

FREE CHINA'S NEW DEAL

By

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NEW YORK

THE MACMILLAN COMPANY

1943

About the Book

A GLOBAL war creates many hitherto unsuspected connections. Before Pearl Harbor it would have been presumptuous to say that the revision of the Chinese land tax had more than strictly limited significance. Since December 7 (in the Far East, December 8), however, it has become true that this tax, together with other domestic concerns of China's economy, has a vital bearing on the outcome of the present World War. For this tax furnishes the rice and other grains on which the Chinese troops depend for their food. Without this food, the Chinese army would be forced to stop fighting. Without the front in China, Japan would be able to throw her forces against India or Russia or Australia or all three together. Without India and Russia and Australia the task of the United Nations would be immeasurably magnified. Therefore, without the reform of the Chinese land tax, the victory of the Allies would be seriously endangered.

The same statement holds true of the new Chinese factories which provide the Chinese army with arms and ammunition; of the Chinese mills which furnish it, as well as the population with the modest wherewithals for its daily existence; of Chinese finance which holds the entire economy together; and of many other factors which have a bearing on the Chinese people's continued resistance.

The Tanaka Memorial said: "If we [the Japanese] want to control China we must first crush the United States. . . . In order to conquer the world we must first crush China." China and the United States are the two major obstacles to Japan's world domination. Therefore, the economic backbone behind China's fight is as vital to the United States as is American war industry to China. The two factors can be no longer separated. In the first factor lies the justification of this book.

The China just referred to is "Free China" as distinguished

from the areas occupied by Japan. Its bulk consists of fifteen provinces under the control of the National or Central Government at Chungking. The Japanese invasion in 1937 caused a fundamental shift in China's center of gravity from the coastal areas around Shanghai and the lower Yangtze River Valley to West, Southwest, and Northwest China. This shift, which affected not only the Government at Nanking but also factories, universities, and a vast number of people, is one of the epic events of this war. Economically, it meant the introduction of twentieth century means of production into an eighteenth century environment. Culturally, it meant the awakening of provinces exceeding the United States in population from their pre-industrial slumber. The effects of this migration on the whole Pacific area, on the whole world, are likely to make themselves felt in generations to come.

By contrast, the formerly best developed provinces, on the Chinese coast, have temporarily lost their significance and are, therefore, omitted here. Others have been but lightly touched upon because they are too remote or too undeveloped to have a bearing on China's war conduct. Omitted also from description are the regions under the control of the Chinese Communist Party which, forming a state within the state, are not included in the various statistics of the government organs in Chungking.

A rough balance of the economic resources between Free and Penetrated China, struck in Chungking in 1940, is reproduced below because it illustrates the Japanese war aims. The figures, which are not official, refer to the twenty-eight provinces before the Japanese invasion of Manchuria. Developments since 1931 are not considered.

	<i>Free China</i> <i>Per Cent</i>	<i>Penetrated</i> <i>China</i> <i>Per Cent</i>
Territory (11,599,855 square kilometers)	78.9	21.1
Population (1936 Census, 470,528,073)	57.5	42.5
Agricultural Production:		
Rice	76.3	23.7
Barley	65.5	34.5
Sweet Potatoes	57.8	42.2
Corn	52.6	47.4
Forest acreage	75.0	25.0
Animals:		
Sheep	82.8	17.2
Camels	74.6	25.4

	<i>Free China Per Cent</i>	<i>Penetrated China Per Cent</i>
<i>Animals: (Cont.)</i>		
Oxen	59.5	40.5
Mules	55.5	44.5
Poultry	54.6	45.4
<i>Mineral Production:</i>		
Coal	35.0	65.0
Iron	1.0	99.0
Gold	48.0	52.0
Copper	71.7	28.3
Manganese	98.1	1.9
Tin, Antimony, Lead, Nickel, Arsenic	99.9	.1
Alum	86.4	13.6
<i>Mineral Reserves:</i>		
Coal	40.6	59.4
Iron	15.0	85.0
Petroleum	58.3	41.7
Antimony	100.0	slight
Tungsten	100.0	slight

Shanghai, once the largest port of the entire Far East and center of the foreign commercial interests in China, lost its major significance in November, 1937, after the withdrawal of the Chinese troops. The foreign-controlled areas—the International Settlement and the French Concession—continued a precarious existence until December 8, 1941, when the Settlement was taken over by the Japanese though the Concession was allowed to remain under French administration. For brevity's sake, I distinguish in the text between "Chinese Shanghai" (the parts of the city at war outbreak under Chinese control) and "Foreign Shanghai" (the parts under foreign control).

