantung in 1934.[55] These societies were to extend loans at a low rate of interest, usually four per cent, to flood victims for spring plowing on the basis of collective guarantee, and were after the repayment of loans transformed into cooperative societies with some preliminary propaganda and education. In Shensi, a province frequently

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[54] See K. S. Sie, "The National Development of Agricultural Science in China", in *Chinese Yearbook, 1935-36*, p. 727.

[55] Fong, H. D.: The Cooperative Movement in China, *Monthly Bulletin on Economic China*, May, 1934

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subject to drought famines, cotton cooperatives were developed to a large extent through the same procedure of granting loans to cotton farmers by means of local societies. The result of all these is that whereas in 1932 there were but 3,978 societies with a total membership of 151,212; in 1935 there had been a rapid increase of societies to 26,224 and of members to 1,004,402—an increase within three years of almost six times in both societies and members.[56] As shown in table X, 24,871 societies (or 95%) with 936,643 members (or 93%) in 1935 were to be found in ten provinces, ranking in importance according to membership as follows: Kiangsu, Hopei, Kiangsi, Shantung, Honan, Anhwei, Chekiang, Shensi, Hupeh and Hunan. The societies in Hopei were the oldest in existence, those in Kiangsu and Chekiang rose immediately

Table Xa. Geographical Distribution of Cooperative Societies in China, 1935

Province or Municipality	Societies	%	Members	%	Members Per Society
Kiangsu	4,077	15.5	138,369	13.8	34
Hopei	6,240	23.8	135,723	13.5	22
Kiangsi	2,038	7.8	131,447	13.1	64
Shantung	3,637	13.9	106,143	10.6	29
Honan	1,761	6.7	100,324	10.0	57
Anhwei	2,284	8.7	73,673	7.3	32
Chekiang	1,972	7.5	70,666	7.0	36
Shensi	671	2.5	63,690	6.3	95
Hupeh	1,228	4.7	60,122	6.0	49
Hunan	963	3.7	56,486	5.6	59
Kwangtung	307	1.2	23,315	2.3	76
Fukien	312	1.2	11,678	1.2	34
Shansi	453	1.7	6,692	0.7	15
Kansu	33	0.1	2,906	0.3	88
Suiyuan	54	0.2	1,115	0.1	21
Kwangsi	14	0.1	592	0.1	42
Shanghai	123	0.5	17,197	1.7	140
Nanking	50	0.2	3,236	0.3	65
Peiping	7		1,028	0.1	147
Total	26,224	100.0	1,004,402	100.0	18

[56] *Statistics of Cooperative Societies in China*, Directorate of Statistics, 1934, Chart 4 (in Chinese).

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after 1928, those in Anhwei, Kiangsi, Hunan and Hupeh developed after the 1931-32 flood, those in Shantung and Honan were founded during the 1934 flood, and those in Shensi were developed by the Cotton Industry Commission of the National Economic Council, in cooperation with the Shensi Bureau for Rural Cooperation. The cooperative societies in China are, like those in Japan, India and Germany, for credit purpose. Taking the multiple-purpose societies as also belonging to the credit societies, credit societies in China account for 75.5% of the total societies and 63.6% of the total membership. Credit societies, in other words, are the most predominant group of cooperative societies in China, and in respect of size are much smaller than other types of societies.[57]

Table Xb. Functional Distribution of Cooperative Societies in China, 1935

	Societies	%	Members	%
Credit	15,429	58.8	426,004	42.4
Marketing	2,293	8.7	117,587	11.7
Purchase	738	2.8	67,243	6.7
Utilization	1,069	4.1	74,422	7.4
Production	2,321	8.9	106,510	10.6
Multiple purpose	4,374	16.7	212,636	21.2
Total	26,224	100.0	1,004,402	100.0

E. Industrial Control. — With four-fifths of her population still engaged in agriculture, industry has witnessed a slight development in China. Further, the major proportion of industrial production is still derived from small-scale enterprises carried on largely as by-employments in the rural districts rather than from large factories in urban centres. The situation becomes worse when the fact is borne in mind that the large modern industries in China are not given an opportunity of free and unhampered development because of

[57] For latest statistics see *Crop Reports* (in Chinese), February, 1936.

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recent recovery of tariff autonomy, and of the early loss of the exclusive right to engage in manufacturing enterprises by her own nationals. Under such circumstances, industrial control is at best difficult if not impossible, and has as yet achieved little success in the way of concrete accomplishments.

The modern industries that have grown up to some extent in China are mainly of the light type, neither heavy nor basic. The main branches are cotton spinning and weaving, silk reeling, woolen spinning and weaving, hosiery knitting, flour milling, oil pressing, match making, printing, cigarette making, etc. Heavy or basic industries such as iron and steel, machine making, shipbuilding, electric power generation, making of acids, etc. have failed either to grow or to succeed in the Chinese environment. Meantime, light industries that are already in existence have met with almost universal decline in recent years, and have in some cases reverted from large-scale to small-scale operations. The crisis began years ago when China was faced with monetary deflation after the suspension of gold standard in Great Britain, Japan and subsequently the United States, but has been greatly aggravated by the recent rapid increase of open smuggling in North China through the so-called "East Hopei Autonomous Area"—a regime created under Japanese instigation and protection. The problems of industrial control are, therefore, twofold, namely: encouragement of heavy or basic industries and rehabilitation of light industries.

