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UNIVERSITIES COMMITTEE
ON POST-WAR INTERNATIONAL PROBLEMS

PROBLEM XII

CHINA IN THE POST-WAR WORLD

ANALYSIS

These analyses are prepared by the Universities Committee on Post-War International Problems, Ralph Barton Perry, Chairman, in cooperation with the World Peace Foundation, for the use of college and university faculty groups and other interested individuals and organizations. Send requests for copies to Leland M. Goodrich, Executive Secretary, at the address given below. Except to members of Cooperating Groups, their price is five cents per copy.

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UNIVERSITIES COMMITTEE
ON POST-WAR INTERNATIONAL PROBLEMS
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INTRODUCTION

China's problems in the post-war era will be an intricate blend of old and new. When the Sino-Japanese War commenced in 1937, China was in a period of transition which demanded a fundamental re-examination of many phases of her national life. Many old problems, inherent in China's evolution, have remained unresolved under the stress of long years of war. They will inevitably reappear in the post-war period and merge with new issues now taking shape.

Insight into the questions involved in China's development will constitute an important challenge to the United States in the years following the war. People in this country are sadly lacking at present in a realistic picture of the Chinese nation. Formerly the tendency was to expect too little of China; now, the tendency is to expect too much. In the past, we often spoke of China as a "weak" and "backward" country and compared her to the states of mediaeval Europe. Today, swinging the pendulum in the opposite direction, we cling to an idealized conception which, through no fault of the Chinese, is likely to "let us down" in the course of events.

The influence of the United States in the international community cannot fail to be great in the post-war period. During and after the peace settlement, many decisions will have to be made, and our policies—for better or worse—will have a far-reaching effect on China's future. Conversely, China has assumed a new position in the Pacific area, a fact which will be felt in many ways in the United States. Even aside from other considerations, China's growing power for preserving peace in the Far East and the increased economic importance likely to result from her progressive industrialization, are developments which are bound to affect our own interests.

1 This Analysis has been prepared by Dorothy Borg, Research Associate of the American Council, Institute of Pacific Relations, who is responsible for any opinions expressed.
BACKGROUND

The basic problems evident in China before the war fell into two categories: those related to foreign affairs and those arising out of internal conditions. For many countries the cleavage between these two divisions is marked, but China's domestic situation has been dominated to an unusual extent by her relations with foreign Powers. Her history in recent decades is very largely the history of a country trying to extricate itself from outside control.

Through treaties made in the nineteenth century, foreigners achieved special privileges in China which cut deeply into her national life. Foreign governments obtained control of Chinese tariffs which they fixed at approximately 5%. Foreign citizens resident in China were given rights of extraterritoriality whereby they were tried in law courts conducted by their own nationals and subject to the laws of their home countries. Parts of certain Chinese cities were set aside as so-called Concessions or Settlements, where foreigners lived under their own Administrations. Foreign gunboats moved in Chinese waters and foreign troops were stationed on Chinese soil. With the exception of the holding of Concessions, the United States shared in these arrangements.

As conditions within China changed, especially during the twentieth century, the Chinese became more and more hostile to the special position enjoyed by foreigners in their country. They not only resented the concrete privileges granted by the treaties but came to regard the treaties per se as symbols of what they believed to be the arrogant attitude displayed by many Westerners toward the Chinese. The foreign communities in China were themselves divided on this issue and many Americans and British accused their fellow-nationals of treating the Chinese without respect for their national needs or their intrinsic dignity as individuals.

The resentment of the Chinese toward foreigners came to a head in the summer of 1925 when an anti-foreign movement swept the country, carrying in its wake demonstrations, riots and boycotts. This anti-foreign trend was strengthened by the growth of the Kuomintang or Chinese Nationalist Party. Revitalized in 1924 under Dr. Sun Yat-sen with the help of Russian advisers, the Kuomintang organized and conducted a revolution. The Kuomintang split, but the revolution,
nevertheless, engulfed all China and finally resulted in the establishment in 1928 of the National Government under Chiang Kai-shek.

