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Chinese Economic Policy in Wartime

by

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The International Labour Office is glad to publish the following article, which the author was good enough to undertake in response to a request from the Acting Director for an authoritative survey of current developments in China and the Government's social and economic policy. The article deals with numerous measures, taken during the five years of war, for the improvement of agriculture, industry, transport and communications, finance and trade. These measures, though primarily designed for the better organisation of the country to meet the pressing exigencies of the war, have already left a deep impress on its economic structure and may be expected to influence the trend of evolution in the years immediately following the cessation of hostilities. The article, it may be added, was sent from Chungking in December 1942.

The reader may find it convenient to refer to another article entitled "Wartime Economic and Social Organisation in China", published in the December 1942 issue of the Review, for supplementary information. The two articles together may be said to constitute a comprehensive outline of the changes wrought by the war in China.

THE incident of 18 September 1931 which marked the invasion of Manchuria by Japanese forces convinced the Government and people of China that a total war of resistance had become inevitable. As a result of this realisation, the whole nation was galvanised into action, and great efforts were made and large sums of money were spent in order to expedite the work of national reconstruction which was already in progress. Japan was so impressed by these efforts, so surprised by the united front in China at the time of

the Sian incident¹, and so anxious to penetrate the country before substantial progress had been made with the scheme for reconstruction, that the superior weight of the Japanese military machine was directed against China in the hope of overpowering the country at a single stroke. But the war of resistance has now been going on for over five years and, although ultimate victory depends to no small extent upon the assistance received from the other United Nations, there has been ample evidence of the irresistible spirit of the Chinese people, of the strong foundations on which the social and political institutions of the country are being built, and of its vast human and material resources. When the war of resistance has been brought to a successful conclusion, there is much that China can contribute to the permanent peace of the world and to the attainment of the freedom and equality of mankind.

THE BACKGROUND

The Chinese people have a cultural heritage going back for more than five thousand years, and their indomitable spirit of resistance to aggression is inspired by their love of peace and patriotic fervour, qualities for which they have been conspicuous through the centuries. There may be a few traitors but, as has so often happened before in Chinese history, they are unable to influence the course of events. The nation has found a resolute and brilliant leader in Generalissimo Chiang Kai-shek, and the organisation of the country for the emergency is well in hand and proceeding satisfactorily.

The basis of national life is still the family. *Chias*, *paos*, *hsiangs* or *chengs*, and *hsiens* form the units of social organisation. Ten families form one *chia*, ten *chias* one *pao*, ten *paos* one *hsiang* or *cheng*, 15 to 30 *chengs* a district, and several districts one *hsien*. The *hsien* is the unit of local self-government. The system was reorganised in 1940 with a view to greater administrative efficiency; the heads of families, *chias*, *paos*, and groups of *paos* were charged with specific duties and required to report to their official superiors. The new system has already been applied in the provinces of Szechwan, Chinghai, Chekiang, and Kwangsi, and is being gradually extended to Honan, Yunnan, Hupei, Kwangtung, Fukien, Shensi, Kansu, Hunan, Kiangsi, Shangtung, Ninghsia, Kweichow, Sikang, and Anhwei.

Moreover, in provinces, cities, and *hsiens* representative bodies known as people's councils have been set up, while an organisation

¹ The reference is to the incident in December 1936 when Generalissimo Chiang Kai-shek, while on a tour of inspection, was temporarily detained by Chang Hsueh-liang.

entitled the People's Political Council has been established in the Central Government. The function of this Council, which is composed of representatives of the different provinces and experts in diverse fields, is to advise the Government on the formulation of policy and its application. A network of representative bodies extends over the whole country, which provide the necessary machinery for giving effect to national policy and serve to direct the energies of the people to the work of political and social reconstruction. The foundations of democratic government have thus been laid and the people have acquired political consciousness. Political power is widely distributed and extends to every social stratum. There is a marked spirit of co-operation and harmony. National power is being consolidated and efficiently employed, thanks to the habits of industry and perseverance deeply ingrained in the Chinese people. While the armed forces of the nation are engaging the enemy, sometimes thousands of miles from the base, in the rear the civilian war effort continues unceasingly. The Chief of the General Staff, Ho Yin-chin, has stated that "the Chinese combatants are five million strong. There are fifty million people of military age, thirty million of whom have been trained. We have a mighty military force and we have no reason to be afraid." It is for this reason that the Chinese people, notwithstanding their lack of sufficient equipment, have been able to persevere unceasingly in the war effort and to hold their own not only against the armed forces of Japan but also against the threats, enticements, and oppression of puppet governments in the occupied areas. These latter, and others at the service of the invader, are promoting their own private interests, and it is no wonder that they and their ways have given rise to the greatest resentment among the large majority of the people. Close connection is being maintained between free China and the Chinese guerrilla troops in the occupied areas. They are ready at the first favourable opportunity to deal with the mercenaries. These facts have to be stated so that the peoples of the United Nations may appreciate the situation.

THE DEVELOPMENT OF NATIONAL RESOURCES

While the prime object of the Government's economic policy in wartime is to develop the resources of the country so that military requirements may be fulfilled, due regard is paid to the amelioration of living conditions. The policy is inspired by the teachings of Dr. Sun Yat-sen and directed by Generalissimo Chiang Kai-shek. It aims at the development of the national resources in accordance with a carefully considered and well co-ordinated plan calculated

to meet wartime needs as well as to facilitate post-war development.