The development of heavy or basic industries as a definite government policy of industrial control owes its origin, like many other forms of economic control, to the late Kuomintang leader, Dr. Sun Yat-sen. In his *International Development of China* published in 1920, Dr. Sun proposed the development of water power; the construction of iron and steel works in Shansi and Chihli (now Hopei); the establishment of large cement works along the shores of the Yangtze River, of shipbuilding yards at such river and coastal ports that have the facility of supplying materials and labor, of locomotive and car factories—two on the coast and two on

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the Yangtze—to supply home demands of railway equipment, of factories for the manufacture of mining machinery at Canton, Hankow and the proposed Great Northern Port, of smelting plants near the iron, copper and other metal mines, and of factories for manufacturing agricultural machinery and implements. Following Dr. Sun's proposal definite plans have been drawn up for the development of China's basic industries in recent years. Sun Fo's industrial plan, published in 1928, elaborates his father's scheme by proposing the establishment within 50 years of five water power stations, four iron and steel works, five cement works and five industrial chemical works, at a total cost of $400,000,000. Of these a total budget of $180,000,000 is to be devoted to the construction of two water power stations, two iron and steel works, two cement works and two industrial chemical works within the first ten years. The six year plan passed at the National People's Convention of 1931 provides that basic industries such as irrigation, electric power, iron and steel, coal, sugar, petroleum oil and the manufacture of automobiles shall be actively established by the Government. During the same year the League of Nations' ten year plan outlined fourteen lines of work, of which ten dealt with the establishment of basic industries such as smelting works, iron and steel, cement, locomotives and rolling stock, shipbuilding, vehicles, coal-tar, basic chemicals, hydro-electricity, and electrical machinery. During their tenure of office as Ministers of Finance, both H. H. Kung (1928-31) and Chen Kung-po (1932-35) have drawn up plans for the development of basic or heavy industries. Dr. Kung's basic industrial plan provides for the development of iron and steel industries, electrification of the whole country, establishment by the state of machine shops, salt refinery, acid and alkaline manufacturing works, and alcohol factories; while Mr. Chen's four year industrial plan contemplates the erection of twelve separate industrial plants which include heavy industries such as coal, iron and steel, sulphuric acid, machinery, copper, petroleum oil, motive power, automobiles, and electrical supplies.[58]

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[58] Gideon Chen, *op. cit.*

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These plans are indeed very comprehensive in scope, and their complete execution is obviously beyond the financial resources of the present government. Promising beginnings have, however, been made in some if not in all fields outlined in these plans; and "the big five", namely: the central machine shops, the state steel works, the state sulphuric acid manufactory, the state alcohol distillery, and the state paper mill, have, under the energetic promotion of the Ministry of Industries, gradually come into fruition. Of these, the alcohol plant in Shanghai has already begun operation; the machine works, at first located in Nanking, has now been transferred to Shanghai and partly completed. The steel plant and paper mill are being organized. The sulphuric acid plant is dropped, and in its place is being erected an ammonium sulphate plant, in Shanghai. Other plants, notably automobile, rayon, and sugar, are being planned as new state enterprises.[59]

Among the provinces Kwangtung and Shansi have, in an effort to attain self-sufficiency, made out plans for industrial development. The Kwangtung three year industrial plan, which began with January 1, 1933, and is being extended for completion, contemplates the construction of 24 factories at a total capital outlay of almost 100 million dollars. Among these are included plants for basic and heavy industries such as sulphuric acid, soda, phosphoric and nitrogenic fertilizer, alcohol, oil, farm implements, iron and steel, cement, and hydro-electricity. Up to January, 1935, 15 million dollars were estimated to have been spent, and vigorous steps are being taken to put the hydro-electric and steel plants into fruition.[60] In Shansi a Northwest Industrial Company was organized in August of 1933 which according to latest reports is having a total capital of $16,000,000 with a staff of 992 and a working force of 6,505. The 21 plants are mostly engaged in heavy and basic industries such as alcohol, iron and steel, cement, coal, machinery, locomotives, farm imple-

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[59] *Chinese Economic Yearbook, 1935*, A 7-8 (in Chinese)

[60] "Kwangtung Three Year Plan", *Chinese Economic Journal*, January, 1935.

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ments, hydro-electricity, chemicals, etc.[61] Elsewhere, in Kwangsi and Kiangsi, for instance, plans for the development of basic and heavy industries are being carried out, although on a less spectacular scale than in Kwangtung or Shansi.

Textiles have thus far been the most important branch of modern industries in China, and their decline in recent years, especially in case of cotton and silk, has more than in other branches aroused the attention of the nation. Attempts to rehabilitate light industries have therefore been concentrated on these two industries, a brief survey of which will illustrate similar efforts being made for other industries of lesser importance.

The course of decline in the Chinese cotton industry during the last four or five years has been generally parallel to that of the economic depression in China as a whole, as the amount of yarn and cloth production is highly dependent upon the buying power of the masses.[62] Not counting the suspension of mills for a period of from two to six weeks during the Shanghai War with Japan in 1932, the mills have been seriously affected by the discrepancy between the cotton and yarn prices. During 1932-35 the average price of basis yarn declined from $215.50 per bale to $171.95—a decline of 20%, while that of raw cotton per picul showed a decrease of only 8%, from $43.63 to $40.62. The greater slump in yarn price is attributed to the excessive accumulation of mill stock in Shanghai and other centres, as the market demand decreased with the deepening of the depression. As temporary measures the mills resorted to short-time and suspension of night work, but fundamental reform, such as rationalization of organization and equipments on the industrial side and improvement of the quality of raw cotton and extension of area of cultivation of the higher grade variety, have been undertaken. In both directions the lead has been taken by

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[61] *Prospectus of the North West Industrial Company* (in Chinese), Taiyuan, Shansi, November, 1935.

[62] Much information in this section is summed up in a paper by Leonard G. Ting entitled *Recent Developments in China's Cotton Industry*, China Institute of Pacific Relations, Shanghai, 1936.