From 1925 on, the Chinese Government, reenforced by public opinion, insisted upon and obtained a gradual retreat of the Powers from their treaty position. The United States, which after the Washington Conference was eager to maintain the leadership in a progressive policy toward China, showed a willingness to meet the Chinese demands for treaty revision at least half way. In 1928, it led a movement which resulted finally in the return of tariff autonomy to China. At the same time the United States and Great Britain started negotiations for the abolition of extraterritorial privileges, negotiations which might have reached a successful conclusion if they had not been interrupted by the Manchurian Crisis in 1931. Following this, little was done until 1943, when both the United States and Great Britain signed treaties with China which virtually wiped out the special privileges held by their citizens up to this time.

Alongside of the struggle for a revision of the treaties, the Chinese had many other causes for disputes with foreigners. One need only recall the wars fought with and over China, the battle for concessions, the scramble for spheres of influence, to realize that China has been one of the great passive battle-grounds over which the Powers have tried to outmaneuver each other. Insight into these phases of China's relations with other nations is essential not only to an understanding of history but also to an understanding of post-war China. Chinese resentment against foreigners was justified in the past and it cannot be dissipated overnight. At the peace table and in the post-war years, China may be moved, perhaps unconsciously, to seek some compensation for all she has undergone. Indicative of this attitude are the remarks of T. S. Chien:2

“She will insist on meticulous equality of treatment in her dealings with other nations. She will be jealousely watchful of her full sovereignty and freedom of action. The older nations may be ready to accept a degree of international government and restricted sovereignty; the new Chinese nation may behave chauvinistically.”

To this he adds that China “will come to the peace table young and perhaps with a chip on her shoulder.”

In their attitude toward China’s conduct of her foreign relations in the post-war years, Americans should therefore have in mind the direct bearing of the past on the present. In addition, they should have a realistic picture of the situation now existing within China. Although it is obviously impossible to review here all the elements that make up modern China, there are some basic considerations that may serve as guides to the future.

China is essentially an agricultural country and her problems are primarily agricultural problems. At least three-quarters of her population is agricultural and her peasants are staggering under an appalling burden of poverty; testimony to this lies on every hand.

Small and scattered land holdings, rents, taxes, and credit are among the peasant’s most crucial problems. While lack of data makes any accurate picture impossible, it appears that in North China the average farm is no larger than two to eight acres, while in the south it is only about one acre. According to one rough estimate, the landlords who form about 5% of the population, own approximately half of the cultivated land, while the peasants who constitute about 70% of the population, own only 20% of the land. Moreover, individual farms are so divided that one man’s farm consists “of anything from 5 to 40 scattered squares, oblongs, strips, wedges and corners of land, scattered over hedgeless fields and sometimes at a distance of more than a mile from each other.”

In addition to the pitiful smallness and fragmentation of farms, the peasant has to face heavy burdens of rent and taxes. Rents are estimated as taking commonly from 50% to 60% of the harvest, and sometimes as much as 80%. Taxes are heavy, consisting of land taxes, surtaxes and extra charges of varying kinds. Moreover, the system of tax collection throws an unfair share of the burden on the peasant. The tax collector is usually a local official who has obtained his job through heredity and who uses all the techniques of “squeeze”—so familiar in China—that he has learned from his forefathers. Unfortunately, these techniques are more easily employed against the poor farmer than against his more powerful neighbor, the landlord, so that the latter is likely to escape responsibility at the expense of the former.

As a result of these overwhelming difficulties, the peasant

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is constantly in need of money. Rough estimates, made before the war, indicate that the minimum annual sum needed to support a peasant family in China was about Ch. $150 and it is probable that a large portion of the population fell below even this standard. Under these circumstances there is little the farmer can do except borrow money. This he does—maybe from his landlord who is often the local money lender—at exorbitant rates of interest. R. H. Tawney states that "a 'good money-lender' described as a blessing to his village has been known to charge only 25%; but such restraint is exceptional."\textsuperscript{4} Interest is said to range between 20\% and 60\% and often goes much higher. The consequence is that a farmer who has once fallen into debt is usually unable to meet his expenses and pay his commitments to the money lender and thus is caught more and more in a vicious spiral of borrowing.