Agricultural Production

China is still a country of small farmers. Sun Yat-sen's Three Principles laid down that the aim of agricultural policy should be to protect the farmers and to assist agricultural tenants and labourers to acquire the land they till. The work of land survey and registration, in which considerable progress has been made, is being continued. In Western Hupei farm rents have been reduced by the adoption of emergency measures. The Ministry of Agriculture and Forestry has taken action which has led to the adoption of similar rent reduction measures and of measures for the settlement of tenancy disputes in Chekiang. The Ministry has also been responsible for the introduction of regulations relating to the methods of renting agricultural land in the province of Kwangsi.

Measures for Increasing the Production of Foodstuffs.

The Ministry has, however, been concerned mainly with increasing the country's food supply, and with this end in view it has adopted a three-year Administrative Plan. The plan aims at the production of a sufficient supply for the needs of the armed forces and the civilian population. Stocks are also to be laid in as a precaution against famine, and in regions where famines have been frequent measures for the prevention of their recurrence are to be accelerated. While particular attention is given in the plan to food crops with a plentiful yield, the importance of the cultivation of wheat and other cereals as well as of rice is not minimised, and production is to be concentrated, as far as possible, in areas removed from the zone of military operations and as near as possible to the markets.

An increase in the production of foodstuffs is to be brought about by the utilisation of uncultivated land and the substitution, in some measure, of food crops for other crops, the use of quality seeds and fertilisers, the improvement of the methods of cultivation (employment of mechanical devices, for instance); and women and children, party members, civil servants, soldiers, and students are to be pressed into service for seasonal work. As a result of these measures, in 1940 in the provinces of Szechwan, Kweichow, Kwangtung, Kwangsi, Hunan, Yunnan, Hupei, Fukien, Shensi, Honan, Chekiang, and Kansu there was an increase of 9,200,000 *mow*¹ under wheat, 1,700,000 under barley, and 2,000,000 under

¹ 1 *mow* = 6.66 acres.

beans. The total increase in the foodstuffs produced amounted to over 15,000,000 *piculs*.¹ In 1941 in the provinces of Szechwan, Kwangtung, Hunan, Kiangsi, Kwangsi, Chekiang, Shensi, Kweichow, Kansu, Hupei, Honan, Anhwei, and Ninghsia, the additional area brought under cultivation for the raising of food crops was over 32,430,000 *mow*, with an aggregate increase in production of over 73,800,000 *piculs*. The results were twice as good as had been anticipated, thanks to the favourable seasonal conditions in the last five years.

Measures for Increasing the Production of Raw Materials for Industry.

The three-year Administrative Plan of the Ministry of Agriculture and Forestry provides for an increase in the production of cotton and improvement in the quality of the crop, and for similar improvements in the supplies of other industrial raw materials. Arrangements have been made for the close co-ordination of the demand for and supply of such materials with a view to eliminating waste. The Central Government assists the provinces in giving effect to various schemes drawn up in accordance with the plan. As a result of such action, in the province of Szechwan the area under high quality Sino-American cotton was increased from over 67,000 *mow* in 1938 to over 131,000 in 1939 and over 381,000 in 1940. In Shensi the total area under Stoneville and Trice cotton was increased from 73,000 *mow* in 1938 to 250,000 in 1939 and to 941,000 in 1940. Work was started in Northern Shensi in 1941 with a view to extending the area under Stoneville cotton to 1,600,000 *mow* and the total output to 300,000 *piculs*. In Yunnan the area under high quality Sino-American cotton was increased from over 50,000 *mow* in 1938 to over 89,000 in 1939 and over 129,000 in 1940; in addition, long-fibre wood-cotton, which is not inferior in quality to Sino-American cotton, was introduced, and the plants, which numbered 57,000 in 1938, totalled over 340,000 in 1939, about 500,000 in 1940, and over 1,100,000 in 1941. In Kweichow, the area under fine American and Chinese cotton was extended from over 13,000 *mow* in 1939 to about 20,000 in 1940. The planting of cotton is also being vigorously pursued in the provinces of Kwangsi, Hunan, and Kansu; in Kwangsi, the area was increased from 128,000 *mow* in 1939 to over 197,000 in 1940, and in Kansu from over 10,000 in 1940 to over 65,000 in 1941.

Action was likewise taken for increasing the area under rape, the seed of which is in the present emergency a valuable source

¹ 1 *picul* = about 110 lbs.

of motor oil and of edible oil. The total area under rape in the fifteen provinces in the interior, which during the period 1931-1937 amounted on an average to 42,490,000 *mow* per year, was increased in 1941 to over 56,480,000 *mow*, with the result that the total quantity of seed produced rose from 36,640,000 to 45,630,000 *piculs*. Attention has also been given to the enlargement of the area under castor oil plants, and in Kweichow in 1940 the harvest amounted to over one million *catties*.¹ The cultivation of hemp and tobacco has been likewise stimulated.

Numerous measures have at the same time been taken for the better utilisation of water power, the development of rural finance, the construction of silos, the reorganisation of agricultural associations, the technical training of agronomists, land reclamation, the selection of seeds, and other similar improvements calculated to stimulate rural life and strengthen the national economy. One such measure, designed to eliminate the waste inevitable in small farming, merits particular mention. Large Government farms are set up in suitable places and farmers are taught improved methods. In this and other ways agriculture is being modernised.