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the Cotton Industry Commission of the National Economic Council, organized in the winter of 1933, although the Chinese Cotton Millowners' Association has also played an important role, especially along the lines of the collection and dissemination of trade statistics, the compilation of estimates on China's cotton production, the publications of trade periodicals, and the presentation of a united front for the industry in matters such as the petitioning to the government for more favorable revisions of tariff and taxation. The Cotton Industry Commission has devoted most of the efforts in an attempt to improve the production and marketing of raw cotton, but attention is also being paid to researches into the process of manufacturing. In cotton production the Commission is engaged in three lines of work, namely, breeding of new varieties, distribution of better seeds now available, and various research studies. For the work of seed improvement, a number of cotton improvement institutes have been established. The Central Cotton Improvement Institute, in cooperation with the National Agricultural Research Bureau of the Ministry of Industries, lays emphasis upon the work of improving cotton breeding methods; while the provincial cotton improvement institutes, in Kiangsu, Honan and Shensi, give more attention to the practical side of the breeding work. In all, 5,652 mow of land are being devoted to this line of work in Nanking, Tungt'ai and Funing of Kiangsu, Changteh of Honan, and Chingyang of Shensi. In seed distribution the results achieved have been highly gratifying. By October, 1935 about 1,376,000 mow of land had been planted with improved seeds through the central provincial cotton improvement institutes whose field of activity had by then extended from Kiangsu, Honan and Shensi to Shansi, Hupeh, Hopei, Chekiang and Shantung. In 1936 the Commission plans to extend the cultivation of improved cotton into the provinces of Szechuen and Yunnan and the total cotton acreage planted with better seeds under the encouragement of the Commission will be over three million mow, as compared with a total cotton area of 67.8 million mow in China during 1934. Besides cotton breeding and seed distribution the Com-

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mission maintains several research laboratories for studying cotton culture, cotton insects, cotton diseases, etc. In the Kiangsu Cotton Improvement Institute, there is a Cotton Chemical Laboratory, and in Shantung, there is a Cotton Insect Research Institute working in cooperation with the Shantung University.

In cotton marketing, the work of the Cotton Industry Commission consists of cotton grading, prevention of cotton adulteration, and promotion, organization and financing of cotton cooperatives. The absence of a definite standard for the grading of cotton has resulted in the flooding of degenerated cotton in the market and consequently the decline of the cotton industry in China. Following the setting up of a temporary classification of cotton into the six classes of American long-staple, American short-staple, Chinese black-seed, Chinese white-seed, coarse-fibre, and extra-coarse-fibre by the Shanghai Bureau of Testing and Inspection of Commercial Commodities in 1934, the Cotton Industry Commission established during that year a special grading office at the Central Institute, which is said to have already analyzed samples from 1,311 bales of American cotton and 406 bales of Chinese cotton, with a view to identifying their grade, staple, fineness, tensile strength, and foreign matters. In anti-adulteration much work for export cotton had been done by the various bureaus for the inspection and testing of commercial commodities at Shanghai, Hankow, Tientsin and Tsingtao since their establishment after 1928. Regulations governing the prohibition of adulteration of cotton at points of production were promulgated, through the recommendation of the Commission, by the National Government on July 10, 1934. A central bureau for anti-adulteration of cotton was set up in October of the same year and for the first time testing and inspection offices were established at points of production. Local offices already established are in the provinces of Kiangsu, Honan, Shensi, Shantung and Hupeh; and extension to other provinces is to be expected with the lapse of time.

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Cooperative marketing of cotton began in 1926, through the organization of a small society with a membership of 25 peasants in Wukian Hsien of Anhwei province, under the auspices of the College of Agriculture and Forestry of the University of Nanking. In 1932 work on a larger scale was started in Tsouping, Shantung province, by the Shantung Rural Reconstruction Institute, and in Hsintseh, Hopei province, by the China International Famine Relief Commission. With the participation of the Commission since 1934 greater progress has been made, especially in Shensi, but also in Kiangsu, Honan and Shansi provinces. By the end of 1934 40 societies, with a total membership of 23,444, were organized and about a million and half dollars worth of credit was extended to the societies by the various provincial cotton improvement institutes.

On the industrial side less has been accomplished by the Cotton Industry Commission, evidently because in the opinion of the commission reorganization of the industry must begin with the first stage of production—that of raw cotton. But a beginning has nevertheless been made, especially in the promotion of mill efficiency through scientific research and technical advices. The Commission has recently established, in collaboration with the Academia Sinica, a national research organization, a national laboratory for research in the technology of spinning, weaving and dyeing, at an estimated cost of over a million dollars. During the last year, a number of mills in various parts of the country have sought the advice of the Commission in matters relating to technical improvement and financial reorganization. In April, 1935, a set of preliminary standards covering in detail labor, wages, materials, output and costs involved in spinning and weaving operations was prepared by the Cotton Industry Commission and circulated among the mills as guiding principles in their management. It was recently reported by the Commission that over one half of the mills adopting them have succeeded in attaining these standards, and have in a few cases even exceeded them. A revision is now being contemplated by the Commission in the light of fresh experiences.

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The rapid decline of China's silk industry, as reflected in the drastic decline of exports and price falls during the last five years or so, has inflicted untold losses upon the farmers in Chekiang, Kiangsu, Kwangtung, Shantung, and Szechuen where silk rearing constitutes a very important by-industry to agriculture. This decline, due to a number of factors such as the competition of Japanese production, substitution of silk by rayon, and decline in American consumption since the crisis, has aroused considerable attention of the Central and provincial governments in making attempts at a revival. After an extensive inquiry of the sericultural conditions in the provinces of Chekiang, Kiangsu and Shantung by Dr. Benito Mari of the League of Nations in 1933, the National Economic Council organized in January of 1934 a Sericulture Improvement Commission, with a comprehensive programme of improvement for all branches of the industry. For the financial year July 1934 to June 1935 the Council has allocated $400,000 for the use of the Commission. A three-year plan for the improvement of the silk industry in the provinces of Kiangsu, Chekiang, Shantung, Szechuen and Kwangtung has also been drawn up by the Commission, calling for an expenditure of $1,500,000 for the realization of the first year's plan in 1935. The Commission's work consists largely in the discovery of new breeds through crossings in its Sericulture Experiment Stations at Nanking and Hangchow, the training up of a staff of technical personnel for extension work among the farmers and the plantation of good quality mulberry sprouts for distribution. Besides the Sericulture Improvement Commission, there is a department in the National Agricultural Research Bureau for sericultural research. Several provincial governments, such as Kiangsu, Chekiang, Anhwei, Kwangtung and Shantung, have opened sericultural experimental stations for breeding and distribution of silkworm eggs. In Chekiang there is a central sericultural committee and in Kwangtung there is a similar organization. These various activities of the National and provincial governments are the beginning of control of distribution of disease-free silkworm eggs, and supervision of