Most of the material, I collected during my stay in Chungking between August, 1940, and September, 1941. The data on China's Northwest (Chapters XXII–XXIV) are mainly derived from an unpublished manuscript by Samuel Chao, a writer on the staff on the Chinese Ministry of Information, who collected them during an eleven-month journey ending in the spring of 1940. Some of the Chungking index figures and the brief summary of developments in the Communist-controlled area given in the chapter "The Postwar Outlook" have been taken from another unpublished manuscript, "Wartime Economic Development of China." Both papers were placed at my disposal through the courtesy of the Institute of Pacific Relations in New York.

The poor state of communications with and within China makes it impossible to obtain detailed information of a more recent date than that here given, a mail inquiry to Chungking eliciting the reply that "almost no organization has yet compiled the 1941 figures."

A warning about Chinese figures in general may not be amiss. The average Chinese has little respect for mathematical exactness and is content with approximations. Nearly every source book on China gives different figures on such items as population and area, and even statistical information from the same office on the same topic occasionally differs. The fault lies partly in the absence of mechanical devices of computation.

As regards weights and measures, officially China has the metric system. The kilometer is called "public mile" and the meter "public foot." The weight unit is the picul of 110 pounds, divided into ten *tou* and one hundred catties. One ton has twenty piculs and is almost equal to the long ton (0.9842059). Grain is measured by weight, not by volume; and I have followed this practice as all agricultural statistics are compiled on this basis. For areas there is the *mow*, officially equal to one-sixth acre. Local variations are manifold because in former times piculs and catties and *mow* varied from province to province, even from locality to locality.

In the Chinese currency the former distinctions between "big" and "small" money, between copper coins, silver coins, and bank notes have fortunately disappeared. There is only one standard dollar, the legal tender or *fapi*, which has one hundred cents. Neither silver nor copper is any longer in circulation. Even the provincial notes, so far as they remain in use, have a fixed relation to the national currency. The Chinese standard dollar in turn had, since November, 1935, a fixed value in terms of the American dollar, still called the "gold" dollar, the rate being \$3.40 to one. Beginning with March, 1938, foreign exchange rates went up; the American dollar selling in Chungking in 1940 as high as \$28 national currency. Since the stabilization of the summer of 1941 the rate has been around \$21, and since the fall of Shanghai and Hongkong it is \$19.

Free China presents the picture of a country which, by force of

circumstances, is lifting itself by its own bootstraps. That such a violent and painful operation is beset with errors and shortcomings, is unavoidable. But the development inaugurated under the stern necessities of the war, which in China began on July 7, 1937, not only affects the outcome of hostilities but also holds the seeds of a new age which, it is hoped, will truly be pacific.

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NEW YORK, May 15, 1943

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PART I

National Resources and Their Use

CHAPTER I

End of an Era

VERY few people in the United States still remember the judgment of an American commentator, made after the fall of Hankow and Canton in October, 1938, that "Japan has won the war hands down." But the fall of China's last major seaport and of her one remaining industrial center after the loss of Shanghai, Tientsin, and other coastal cities did signify an important turn in the history not only of China but also, in the long range, of the Pacific area. What came to an end in those fateful October days was not China but a particular hundred-year-old phase in China's relations with the world, a century that had begun with the Opium War in 1839 and is called the "treaty port era."

The result of that phase had been Hong Kong, Shanghai, Tientsin, Canton, Hankow, and a score of minor ports under foreign control. These new trading centers, which carried on the world-wide commerce the West had so insistently demanded, were all harbors. Situated either on the seacoast or on the sprawling Yangtze River, they were small open windows turned seaward through which blew in the breeze—or the storm—of a new age: the age of the machine.