Industrial and Mineral Production

The total number of factories registered with the Government during the period 1932-1939 was 4,277, with an aggregate capital of over 390 million dollars and a labour force of half a million. Nearly 85 per cent. of these factories, with a capital of about 89 per cent. of the total, were located mainly in the coastal regions, in Kiangsu, Chekiang, Shantung, Shensi, Hopei, Hupei, Kwangtung, Nanking, Shanghai, Tsingtao, Peiping, and Weihaiwei. As much as 59 per cent. of the total capital mentioned above was engaged in the light industries: spinning and weaving, food, paper and printing, and tobacco. Before the war, industrialisation in general, and the establishment of heavy industries in particular, had made little progress in the provinces in the interior. When one by one the coastal provinces fell into the hands of the enemy a sudden and severe blow was dealt to the industries that had been built up with much effort during several decades. But the loss has been made up to a certain extent, and in the last five years new factories have been set up and mines have been opened in inland areas.

Arrangements were made, in the first place, for the removal, as far as possible, of the coastal factories to the interior and for their enlargement, as well as for the extension of those that had

¹ 1 *catty* = 1 $\frac{1}{3}$ lbs. = 604.8 grams.

previously been established there. The possibilities of industrial and mineral development in the different areas in the interior were then carefully surveyed, and a scheme of reorganisation, in which the present and future needs of each district were fully taken into account, was drawn up and put into effect.

The main principles of the industrial reorganisation may be said to be the following: (1) the nature of the light industries to be developed to be determined with reference to the heavy industries which it is proposed to establish; (2) the heavy industries, including the defence industries, to be, as a rule, State-owned; and (3) the small-scale industries and handicrafts to be assisted and subsidised by the Industrial and Mining Adjustment Administration of the Ministry of Economic Affairs. It was decided that such assistance and subsidies should be provided in respect of: (a) evacuation from the occupied areas, and acquisition by purchase or lease of the necessary land for the new premises; (b) storage of raw materials¹, rationing and distribution of the scarcer raw materials, and installation of and repairs to machinery; (c) construction of buildings and removal of factories (loans at low rates of interest); (d) construction of branches in areas removed from the zone of military operations, construction of underground workshops, protection of important machinery, and insurance against war risks; (e) training of technical staffs and workers, provision of facilities for research and of special grants-in-aid to research workers, and protection of inventors' patent rights; (f) reduction of or exemption from customs duties or taxes on raw materials; (g) reduction of charges for transportation on means of communication maintained by the Government and provision of special facilities for the transportation of raw materials, machinery, and accessories and of supplies of essential commodities for the workers; and (h) provision of special loans to factories and establishment of model factories.

It need hardly be added that in wartime the measure of subsidy and assistance to private enterprise provided by the Government is much larger than in peacetime. The outcome has been satisfactory, as may be seen from the following returns. While at the end of 1938 the factories which had resumed work after being removed to the hinterland totalled 143, with an aggregate production valued at over 5.5 million dollars, at the end of the following year the number had risen to 219 and the value of the total output to over 34 million dollars. At the end of 1940, the number of registered

¹ The department responsible for the storage of raw materials may contract to purchase manufactured goods from the factories, determine the kinds of goods to be manufactured, and buy up surplus stocks in order to maintain production.

factories in the interior was 1,350, or approximately four times the number before the war, and of these 1,243 were in the hands of private individuals. During the year 1940-41 there was a marked increase in the production of a wide range of commodities compared with that in the previous year, as appears from the following figures: copper, increase of 122.75 per cent.; grey pig iron, 401.04 per cent.; engines, 205.70 per cent.; machine-tools, 127.27 per cent.; alkalis, 300.00 per cent.; bleaching powder, 348.30 per cent.; alcohol, 104.82 per cent.; cotton yarn, 327.94 per cent.; flour, 139.23 per cent.; paper, 400.00 per cent.; soap, 143.27 per cent.; matches, 137.50 per cent.; leather, 126.92 per cent.

State-owned industrial and mining undertakings are for the most part operated or controlled by the National Resources Commission. They engage in the production of materials needed for national defence, such as liquid fuel, coal, iron, copper, lead, zinc, machinery, electrical equipment, and materials for export, including tungsten, antimony, mercury, bismuth, and copper. At the end of October 1941, the capital invested by the Commission amounted to over 267 million dollars. In the province of Kansu, which is rich in petroleum, the provincial Bureau of Mineral Oil is operating the wells. In the establishments under the control of the National Resources Commission, the increase in 1941 in the production of petroleum, as compared with 1939, was 3,497.77 per cent., while the corresponding figure for oil extracted from charcoal was 3,820.31 per cent., and that for alcohol and other petroleum substitutes was 461.76 per cent. The Commission has accelerated coal mining, and in the mines under its control the average monthly production in 1941 was 23 times as high as in 1939. As regards the production of iron ore, there was an increase of 133.10 per cent. in the first six months of 1941 as compared with the corresponding period of the previous year. During the same period the electric power houses operated by the Commission in different localities increased the power generated by 149.20 per cent., and similar progress was also made by machine shops, electrical works, and other heavy industries.