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the silk industry. In the chief silkworm regions of Kiangsu and Chekiang, more than three million sheets of improved eggs were used in 1934, which meant that very little of the native variety was used.[63]

Like in the cotton industry, little has been done towards rehabilitation except in the improvement of raw materials. On the industrial side the only concrete step taken by the National Economic Council was the formation, in the autumn of 1934, of a corporation consisting of eleven of the best filatures in Chekiang and Kiangsu, where reeling was done under the Commission's special supervision. As a result, the silk produced was of the highest grade and quality, thus fetching exceptional prices on the world market.[64]

IV. PROBLEMS OF ECONOMIC CONTROL IN CHINA

A rapid review of the five types of economic control in China—transport, trade, financial, agricultural and industrial—has brought to light several major problems that have accounted for the small degree of success so far achieved. These problems—political independence and unity, need for practical planning, coordination of organs for economic control, resort to foreign technical and financial assistance—will now engage our attention in the order listed.

China is nominally still an independent nation, but actually she has long been reduced to the status of a "hypo-colony", i.e. a colony of the principal foreign powers with which China was forced to conclude, at one time or another, a series of unequal treaties. This lack of political independence had given rise to foreign economic control of China long before China awakened to the need of economic control by herself. A glaring example of the effect of this loss of political independence on economic control is furnished by the recent increase of open smuggling in North China, referred to in a previous connection. Whatever little control China may have been able to exercise on foreign trade since the restoration

[63] Franklin L. Ho, *op cit.*

[64] *Annual Report of the National Economic Council, 1935*, Nanking, March, 1936, p. 23.

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of tariff autonomy after 1929 is more than counterbalanced by this open and organized smuggling, in respect of both revenue and protection. On the basis of actual loss for April, 1936 China would have to suffer an annual revenue loss of one hundred million dollars on account of the smuggling. Besides, both legitimate industry and legitimate trade have to suffer from the loss of protection afforded them by the Chinese tariff. As one first-hand observer has well remarked, "where the smugglers are protected, legitimate traders are bound to suffer. The issue is one of law against anarchy. It is also one of business men against pirates and thieves. Upon the ultimate solution of this problem depends the issue of whether legitimate business may be carried on at all, let alone profitably."[65]

Political unity is a pre-requisite to economic control, but in China such unity in its true sense is lacking at present. The lack of unity and its effect on economic control cannot have been better illustrated than in the opening paragraph of the Finance Minister's Report for the 17th fiscal year 1928-29:

> "With the fall of Peking by the summer of 1928 the country was to all appearance, and in some phases, actually unified. But for the purpose of national finance, Szechwan, Yunnan, Kweichow, Shansi, Jehol, Suiyuan, Chahar, Shensi, Kansu, Sinkiang and the Three Eastern Provinces were, and still are with the exception of the Customs revenue, outside of the actual control of the Ministry of Finance. And it was not till late in the spring of 1929, when Hankow was taken by Government forces that the provinces of Hupeh and Hunan came under the financial control of the Government; it was not till the summer of 1929 after the war in South, that Kwangtung and Kwangsi became integral parts of the national authority; and it was only in summer of 1929, after the withdrawal of Japan and the retirement of Marshal Feng Yu-hsiang, that the national receipts and expenditures of Shantung and Honan came under the direct administration of the Ministry. These are the more clear-cut cases, but even in Kiangsi and Fuken financial control by the Ministry became a really only towards the end of the fiscal year."

To-day, seven years after the writing of the above quoted passage, the four northeastern provinces have been torn

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[65] Shih, Chao-yin: *Smuggling in North China*, Information Bulletin, May 21, 1936. p. 26.

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away, parts of the two provinces of Hopei and Chahar are virtually independent of the control of the Central Government, while banners of revolt are being raised in the two southwestern provinces of Kwangtung and Kwangsi in the name of patriotic expedition against the Japanese aggression in North China.

A second problem in Chinese economic control is the lack of practical and coordinated planning. Planning is the mother of control, for without planning control would at best have been piecemeal reform. Economic planning in China has thus far been unpractical and ill-coordinated. Dr. Sun's plan for the international development of China, the earliest of its kind, did not fix a time limit nor did it possess a budget for its execution. Sun Fo was no less visionary in proposing for his father's scheme a huge budget of 25 billion dollars for a period of 50 years, i.e. an annual budget of 500 million dollars, in 1928 when the total actual revenue of the National Government during that year did not reach one third of the sum proposed (i.e. $151,000,000 for the fiscal year 1927-28). The 1929 Programme and Budget for Material Reconstruction provided that "one half of the income of the whole nation received from taxation shall be used for the budget of material reconstruction". This is actually impossible because revenues from taxation, constituting four-fifths of the total national revenue, are as a rule completely absorbed by the two major items of national expenditure, namely, military outlay and loan service. The six year plan passed at the National People's Convention in 1931, the League of Nations' ten year Plan of 1931, and Chen Kung-Po's four year industrial plan, placed definite sums for certain items, but not for all; while the three year plan of the National Economic Council proposed in 1932 gave no budget at all. All these plans and others are, in a word, unpractical because they overlook the most important problem of finance. Another drawback is that they are in almost every case not co-ordinated. In this, nobody could have been more emphatic than the Finance Minister, T. V. Soong, as he wrote his Report for the 18th fiscal year 1929-30:

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"Reflecting the widening requirements of the public, we have seen each department of the Government proposing its own pet projects, all of them involving huge expenditures. Doubtless many of these projects are in themselves sound but they must be unrealizable because of the known lack of funds, and the fact that they are not coordinated with the projects of other departments . . . . . Surely a case has been made for discarding the haphazard, unrelated, and clashing programmes of the various branches of the Government, and the creation of a really effective planning organization."