This (the agrarian issue) is China's number one problem—past, present and future. A criticism frequently levelled against the National Government is that it has done little to ameliorate these conditions. Moreover, the war itself is said to have made the situation even more acute. In pushing Free China back into the western provinces, it has wiped out the influence of the manufacturers, traders and others who had been engaged in modern enterprise and were, in many respects, progressive in outlook. These groups tended to counterbalance the power of the landlord class which, now, without their restraining influence, is in an even better position than formerly to oppose agrarian reforms. What effect this will have on post-war developments remains to be seen.

Industrially, China is often compared to Europe on the eve of the Industrial Revolution. Work in cottages and workshops is the rule rather than the exception. Weaving, the making of clothes and shoes, the fashioning of furniture, metal work, wood work, and an infinite variety of other trades are carried on in small workshops by little bands of workers. Side by side with this situation, there has grown up within the last half century a more modernized industrial system, largely confined, however, to the treaty ports and developed very largely under foreign control. Although, especially in the years before the war, there was a rapid increase in industrial activity, China industrially is still far from comparable to the modernized countries of Europe or to the United States. In

pre-war days, while there were some large factories in China—notably in the textile trade—the average plant had no more than 200 employees, and it was estimated that all-in-all there were probably no more than two million factory workers throughout the country.

When the National Government came into power, it was well aware of the necessity of "modernizing" China, of building the blood and tissues of a modern state. The pace of industrialization was accelerated. Much emphasis was placed on the building of a transportation system, and within ten years roadway suitable for motor traffic was increased from 15,000 to 100,000 kilometers. While less progress was made in respect to railroads, several thousand miles of tracks were laid. Nevertheless in 1935 China possessed only 9,737 miles of railways as compared to 254,000 miles in the United States.

In addition to these and similar measures, work was also undertaken by the National Government in such fields as public health and education. In education, China has given most attention to her primary schools. The number of primary school children was increased by several millions before the war, and secondary schools were improved in quantity and quality.

One of the difficulties, however, with industrialization, establishment of communications, and other pre-war developments in China, was that they took place largely in the eastern provinces. Therefore, when Free China was forced to retreat to the hinterland as a result of the Japanese invasion, she was faced with the necessity of opening up a largely undeveloped West. Throughout the war, rapid strides have been made in constructing highways, railroads, factories, etc., and the interior of China presents a very different aspect today from that offered before 1937. While this transformation should not be exaggerated, it nevertheless carries with it great potencies for the future.

Out of China’s background, therefore, emerge certain factors, such as her changing relations with foreign Powers, the magnitude of her agrarian problem, the early stages of her industrialization, and modernization in certain other spheres of national life, which mark the starting point from which China must set out on her post-war journey. In these terms, and only in these terms, is it possible to understand the issues involved in the future of Sino-American relations.
ANALYSIS

1. **What does China want from the peace settlement and how far are her views likely to coincide with those of the United States?**

   No official statement has as yet been made, indicating the nature of the peace terms China is likely to demand. Nevertheless, by gathering together views obtained from responsible sources, it is possible to gain an idea of the attitude of the Chinese toward the peace settlement as a whole and toward some of the terms under consideration.

   a. **What is the general attitude toward Japan likely to be in both China and the United States after the war?**

   China and the United States will be among the leading nations to effect a peace settlement with Japan. The question, therefore, of the attitude these countries will adopt in approaching the peace negotiations is one of major importance.

   Some Chinese argue in favor of moderation, affirming that while Japan should be stripped of the power to commit further acts of aggression, she should not be transformed into a ruined, bankrupt, and revengeful neighbor. There are indications, however, of a tendency within China to emphasize Japan’s past record of aggression and to insist that the character of the Japanese people makes it impossible to use generous methods. This line of reasoning is followed, for example, by S. R. Chow in his recent book, *Winning the Peace in the Pacific*, an expression of an important Chinese point of view: “A big stick counts with them (the Japanese) more than lofty principles, good faith, and soft words. It is a mistake to think that one could make the Japanese quiet, reasonable, or peace-loving by treating them generously after the war.”