Tungsten and antimony are among the more important items of export, and previous to the establishment of the National Resources Commission the trade in them was in the hands of private firms. In 1936, the Commission established a Bureau of Tungsten and Antimony Control in Kiangsi and Hunan. Following the outbreak of the Sino-Japanese hostilities, various agreements for the payment of foreign debts were signed and some of these debts were paid by the export of tungsten and antimony. In 1939, tin and mercury were added to such exports, and the control of

these minerals, which had been confined to Kiangsi and Hunan, was extended to other provinces such as Kwangtung, Kwangsi, Szechwan, Kweichow, and Yunnan. During the initial stages of development, while the Government acquired the mines, their working was left to private enterprise, although measures were taken to provide the necessary encouragement and to prohibit smuggling. Later on the difficulties of transportation increased, and it became necessary to reduce the bulk of the material to be carried, by refining the ore locally. During the period 1936-1941, antimony, tin, and mercury totalling 95,509 tons and valued at U.S. \$70,794,744 were exported.

It may be added that no mention has been made above of munition factories, or undertakings operated by the provincial authorities and small-scale industries which have not yet been registered with the Government.

REORGANISATION OF EXPORT TRADE

In addition to tungsten, antimony, tin, mercury, bismuth, and copper, the main items of export are tea, raw silk, tung oil, wool, and bristles. Silk and tea, which have been important export commodities since the days of the Tsing Dynasty, retained their primacy during the first ten years of the Chinese Republic. In the last ten years, however, they have been supplanted by bristles and tung oil. The reorganisation of the export trade has been one of the main preoccupations of the Government since the outbreak of war. In 1937 the Government established the Trade Adjustment Commission under the National Military Council in order to deal with all matters relating to export. In February 1938, the Commission was reorganised and absorbed by the Foreign Trade Commission. The control of foreign exchange and of trade agreements, designed to secure the means to pay for foreign debts, passed to the Commission, but subsequently the Executive Yuan set up the Barter Trade Commission. Imports from Russia are paid for mainly by the export of tea and wool, and the Government at an early date set up a monopoly of the trade in these two articles. When trade agreements were signed with Great Britain and the United States of America, a Government monopoly was also set up for the trade in tung oil, which is an important item of export to the United States, and in bristles, which are chiefly exported to Great Britain. In March 1940, the Ministries of Economic Affairs and Finance together promulgated new regulations for the control of exports (Revised Measures Governing the Declaration of Exports and the Surrender of Foreign Exchange Realised

therefrom). The regulations applied to fourteen types of articles, namely, eggs, feathers, sausage skins, leather, fur, nutgalls, medicaments, oil, tallow and wax, seeds, tobacco, lumber, cocoons, ramie and cotton.

Some account has been given above of the measures taken for the control of production and of exports and the co-ordination of the country's trade. The manner in which the production and sale of some of the main export commodities has been increased and brought under control may now be briefly considered.

Tung oil. The average annual production of tung oil in the country is estimated at approximately 1,430,000 quintals. More than half of this total is produced in the two provinces of Szechwan and Hunan. A five-year plan with the object of increasing the production by 544,500 quintals has been prepared by the Government. The plan provides for measures for the conservation of 3,190,000 acres of tung forest and the plantation of 5,070,000 acres in the provinces of Szechwan, Hunan, Kwangsi, Kweichow, and Hupei.

The export of tung oil, which in 1912 amounted to 352,481 quintals, rose to 1,029,789 quintals in 1937. The oil was exported to as many as thirty countries, although the bulk—70 per cent.—went to the United States. Since the outbreak of the war and the subsequent disruption of communications in the Pacific, the exports have shrunk. The Government has caused research to be undertaken with a view to the utilisation of the oil as a suitable substitute for gasoline, now in short supply. Should these efforts be successful, it would be possible not only to create an internal market for the oil but also to ensure the stability of the employment of those engaged in the industry.

Tea. Tea, as is well known, is one of the oldest of the country's exports. The war has had little effect on the export trade in tea, most of which is with the Soviet Union. The average annual export for the period 1927-1941 amounted to over 347,000 quintals.

Raw silk. Although at one time the export trade in raw silk was as important as that in tea, since 1929 there has been a steady decline owing to Japanese competition and the manufacture of rayon in increasing quantities. The principal silk-producing areas are on the south-eastern seaboard, and when the region was occupied by the enemy the supply was cut off. The total annual production of silk in the provinces in the interior amounts only to 30,000 *piculs*. Every effort is being made to increase the output and improve its quality so that the country may regain its place in the export trade.

Bristles. The annual production of bristles before the war was 130,000 *piculs*. At the present time, the provinces in the interior, with Szechwan leading, produce as much as 50,000 *piculs* a year. Bristles being an important raw material for war industry, an increase in the demand may be expected.

Wool. China and India are the main suppliers of wool and rugs, and at one time wool formed one of the chief items of export from China to the United States. While the war has resulted in the occupation by the enemy of North China and Chekiang, which are among the main centres of the goat-hair woollen industry, the sheep-wool production in the pastures of the great north-west has not been interrupted. Since 1939, when a trade agreement was signed with the Soviet Union, three-fourths of China's exports of wool have gone to that country. The proportion of the exports to the United States is 11 per cent. of the total. The average annual production of wool before the war was 687,500 *piculs*, while the corresponding figure for the period 1938-1941 was 478,000 *piculs*.