A third problem in Chinese economic control is the coordination of organs for economic control. We have in China today a civil war in civil administration, not only in politics at large. The three fundamental means of modern transport, railway, highway, and waterway, are administered under three central organs, namely, the Ministry of Railway, the National Economic Council, and the Ministry of Communications. In agriculture, economic control and planning are being undertaken by the National Economic Council, the National Construction Commission, the Ministry of Industries, and the Ministry of Interior. We had, before the last reorganization of the Executive Yuan at the end of 1935, four national agencies in charge of national economic planning and control, not to say of the various ministries which also participated in one way or the other in tasks of similar character. These are, in order of chronological development, the National Construction Commission (1928-), the National Economic Council (1931-), the Bureau of Natural Resources (formerly National Defense Council, 1932-), and the Rural Rehabilitation Commission of the Executive Yuan (1933-35). The last agency is now reorganized into the Commission for People's Economic Reconstruction, while the remaining three are functioning as usual. Recently, suggestions from influential circles in Nanking have been made to reorganize the central governmental organs according to a more rational distribution of functions. It is proposed that the National Economic Council, being engaged largely in agricultural administration and reconstruction, should be reorganized into a Ministry of Agriculture, with the four departments of agriculture, cooperation, water conservancy, and fishery and animal husbandry, thus transferring its Cotton Anti-Adulteration

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Bureau to the new Ministry of Industries, Road Bureau to the new Ministry of Transport, and Committee on Experimental District for Health Reform to the Health Administration; but absorbing from the present Ministry of Industries the three Departments of Agriculture, Cooperation, Fishery and Animal Husbandry, Forestry and Reclamation Administration, National Agricultural Research Bureau, National Model Agricultural Warehouse, National Model Forest Reserve Bureau, Fishery Protection Office, and Fish Market; from the Ministry of Interior the Colonization Section of the Department of Land; and from the National Construction Commission, the Rural Rehabilitation Planning Committee, Rural Rehabilitation Experimental District, and Model Irrigation Administration. The existing divisions of the Council that are to be incorporated into the new Ministry of Agriculture include the Agricultural Bureau (already amalgamated with the National Agricultural Research Bureau recently), Rural Reconstruction Committee, the Cotton Industry Commission, the Sericulture Improvement Commission, Chimen Tea Improvement Commission, Chimen Tea Improvement Farm, Cooperative Commission (already amalgamated with the Department of Cooperation of the Ministry of Industrise), Water Conservancy Bureau, Water Conservancy Commission, and Northwest Livestock Improvement Farm. The Ministry of Industries, after having transferred many divisions to the new Ministry of Agriculture, is, besides retaining the existing divisions including the four Departments of Industry, Commerce, Labor, and Mining and the various Bureaux for the Inspection and Testing of Commercial Commodities, to absorb from the National Construction Commission the Mining Laboratory, Mining Office, Hwainan Coal Mining Bureau, Economic Investigation Bureau, from the National Economic Council the Cotton Anti-Adulteration Bureau. The present Ministry of Communications is to be reorganized into a new Ministry of Communications, which will, besides retaining its existing divisons including the two Departments of Post and Telecommunication, organize a National Electric Power Company in order to absorb the

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four divisions transferred to it from the National Construction Commission, namely, the Electric Utilities Advisory Commission, the Electricity Laboratory, the Electric Machinery Manufactory, and the Electric Power Stations at Nanking and Chihshihyih. A new Ministry of Transport is to be created, which will have three Departments of Railway, Highway, and Marine and Navigation; it will represent an expansion of the present Ministry of Railway through the incorporation of the Road Bureau of the National Economic Council and the Marine and Navigation Department of the Ministry of Communications. In short, the National Construction Commission is to be abolished, the National Economic Council is to be reduced to a Ministry of Agriculture, the Ministries of Communications and Industries are to be reorganized, and the Ministry of Railway is to be expanded into a Ministry of Transport. Such a reorganization will undoubtedly represent a forward step in the rationalization of national economic administration, but its realization will have to depend upon a successful reshuffling of numerous political forces and interests involved.[66]

The fourth problem of Chinese economic control is the need for foreign technical and financial assistance. The need is undoubtedly a pressing one, if China's programme of economic control and reconstruction is to be realized at all. Take, first of all, the need for financial assistance from foreign countries. Faced with an annual budget deficit of 80 million dollars in 1928-29, 101 million dollars in 1929-30, 217 million dollars in 1930-31, 130 million dollars in 1931-32, 86 million dollars in 1932-33, and 147 million dollars in 1933-34, amounting respectively to 19.4, 18.7, 30.3, 19.0, 13.3, and 19.2 per cent of net total payments, it is plain enough that the Chinese government cannot afford to spare sufficient capital outlay for economic reconstruction. In the national budget, reconstruction claimed only $2,197,614 or 0.2% of the total budget ($893,335,073) during 1931-32, $6,812,364 or 0.5% of the total budget ($828,711,688) during 1933-34, $35,989,036 or 3.9% of the total budget ($918,111,034) during 1934-35, and

[66] C. M. Chang, *op. cit.*

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$36,374,890 or 3.7% of the total budget ($957,154,006) during 1935-36. In absolute amount there has been a great increase in recent years in the funds assigned by the Chinese Government to reconstruction, but in relative proportion reconstruction should have figured more prominently.

Foreign financial assistance in China's economic development has had a long history, beginning as early as the opening of China to the western world since the Opium War of 1841-42. We have in our introductory section sufficiently emphasized the imperialistic character of such assistance, and its encroachment upon Chinese sovereignty and territorial integrity. A reaction in favor of foreign financial assistance for mutual benefit has, however, set in, especially through the efforts of Dr. Sun Yat-sen, founder of the Kuomintang Party, and his Party members. In his *International Development of China*, Dr. Sun lays strong emphasis on the fact that "the confidence of the Chinese people must be secured in order to gain their cooperation and enthusiastic support"[67], and that "all the national industries of China" should be "financed with international capital for mutual benefit."[68] Mr. Ting-chang Wu, a leading Chinese banker and now Minister of Industries, echoed the same opinion when he told the Third Biennial Conference of the Institute of Pacific Relations at Kyoto that "foreign nations should understand that while the Chinese people are opposed to foreign capital of a political nature, they welcome purely financial investments from abroad."[69] A similar view was held by T. V. Soong, then Finance Minister, when he wrote, in his report for the 17th fiscal year 1928-29, to the effect that "it has been its [i.e. Ministry of Finance's] policy studiously to avoid even negotiations until there was assurance that the terms and conditions which could be offered prospective foreign purchasers of our bonds..... would not imperil China's financial integrity."