Industry followed the maritime trade. The foreigners with their gunboats and banks and world-wide merchant firms started factories. Certain raw materials were plentiful, and labor was cheap. The ports teemed with people anxious to earn a pittance. Secured by rights wrung from a feeble, corrupt Imperial government, Western business boomed.

The Chinese, supreme masters of the whole Far East for two thousand years, were slow to acquire the new ways. It was humiliating that they, old, venerable, experienced teachers to whom all neighboring peoples had been looking for guidance, had of a

sudden to begin once more to study. The period of learning was long and painful and was frequently punctured by revolts. But eventually some Chinese understood there was no other way. Because the old, decaying dynasty resisted and wanted to shut those small windows, even though it did not have the strength to do so, there was but one road, the revolution. In 1911, after many years of labor by Sun Yat-sen and his progressive friends, the Emperor was forced to abdicate and the Republic was founded.

Quick as was the success of the political upheaval, the result was not peace and progress but civil war and disintegration, for China still lacked the economic wherewithal with which to build a new state. Modern mining, modern commerce, and modern industry were all in foreign hands. Only the land was Chinese; and the economic foundation even of the peasants was being destroyed by the stream of imported goods which ruined the old home industries and by their dependence, whether they knew it or not—and most of them did not—on a world market. The first revolution created a president and a parliament but no livelihood for the people. It was not enough.

It was the First World War which turned the tables on Europe in the industrial field. The war demands sucked in enormous quantities of goods from wherever they could be brought. New industries sprang up in formerly agricultural countries, and the China coast was no exception. As the preoccupied European retreated, the Chinese was quick to step forward. Chinese factories, banks, department stores began to fill those port cities in successful competition with Western business.

But the political privileges of the white man continued. In the international settlements and foreign concessions he could do as he pleased, untouched by any Chinese law. Chinese nationalism, strengthened enormously by World War I, rose in anger. "Down with Western imperialism!" became the battle cry. Thus gathered the storm for the Nationalist Revolution which broke in 1926, fittingly preceded by a boycott of Hong Kong. For the first time the Chinese crossed economic swords with the foreigners—and won. In two years the Nationalist armies, led by a young general named Chiang Kai-shek with Russian political advisers, swept

from Canton to North China. The white man retreated; some British concessions were given up. But resistance came from another quarter: Japan tried to stem the tide. Japanese troops in Shantung interfered with the northern expedition. Peking, later named Peiping, was occupied only in 1929. But the new government was already established at Nanking.

Despite the ensuing civil war against the Communist movement, the Nationalist Government gradually prevailed upon the foreign powers to consider abolition of the special rights. The fixed low Customs tariff was done away with, and Chinese industry for the first time was able to develop behind a modest shelter. As the Communist armies retreated, in 1935, into the distant Northwest, economic life in Eastern and Central China took a noticeable upswing. The small windows were enlarged with frames no longer made abroad but in China. A Chinese-built and -governed Greater Shanghai was launched to overshadow the foreign-controlled areas. Though shot to pieces by the Japanese invasion in 1932, it was at once rebuilt. The modern Chinese was maritime-minded.

Under other circumstances, the industrial and commercial development by the Chinese of those harbors which the white man had forced open would have been sound. But there was one flaw in the picture: China had no navy and had an aggressive neighbor.

Within four months after the outbreak of fighting in July, 1937, the country's industrial and commercial centers were either, like Tientsin and Chinese Shanghai, in Japanese hands or, like Canton and Hankow, blockaded by the enemy. What traffic and manufacturing activity survived on the coast was under foreign protection or ownership. Involuntarily, those foreign areas, once wrested from China at the point of the gun, repaid their debt. The "isolated islands" became a refuge to the loyal Chinese, capitalists and laborers alike, in a sea of Japanese occupation.

The losses were large. Destroyed plants in Shanghai alone were worth nearly U.S. \$100,000,000. There used to be some 22,000 factories and workshops employing 600,000 workers. By December, 1937, the Chinese area was wiped out, and in the International Settlement the number of factory workers had dropped to 10,000. The Chinese city of Tientsin was in Japanese hands almost at once,