The war gives rise to such rapid changes as to make it necessary to reconsider the country's economic and trade policy at every stage. The main objectives may, however, be mentioned here. Every attempt will be made, regardless of the difficulties, to deliver the supplies required for the United Nations' war effort. The control of the export trades by the State as well as the Government monopolies will be maintained. Measures will be taken for the more careful selection, grading and packing of the articles. Greater attention will also be paid to the development of the internal and neighbouring markets. Facilities will be provided so that as far as possible the finishing processes in the manufacture of different articles may be undertaken locally. Every effort will be made to maintain production unimpaired, notwithstanding the heavy capital investment that may be needed, with a view to favouring post-war international reconstruction.

THE DEVELOPMENT OF TRANSPORT AND COMMUNICATIONS

Not only have the difficulties of shipping increased enormously since the outbreak of war, but the areas in the northern, southern, and central parts of the country, with their comparatively highly developed communications, have been occupied by the enemy. During the early stages of the war the large-scale evacuation of factories and of the civilian population, as well as the transport of materials imported from abroad to the interior and of foodstuffs to the armed forces on the different fronts, placed a very heavy strain on the existing communications. The Government policy in the

last five years has been designed to improve the communications system mainly with a view to meeting wartime requirements. Accordingly, new international trade routes have been opened and inland waterways as well as other means of transportation improved.

With regard to international trade routes, at the outset the Canton-Hongkong line was used a great deal. Before the fall of Canton in November 1938, a large stock of imported war materials and building materials, amounting to several hundred thousand tons, was transported to the interior by the Canton-Hongkong Railway. When Canton fell the Yunnan-Indo-China Railway was used. A road from Indo-China to Kwangsi and the Hunan-Kwangsi railway were completed. Supplies received at Liuchow by road or inland waterways were transported to the fighting fronts in Hunan and Kwangtung or to the provinces of Szechwan and Kweichow in the interior. When Nanning (in Kwangsi) fell in November 1939, all communications with Indo-China, with the exception of the Yunnan-Indo-China Railway, were cut off. The road from Kweichow to Kaoping in Indo-China was hastily completed within two months, but in June 1940 the Government of Indo-China closed the roads to Chinese traffic. Thereafter, the Yunnan-Burma road, popularly known as the Burma Road, with Rangoon as the port head, was largely used, although a substantial amount of materials was conveyed to the interior by the Chekiang-Kiangsi Railway via Chinghwa. With the fall of Rangoon, Lashiao, and Chinghwa, a new plan had to be drawn up. It consists of the full utilisation of the India-Chungking airways; the development of road and railway communications in the north-west, more particularly the route from Lanchow to Kulun via Ninghsia so that it may serve as a link with the Siberian Railway and Vladivostok, as well as the route from Lanchow to Sinkiang leading to the Soviet Union; and the construction of roads along the ancient trade routes from Sikang to India.

The most substantial results in respect of the development of inland waterways have been obtained in Szechwan province. As a result of dredging, the blasting of rocks, the construction of dams, and the preparation of navigation charts—operations which have been going on for some time—the Kialing River, which constitutes an important link between Szechwan, Shensi, and Kansu and the road system of the north-west, can now be used all the year round over the whole length of 919 kilometres from Chungking to Kwangyuan. Similar improvements have also been made as regards navigation on the Wu, Yeau and Yuan rivers.

Reference must also be made in this connection to the success achieved in the manufacture of suitable gasoline substitutes, such

as charcoal oil, for motor vehicles, and to the organisation of a system of transportation employing animal and even human power.

In January 1940 the National Bureau of Stage Transportation was set up under the Ministry of Communications. At the end of that year the roads and waterways in the provinces of Szechwan, Shensi, and Kwangtung totalled 8,660 kilometres. To these were added 27,381 kilometres in 1941 (1,955 kilometres in Fukien, 4,825 in Chekiang, 1,222 in Yunnan, 4,881 in Kiangsi, 1,420 in Anhwei, 5,053 in Kwangsi, 2,350 in Kansu, 1,571 in Hunan, 2,384 in Szechwan, 686 in Honan, 1,034 in Shensi). Camels, donkeys, horses, and buffaloes are used on the road for hauling a variety of vehicles, ranging from simple wooden country carts to carriages with steel-rimmed, rubber-tyred wheels, with a carrying capacity varying from 300 to 1,350 kilograms. The waterways employ steam boats, wooden boats, sampans, and rafts. The Bureau has at its disposal 119,378 carts, 18,840 boats, and 325,367 porters, with a total carrying capacity corresponding to that of 208,733 two-ton trucks. During the year ended August 1941, the total material transported by the communications mentioned above amounted to 99,332,374 kilograms, while the branch lines in the provinces accounted for an additional 119,889,392 kilograms.

It may be added that while the routine of transport administration still rests with the Ministry of Communications, the administration of wartime military transport has been entrusted to the Bureau of Transportation Control of the National Military Council.