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[67] *Op. cit.*, p. v.

[68] *Ibid.*, p. 164

[69] *International Economic Cooperation in China*, by Ting-chang Wu, 1929, p. 14.

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Recent instances showing foreign investments in government undertakings are few in number, for as Minister Soong has well remarked, in his Report for the 18th fiscal year 1929-30, "foreign lenders will not seriously discuss loans to China unless China has balanced its budget, or has adopted and is carrying into effect a program of readjustment which will result in stabilizing the finances within a reasonable time." But the instances, few as they are, point to a new era in China's resort to foreign financial assistance, whereby the agreements reached will prove to be mutually beneficial to the debtor and creditor nations alike and will no longer be in the interest of the creditor nation alone. We have in mind particularly the two aerial undertakings — the China National Aviation Corporation established under an agreement signed on July 8, 1930 between the Ministry of Communications and the Curtiss American Aviation Company and the Eurasia Aviation Corporation established under a contract signed at about the same time between the Ministry of Communications and the German Lufthansa Company, the former with a capital of $10,000,000 and the latter with one of $3,000,000. Both enterprises were organized in conformity with the principles of utilizing foreign capital as laid down at the 222nd session of the Central Political Council which in brief contained the following: (1) that 51% of the capital share shall be owned by the Chinese; (2) that a majority of the directors shall be Chinese; (3) that the chairman of the board of directors and the manager shall be Chinese; (4) that in any Sino-foreign undertaking the foreign investers shall have the responsibility of technical planning and the provision for machinery and equipments; (5) that Sino-foreign undertakings shall conform to the laws of the Chinese Republic and shall not call into assistance the extraterritorial rights and privileges in their defense; (6) that in the purchase of materials preference shall be given to those of Chinese make; (7) that Chinese staff, which shall have the preference of employment, shall be given appropriate powers in manage-

[70] Ma Ying-chu: *Reconstruction of Chinese Economy* (in Chinese), Commercial Press, Shanghai, 1935, pp. 333, 348-51; *Chinese Yearbook, 1935*, pp. 273-75.

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ment, and that foreign staff shall be employed only when no Chinese staff shall be available.[70]

In China's economic control and reconstruction foreign technical assistance is as much needed as foreign financial assistance. Much of the efficiency of China's customs and salt administrations would not have been obtainable, for instance, but for the technical assistance rendered by the foreign staff, although foreigners were not above reproach in having intentionally failed to admit Chinese members on the staff. In the modern industries of China, foreigners have, under the privilege to engage in manufacturing enterprises granted since the Treaty of Shimonoseki of 1895, set up plants which many of the Chinese have emulated in their early industrial ventures. So also in other aspects of China's modernization foreign technical skill has directly or indirectly helped to render a useful pioneering service. Recently, more systematic attempts have been made in securing foreign technical service in China's program of economic reconstruction, under the familiar arrangement known as the "technical collaboration between China and the League of Nations." This collaboration, which had its origin in Ludwig Rajchman's health survey in 1925 and Albert Thomas' survey of labor conditions in 1927, took a definite turn after the establishment of the National Government. Preliminary visits since 1929 by Dr. Rajchman, Sir Arthur Salter and Mr. Robert Haas, — the triumvirate of League Directors in Health Committee, Economic and Financial Section, and Transit and Communications Section, led to the Chinese Government's decision to create in 1931 of a National Economic Council with which to coordinate various schemes of national reconstruction. No sooner had this decision been made than T. V. Soong, then Vice-Chairman of the Executive Yuan, addressed the League a historic telegram on April 25, 1931 in which he requested, among other things, that:[71]

"In the execution of particular projects the League might at the request of the Government send or propose officers and representa-

[71] Hoe, Y. C.: *The Programme of Technical Cooperation between China and the League of Nations*, 1933, pp. 7-8. (Mimeographed).

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tives or experts who apart from their own competence could be in contact with the relevant technical organization in Geneva.

"The League might in several ways help in the training of China's own officers who will be required for the more extended work of later years."

Dr. Soong's telegram was unanimously approved in the 63rd session of the Council of the League held from May 18 to 23, as a result of which a number of League experts in the various fields of education, hydraulic engineering, public health, roads, agriculture, sericulture, cooperation, transit and communication, have come to China for the purpose of rendering technical assistance to the National Economic Council in its programme of Chinese economic reconstruction. Without doubt these experts have been a great aid to China in their respective fields, but they would have made greater contribution to China's reconstruction provided more emphasis be laid on the training of personnel rather than the execution and completion of specific projects. The fact that a majority of them do not stay in China for more than half a year militates against the possibility of placing any organization for the training of personnel on a fairly permanent basis.[72] Indeed, like many other experts who come to China before the inauguration of technical collaboration with the League, their usefulness oftentimes ends at the moment their recommendations are written up and sometimes published, serving no other purpose than the satisfaction of having added another paper plan to the government archive.

V. *Summary*

Economic control is a world-wide development since the Great War, and China is no doubt tending toward this direction. With China, however, far greater limitations in application necessarily arise from the essentially medieval and colonial character of her economic organization. Foreign economic control had made much headway before attempts at control were made by the Chinese government.

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[72] See article by Chin Feng, Secretary-General, National Economic Council, *Chinese Yearbook, 1935-36*, p. 329.

Economic control in China developed much later than in other countries. It was first advocated by Dr. Sun Yat-sen, founder of the Kuomintang Party now in power, in his lectures on the *Fundamentals of National Reconstruction* in 1918. These lectures, translated into English and published in 1920 under the title *International Development of China,* were adopted by members of his own party as the official policy for national reconstruction after the establishment of the National Government in 1927. Since then other factors have been at work which favor further growth of economic control in China. These, in short, include the government campaign against the communists in central China since 1931, the great Yangtze and Hwai River flood of 1931, the spread of world economic depression to China after the suspension of the gold standard in Great Britain and Japan in 1931 and in the United States in 1933, and the increasing Japanese aggression since the Manchurian incident of September 18, 1931.