THE CO-OPERATIVE MOVEMENT

The co-operative movement in the country is only twenty years old but it has made rapid progress during the past seven or eight years. Whereas in 1927 the co-operative societies numbered 584, with a total membership of 14,000, at the present time there are over 110,000 such societies in the provinces in the interior, with a total membership of over 9,000,000. The movement has been carefully fostered by the Government. In 1934 the Legislative Yuan passed the Co-operative Societies Act for the regulation of the activities of such societies; in the following year a Co-operative Division was established in the Ministry of Industries¹, rules were issued for the administration of the Co-operative Societies Act, and a School of Co-operation was set up in the Central Political Institute for the training of workers in the co-operative movement. Following the incident of 7 July 1937, which marked the outbreak

¹ The Ministry has since been abolished.

of hostilities between China and Japan, the movement was further reinforced. The National Co-operative Administration was set up under the Ministry of Economic Affairs, and numerous bureaux of co-operative affairs were established in the provinces which, linking up with the new *hsien* system, are to extend the movement to the *hsiens* and villages. In 1941 the National Co-operative Administration was transferred to the Ministry of Social Affairs.

The first steps in the organisation of industrial co-operatives were taken by some industrialists in Shanghai in April 1938, and in August of the same year the Chinese Industrial Co-operative Association was set up in Hankow. The movement began at a time when, as a result of enemy action, industry was considerably disorganised. The industrialists were aware that industrial reorganisation in the interior would be a long process, and the skilled workers were scattered in the villages, for the most part unemployed. In these circumstances, the movement served a real need, for it not only proved to be a source of employment for unemployed workers and disabled soldiers returning from the front but was also useful as a means of utilising the local supply of raw materials in the villages for much needed consumers' goods. So great was the stimulus it provided to local initiative that it soon assumed ampler proportions, and the industrial co-operatives undertook the production of supplies for the local markets as well as for military requirements and for export.

Such is the explanation of the rise of the Chinese Industrial Co-operatives, the first of which was established on 26 August 1938 in Pochi in the province of Shensi, with an initial capital of 2,000 dollars loaned by the Association of Industrial Co-operatives. It made soap and candles. At the end of 1940, there were 1,655 industrial co-operatives in Shensi, Kansu, Ninghsia, Chinghai, Kiangsi, Fukien, Kwangtung, Hunan, Kwangsi, Szechwan, Sikang, Yunnan, Kweichow, Shansi, Honan, Chekiang, and Anhwei, with a total membership of 20,787 and a monthly production of goods to the value of approximately 11 million dollars. While spinning and weaving are the most popular and promising of the activities of the industrial co-operatives, these include also the manufacture of electrical apparatus, metal working, ore smelting, and the manufacture of chemicals and food products.

CONTROL MEASURES

Some account has been given above of the control of exports. Measures have also been taken for the control of foodstuffs and other commodities essential for daily life.

Foodstuffs

The supplies for the armed forces have been from the outset under the control of military authorities. Those for civilian consumption were in the early stages of the war under the control of the Agricultural Credit Administration. But in August 1940, when the National Food Control Bureau was set up, the control was transferred to that body, and food control machinery extending to the provinces and cities was established for the purpose of regulating supplies and determining prices. When the food situation became acute, the Central Executive Committee of the Kuomintang (at the eighth plenary session) decided to establish a Ministry of Food. The Ministry was set up in July 1941. With a view to the control of supplies, markets, and prices and the expansion of the national revenue, it was decided at the same time that the land tax should be collected in kind and, in addition, that cultivators should be required to sell foodstuffs in specified quantities to the Government. The collection of the land tax in kind has been in force since September 1941, and in June 1942 it yielded 22 million *piculs* of foodstuffs, or 3 per cent. more than the original estimate. This is an unprecedented result and the provinces that contributed most to it are Szechwan, Kwangtung, Honan, Hunan, Kweichow, and Ninghsia. It may be recalled in this connection that Generalissimo Chiang Kai-shek in his inaugural address at the National Food Administration Conference emphasised the importance of the problem of food supply. "Second only to military affairs", he said, "comes food administration. The proper enforcement of the national food policy is equal in importance to that of the work of the unification of legal tender undertaken by the Ministry of Finance in 1935. It is, indeed, a matter of great urgency, for on it depends the life of the nation. Food policy not only constitutes the main basis of wartime finance and economy and an essential condition for victory, but is also an important means of realising in the future the Principles of Livelihood, enunciated by Dr. Sun Yat-sen." The wartime national food policy is based on the principle of equal responsibility for all and is designed to take more from those who can give more. It is expected that the total collection for the current year will be approximately 80 million *piculs*.¹

Other Essential Commodities and War Materials

Under the revised Regulations for the Control of Agriculture, Mines, Industries and Commerce in Wartime, promulgated by the National Government on 6 October 1938, the Ministry of Economic

¹ Cf. *International Labour Review*, Vol. XLVII, No. 4, Apr. 1943, pp. 486-489.