The main fields of economic activity in which the Chinese state has endeavored to exercise control are transport, trade, finance, agriculture, and industry. In transport lack of coordination between the three types of common carriers, namely, railway, highway, and waterway, has resulted in much suicidal competition between rail and water, between rail and road, and between road and water. Transport control begins, therefore, with transport coordination, in which little has however been done except the agreement on common principles. Railway control consists of the completion of main lines such as Lunghai, Canton-Hankow, and Shanghai-Hangchow-Ningpo; the construction of new lines such as Chekiang-Kiangsi, Kiangnan, Hwainan, Soochow-Chiahsin, and Tatung-Puchow; and the addition of branch lines such as Yutze-Taiku branch of the Chengting-Taiyuan Railway and Pisêsha-Shihping branch of the Yunnan-Annam Railway — all for military and economic considerations. Much of the success achieved in railway control is to be attributed to the creation of a Ministry of Railway since 1928. Road control lies also in the completion of trunk lines, especially in the ten sparsely

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populated provinces not yet touched by railways, as well as in the construction of feeder lines to railways and waterways. The erection of a network of roads in the eight provinces of Kiangsu, Chekiang, Anhwei, Kiangsi, Hunan, Hupeh, Honan and Fukien in central and south China is largely the work of the Road Bureau of the National Economic Council, which since its organization in 1931 has functioned as a coordinating, technical, and financing agency in China's road development. Road construction in the two northwestern provinces of Kansu and Shensi is also in charge of the Council, but elsewhere in the remaining 20 provinces road development has been more or less a provincial concern, although the plans as drafted by the National Highway Planning Commission and incorporated into the National Highway Law of 1929 have in many cases been taken as a useful guide. Shipping control is complicated by the handicap that over two-thirds of China's steam tonnage is in the hands of foreign powers, especially Great Britain and Japan, as China under the unequal treaties concluded with these powers since the Opium War of 1841-42 has been forced to give up the exclusive right to engage in inland and coastal navigation by her own nationals. Moreover, Chinese shipping concerns are small as compared with those of foreign ownership, over which China is prevented from exercising control except in enforcing minimum administrative requirements. Aside from the transfer of the marine and navigation department from the Customs Administration to the Ministry of Communications in 1930, thus freeing it from semi-foreign control, other developments in steam navigation include the agreement for through water-and-rail transport signed in 1931 between the Ministry of Railways and the China Merchants' Steam Navigation Company — the largest Chinese shipping concern, and the reorganization in 1932 of that company from a semi-governmental into a purely governmental enterprise.

In foreign trade need for control has long been felt as an imminent necessity because of the growing annual excess of imports over exports, which during the period 1864-1935 had reached the huge sum of 7,541 million Haikwan taels. Tariff

as a means of import control was impossible until the right to tariff autonomy was restored to China in 1929. Revisions in 1931, 1933 and 1934 have successfully raised the rates, but whatever control may have been acquired by the Chinese customs authorities over imports by means of a high tariff has been completely annihilated since the growth of open and organized smuggling in north China after the fall of 1935. Another means of import control, devaluation of Chinese currency in terms of foreign money, has, since its introduction on November 4, 1935, produced some effect in checking excessive imports. Export control consists in the inspection and testing of principal export commodities such as cotton, wood oil, silk, tea, soya beans, eggs and egg products, bristles, furs and skins, intestines, etc.; embargo on necessaries such as cereals as well as silver — the country's monetary stock; and government encouragement by means of reducing or exempting export duties.

Financial control has four fundamental aspects. The first is the establishment of budgetary control, made possible through the promulgation of budget laws and the provision of a machinery for their enforcement — the Directorate-General of Budgets, Accounts and Statistics established in 1930. A second aspect is the reorganization of the country's tax system as a result of which there has been a spectacular growth in China's tax revenue — a source of revenue contributing to almost four-fifths of China's total national revenue. This reorganization consists mainly in the rationalization of the main branches of tax administration, namely: customs administration, salt administration, and internal revenue administration. In the first two administrations much progress has been made in recovering the control from foreign hands. The recovery of tariff autonomy is the principal feature, but other accomplishments, including the right to deposit customs and salt revenue in the Central Bank of China instead of foreign banks, the preference of the Chinese to the foreigners in the recruiting of new staff members, and the requirement to use Chinese as the official customs language, must not be overlooked. The consolidation of the internal

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debts, first in 1932 and then in 1936, is a third aspect of financial control which has brought about a considerable reduction in the annual cost of maintaining domestic loan service, chiefly through a prolongation of the period of repayment. A fourth aspect of financial control is the unification and control over the country's currency system. Preliminary steps for this reform were taken through the reorganization of the three government banks — the Central Bank of China, the Bank of China and the Bank of Communications, first in 1928 and then in 1935. The abolition of tael and the promulgation of silver dollar as the national currency in 1933 prepared the way for the introduction of a managed system of currency in November, 1935, under which silver was nationalized, and silver dollar notes were made the legal tender and their value linked up with the foreign exchanges.