Affairs, with the approval of the Executive Yuan, may take control of a wide variety of specified agricultural and mineral products¹ and may add to the number from time to time. All these products and the undertakings engaged in producing them are at present under the control of one authority or another. The Commodity Administration of the Ministry of Economic Affairs controls raw cotton and cotton textiles, while the Ministry of Agriculture and Forestry is responsible for the extension of cotton cultivation. Exports of silk, hemp, leather, lumber, cotton, and drugs are under the control of the Foreign Trade Commission of the Ministry of Finance. The Ministry of Economic Affairs controls the production of gold and silver, which has been nationalised. The production, transportation, and sale of iron and steel were formerly controlled by the Iron and Steel Control Commission, but with the abolition of that body their control has been transferred to the Industrial and Mining Adjustment Administration of the Ministry of Economic Affairs. The National Resources Commission of the Ministry controls the production, purchase, and transportation of copper as well as of tin, aluminium, nickel, lead, zinc, tungsten, antimony, manganese, and mercury. Foodstuffs, as already stated, are under the control of the Ministry of Food. Tung oil is a monopoly of the Foreign Trade Commission, and tea of the China Tea Company of that Commission. Sugar, salt, and matches are also monopolies under the control of special bureaux set up for the purpose by the Ministry of Finance. The Commodity Administration controls edible oils and paper, and the Fuel Control Bureau of the Ministry of Economic Affairs, coal and charcoal. The supplies for civilian consumption of petroleum, gasoline, charcoal, lubricating oils, and alcoholic spirits, which were formerly under the control of the Liquid Fuel Control Commission of the Ministry of Economic Affairs, are at present under the control of the Ministry of Military Affairs. The Cement Control Commission of the Ministry of Economic Affairs has been abolished and the production and sale of cement have been transferred to the Industrial and Mining Adjustment Administration. The Bureau of Transportation Control of the National Military Council and the Ministry of Communications control all equipment for transport and communication services. Drugs are under the control of the National Health Administration. Acids, alkalis, electrical equipment, electricity, machine-

¹ Cotton, silk, hemp, wool, and articles made of these materials; gold, silver, steel, iron, copper, tin, aluminium, nickel, lead, zinc, tungsten, antimony, manganese, mercury, and articles made of these materials; and foodstuffs, vegetable oils, tea, sugar, leather, lumber, salt, coal, charcoal, petroleum, gasoline, charcoal oil, lubricating oils, paper, varnish, alcoholic spirits, cement, lime, acids, alkalis, matches, transportation equipment, electrical equipment, educational equipment, soap, porcelain, bricks and tiles, and glass.

tools, educational equipment, soap, porcelain, bricks and tiles, glass, lime, and varnish, with the exception of supplies required for the fighting forces or produced by State-owned establishments, are under the control of the Industrial and Mining Adjustment Administration of the Ministry of Economic Affairs.

Measures have also been taken for the stabilisation of prices. Under the regulations issued by the Ministry of Economic Affairs on 20 February 1939 for the purpose of stabilising prices and preventing hoarding, the *hsien* and municipal governments under the control of the Executive Yuan are required to establish price stabilisation commissions in their respective localities after consultation with the producers' associations concerned. The chief articles subject to price stabilisation measures are essential commodities such as vegetables, meat, eggs, and clothing. Supplementary measures for the stabilisation of prices of essential commodities were promulgated on 5 December 1939. The Bureau of Price Stabilisation was set up, its main function being that of offering essential commodities for sale at cheap prices. The Bureau, together with the Agricultural Credit Administration and the Bureau of Food Control, is at present responsible to the Commodity Administration of the Ministry of Economic Affairs. The Administration has, since July 1942, applied a scheme of rationing cotton cloth, edible oils, and coal for civil servants, who were particularly affected by the marked rise in prices. In addition, special measures were issued on 3 January 1942 for the prevention of hoarding. These measures provide severe penalties for those who, with the intention of making profits, hoard commodities specified by the Ministry of Economic Affairs with the approval of the Executive Yuan, such as rice, flour, kaoliang, maize, beans, raw cotton, cotton yarn and cloth, linen, leather, coal, charcoal, salt, pepper, soap, matches, rapeseed and rapeseed oil.

While prices were fairly stable in the first two years of the war, since 1939 they have tended to rise in the case of imported goods and manufactured articles, and this has in turn reacted on the general price level and on wages. The result has been a vicious circle and the problem has presented serious difficulties. China is, however, an agricultural country, with 80 per cent. of its population living in rural areas and using a comparatively small amount of imported goods. The rise in the prices of these articles therefore does not affect the great majority of the population to a substantial extent, and the general rise in prices in the present emergency may indeed be said to have had a beneficial effect on the farmers. Farmers and workers are generally better off than they were before the war, and consequently their will to resistance has been ap-

preciably strengthened. They cheerfully face the heavy duties prescribed by the Government. The foundations of the rural economy of the country are being thoroughly reorganised and strengthened.

Currency and Finance

Finance has naturally presented many difficulties, but the problem may on the whole be said to have been dealt with successfully. There have been several changes during the last five years in the methods of financing the war. The central banking institutions have been reinforced by the establishment of a unified control over them in virtue of measures promulgated on 8 September 1939. The Joint Board of the Four Government Banks has been reorganised and its powers have been increased. The local banks in the provinces have also been reorganised and integrated with the banking system of the country more closely than before. A severely conservative policy has been followed in respect of the issue of bank notes. Strict control is also exercised over foreign exchange. Gold and silver are bought by the Government; every effort is made to encourage thrift by the adoption of measures such as the raising of the rate of interest on savings and the institution of special collections; bonds are converted; and idle capital is absorbed. The activities of the banks and exchanges are subject to strict control and steps are taken to prevent inflation and hoarding and other similar abuses.