Agricultural control assumes both a negative and a positive aspect. The negative aspect of agricultural control consists of the reduction and fair redistribution of the land tax burden on the one hand, and of the prevention of famines on the other. Land taxation, the chief tax burden of the Chinese peasantry, has become heavier in recent years through the endless levy of new surcharges. As a result of the Second National Financial Conference held in 1934 levy of new land surcharges was prohibited and a beginning was made in reducing or abolishing the existing surcharges. A fair redistribution of the land tax burden through the introduction of land value taxation was first proposed by Dr. Sun Yat-sen, the founder of the Kuomintang party now in power. This is possible only through the substitution of the present tax-roll taken during the permanent settlement of 1713 by a modern cadastral survey. Attempts at cadastral survey have been made sporadically by various grades of governments in various parts of China, the most successful of which is the aerial survey conducted for Nanchang, Kiangsi province. But in view of the fact that a complete nation-wide cadastral survey is both too costly and slow in realization, semi-cadastral survey, under which the peasants are required to report on their own good faith the lands in their ownership,

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is being carried out as a transitional measure in a large number of provinces. Tangtu *hsien* in Anhwei province has among others evolved a procedure which is being emulated in many other parts of China today. Famines arise mostly from floods and droughts, and means for their prevention necessarily vary according to their nature. For the prevention of drought famines canals, especially in the northwestern provinces such as Ninghsia, Shensi and Suiyuan have been built by the National Economic Council, in cooperation with the China International Famine Relief Commission and the respective provincial governments. The erection of dikes and sea walls as well as dredging operations are common concerns of the various governmental hydraulic engineering establishments, whose activities have since 1935 been coordinated under the Hydraulic Bureau of the National Economic Council. The positive aspect of agricultural control consists, first, of crop improvement and extension, and second, of cooperative organization for the satisfaction of common economic needs of the farmers. Crop improvement was at first undertaken largely by private educational institutions, notably the College of Agriculture and Forestry of the University of Nanking; but since 1932 both the National Agricultural Research Bureau of the Ministry of Industries and the Cotton Industry Commission of the National Economic Council have played a large part in this type of work. Much advance has been made in the improvement of staple crops including cotton, wheat, rice, kaoliang, soya bean, millet, maize, barley, tea, etc.; and consequently, it is being claimed that many crops have now achieved a higher yield of over 30 per cent. Cooperative societies, first developed in Hopei province under the paternal care of the China International Famine Relief Commission—a private relief organization, has since the great Yangtze flood of 1931 made rapid strides. Both in the number of societies and in membership a six-fold increase has been made within the short space of three years 1932-35. Three-fifths of the societies today are of the credit type, the rest being for marketing, production, purchase and utilization. In China's cooperative development the problem

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is not one of quantitative extension, but of qualitative improvement. A stage has now been reached where Chinese cooperation must cease to expand until it can be placed on a sounder basis.

Industrial control consists of the encouragement of heavy and basic industries on the one hand, and of the rehabilitation of light industries on the other. Such a programme of control is logical because China has until today developed only light industries, much to the neglect of heavy and basic branches. Plans for the development of heavy and basic industries, both national and provincial, are legion, but limitation of resources has reduced them to the establishment of the most important ones. The state machine shops and the alcohol plant, both in Shanghai, have already started operation, while the ammonium sulphate works, situated near Pukow, will soon approach completion. The other two plants, also fostered by the Ministry of Industry, have not gone far beyond the stage of planning; they are the state iron and steel plant and the state paper factory. Among the provinces attempts to erect heavy and basic industries have been made by Kwangtung in the south and Shansi in the north. But desire for variety of developments has resulted in the creation in both cases of a large number of plants many of which are obviously under-equipped and under-financed. In the rehabilitation of light industries leading rôle has been taken by the National Economic Council. The latter has organized since 1933 a Cotton Industry Commission and since 1934 a Sericulture Improvement Commission, for the rehabiliation of China's two foremost branches of modern industries. Both commissions are unanimous in choosing their measures of control during the first stage, which consist more of improvement of raw materials than of manufacturing process. The Cotton Industry Commission has been engaged in the breeding of better seeds and their extension, the prevention of adulteration of cotton with water and foreign matters, and the promotion of cooperative marketing. Besides, it has, in cooperation with the Academia Sinica, established a textile research depart-

ment for the improvement of manufacturing process. The Sericulture Improvement Commission is likewise engaged in the breeding of silkworm eggs at the experiment stations in Nanking and Hangchow, and in the financing of cooperative reeling enterprises in the provinces of Kiangsu and Chekiang — China's principal silk-producing district.

Economic control has made but an infantile beginning, and has been handicapped by a set of problems which in other countries would have given rise to much less difficulties than in China. The first problem of Chinese economic control is the failure to attain political independence and unity. Economic control by the Chinese government is difficult if not impossible so long as China cannot exercise her full sovereign rights within her own boundaries, and so long as she still has to devote a considerable portion of her resources and energy to the suppression of civil rebellions. The second problem is the need for practical and coordinated planning. In China there have been too many plans that are neither practical nor mutually coordinated. Plan making has become a hobby of the various central as well as provincial governmental organs; and its sad disregard for practical considerations has done more harm than good to the progress of economic control in China. A third problem is the lack of coordination among organs engaged in Chinese economic control. Much duplication and waste of efforts have resulted, but prospect for a fundamental reorganization or rationalization of governmental organs is brighter now that the nation is getting more united. A scheme has been recently proposed among influential circles in Nanking for such a reorganization, while the organization of a central institute for the study of administrative efficiency adds another stream of hope to an already bad enough situation. A fourth problem of economic control is the resort to foreign financial and technical assistance. Such assistance has in the past hindered rather than promoted the prospect for Chinese economic development, because it was often invoked at considerable loss of sovereign rights to China and thus assumed a political character of imperialistic aggression. Beginnings towards a

newer form of Sino-foreign financial and technical cooperation are visible. The two Sino-foreign enterprises, the China National Aviation Corporation and the Eurasia Aviation Company, are state enterprises with foreign capital that operate on the basis of due recognition of Chinese sovereign rights. The technical collaboration between China and the League of Nations provides a working formula on the basis of which foreign technical assistance can be made available to China's economic control and reconstruction.

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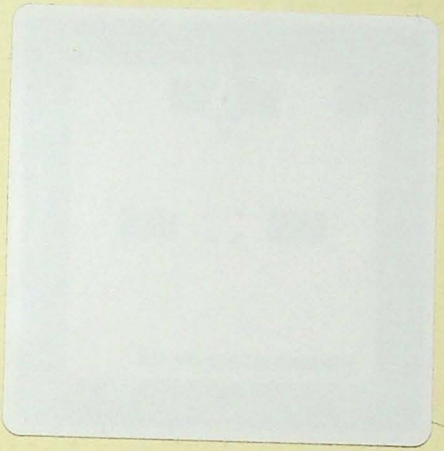

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