In the budget estimates for 1942, while 34.4 per cent. of the expenditure is accounted for under general heads (central as well as provincial) and 32.4 per cent. has been allotted to special items, the remainder has been set apart for economic reconstruction, which is an indication of the importance attached to such work by the Government. The revenue is derived mainly from direct taxation. The income, excess profits, inheritance, and stamp taxes have been substantially increased. Indirect taxes have also been raised as, for instance, those on luxury goods such as cigarettes and wines. A wider range of goods is taxed than formerly and the rates are determined *ad valorem*. Government monopolies have been established, as previously mentioned, in cigarettes, sugar, matches, and salt. The land tax is collected by the Central Government. In addition to the collection of the land tax in kind, the taxes on flour and cotton yarn are raised by the Ministry of Finance on the same system. The reorganisation of the *hsien* system to which reference has been made earlier in this article is also calculated to improve the national finances, and every effort is being made to weed out abuses and corrupt practices.

With a view to co-ordinating the different controls and policies outlined above, the National Economic Council was set up under the Executive Yuan in February 1941. It consisted of senior officers of the Government and representatives of Ministries or ministerial establishments concerned with economic reconstruction. Its functions were both administrative and advisory and it was called upon to consider the plans referred to it and to enforce the policy decided upon. With the extension of the war in the Pacific, however, the situation changed greatly, and in order to meet the resulting increased demands upon the country, the National Government promulgated the National General Mobilisation Act on 29 March 1942. In May of that year the National Economic Council was reorganised as the National General Mobilisation Council. The powers of the Council were substantially increased, its organisation was strengthened, and it was made responsible for co-ordinating and promoting the work of general mobilisation. This step marks the determination of the country to mobilise its man-power as well as its material resources to the fullest extent, and to centralise control. There need be no doubt that the nation will contribute its utmost to the war effort of the United Nations, so that the unconditional surrender of their common enemies, the attainment of victory, and the restoration of civilisation and world order may be expedited.

THE OUTLOOK ON POST-WAR RECONSTRUCTION

As will have been seen above, the economic policy of the country is no longer passive, as it was before the war. The war has effected a radical change. *Laissez-faire* has been replaced by a policy of controlled economy. It has been a great step from an unplanned and unorganised economy to a planned and organised economy, and from divergent to unified control. The State, which is no longer content merely to promote, encourage, and protect agricultural, industrial, and commercial enterprise, is actively participating therein. State undertakings and private undertakings alike have undergone considerable expansion. Collective farms operated on scientific lines have been gradually developed. The foundations have been laid for the mechanisation of agriculture. The banking system has been extended to the whole country, the finances have been centralised, and the national economy has been systematised. The direction and control of the economic life of the nation are more efficient and economic activities are more lively than before the war. The way has thus been prepared for post-war economic reconstruction.

The main lines for the economic development of the country were clearly traced by the founder of the Chinese Republic, Dr. Sun Yat-sen, in his well-known work *International Development of China*. It was written over twenty years ago and envisaged the development of Chinese industry with international assistance, including the employment of foreign technicians. It is remarkable how sound the plans set forth there in such detail still are, although the situation has changed considerably. Before the war the Chinese Government was mainly inspired by that work in the determination of its national policy. It has remained the chief guide of governmental policy during the war and may be expected to continue to inform the nation in its efforts for regeneration in the years that lie ahead.

It will be recalled that *International Development of China* is divided into six parts, in each of which a particular plan of development is set out.¹ These plans may be expected to provide China with three major ports, a large number of smaller ports, several thousand miles of railways, roads, and waterways, and a wide range of industries.

In sum, the 450 million Chinese people are animated by Dr. Sun Yat-sen's ideal. The wartime changes in the national economy will leave an indelible mark on the economic structure of the country. The lines already laid down will be followed in the future. Meanwhile, it may be recalled that China was the first country to attempt to return the blow of the Japanese militarists. "Our firm resolution", said Madame Chiang Kai-shek in her recent address to Wellesley College in the United States (from which she had graduated), "our fearless will to resist . . . may be accounted for by the supreme faith that when the war is over, freedom, righteousness, and equality will be the foundation of the new world organisation." By freedom and righteousness, explained China's Foreign Minister, Mr. T. V. Soong, the Chinese mean political freedom and economic

¹ The principal features of each of these plans may be summarised as follows: (1) Construction of a big port in the north and of a north-western railway; colonisation of Sinkiang and Mongolia and the opening of a canal to connect North and Central China with the proposed port in the north; development of coal mines and establishment of iron and steel works in Hopei and Shensi. (2) Construction of a big port in the east; measures to improve communications by the Yangtse; establishment of inland ports and improvement of inland waterways and canals; establishment of cement works. (3) Development of Canton into a world port; improvement of the Pearl River system; construction of a south-western railway; building of commercial and fishing ports along the coast; and establishment of a big shipbuilding centre. (4) Completion of the central, south-eastern, north-eastern, and Plateau railway systems; extension of the north-western railway system; establishment of railway workshops to provide facilities for the manufacture of locomotives and rolling stock. (5) Development of food, clothing, building, and printing industries. (6) Development of copper, iron, petroleum, and other mines; establishment of smelting works and engineering industries.

justice. These two great objectives are wholly in accordance with the spirit of the Atlantic Charter, which is fully understood and supported in China. Willing to suffer any sacrifice for the sake of victory and prepared to undertake the responsibilities of creating a new Asia and a new world, China is co-operating with the other United Nations and expects reciprocal co-operation from them.