   Dr. Chow’s views seem to be paralleled in the United States. The Denver National Opinion Research Center states that American hostility to Japan is intense; that it exceeds the bitterness felt toward Germany; and that it has increased markedly since the outbreak of the war. There seems little doubt that antagonism to Japan in this country is great and is growing greater.

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5 Dr. Chow’s book has been drawn on extensively in the preparation of this section of the Analysis.
6 p. 11.
b. What Chinese proposals have been made in respect to specific peace terms? To what extent should we be prepared to meet these demands?

Some of the points noted below have already been analyzed in Problem XI from the point of view of arguments offered for and against their acceptance by the United States. The following summary of Chinese proposals has been taken from different sources, some official, some unofficial. It seems evident that the United States should not reach a final decision concerning the terms of the peace settlement, without giving the fullest consideration to the demands of the Chinese. The extent to which Chinese interests are involved in the settlement can be seen from such facts as the following: (1) Many of the issues in respect to a territorial settlement in the Pacific relate to former Chinese territory. (2) The consequences of militarism in Japan have been felt by China more than by any other country. (3) Japanese disarmament is as vital an issue to China, as German disarmament was to France after the last World War. (4) Many suggestions in regard to reparations involve the transfer of property to China.

Because of China's stake in the peace settlement, it is suggested that some of the questions already discussed under Problem XI be reviewed in the light of the following Chinese recommendations, with a view to ascertaining to what extent we are prepared to join with China in her demands.

(1) Territorial settlement.

The Cairo Declaration of President Roosevelt, Generalissimo Chiang, and Prime Minister Churchill announced that Japan would be "stripped of all the islands in the Pacific which she has seized or occupied since the beginning of the first World War in 1914"; that all the territories "stolen" from China "such as Manchuria, Formosa and the Pescadores" would be restored to the Chinese; that Japan would "be expelled from all other territories which she has taken by violence and greed"; that Korea should "in due course" become free and independent.

This proposed territorial adjustment met the demands which had previously been stated unofficially on many occasions by the Chinese. The extent to which Chinese aspirations were satisfied at Cairo is reflected in reports that Chungking was
"jubilant" on receiving the news of the Declaration and hailed the settlement as China's "political and diplomatic victory."

China, the United States, and Great Britain have thus agreed on the territorial questions at issue between China and Japan. The Chinese, however, repeatedly bring up the problem of Hongkong as a matter to be settled between themselves and the British. They want an immediate return of Hongkong "without strings attached". It is suggested that the British may prefer to treat this question as part of an over-all settlement in the Pacific area, dealing not only with China but with all the countries bordering on the Pacific. In this case the United States would be among those having to reach a decision concerning the future of Hongkong. The suggestion has been made by some Englishmen that Hongkong might be used as a base for an international police force. The Chinese, however, emphasize the vital importance of Hongkong to their own country as a great commercial center for South China. Compromise plans have been put forward, recommending that Hongkong be ruled for a brief period by an Anglo-Chinese administration, prior to its unconditional return to China. In addition to the above arguments there are many who believe that Great Britain should relinquish Hongkong immediately, before Chinese resentment has piled up to such an extent that it will be impossible to allay ill feeling.

(2) Reform of the Japanese Government.

On January 1, 1944, the Generalissimo delivered a speech in which he stated that the Japanese militarists must be "wiped out" and the Japanese political system purged of all aggressive elements. He added: "As to what form of government Japan should adopt, that question can better be left to the awakened and repentant Japanese people to decide for themselves." The Generalissimo further referred to a possible revolution in Japan, which would overthrow the militarist regime, in which case, he said, we should respect the "spontaneous will" of the Japanese people and "allow them to choose their own form of government." Failing a revolution, however, other Chinese have suggested that the United Nations should exert "irresistible external pressure" to force the present Japanese Government out of power and strengthen the hands of the liberal

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7 S. R. Chow, op. cit., p. 21.
elements. It is urged that one means of pursuing such a policy would be to refuse to deal with the present Japanese administration or any other militarist faction in concluding the peace settlement.

(3) Disarmament of Japan.

In regard to the disarmament of Japan, unofficial Chinese proposals support the following measures:

(a) The United Nations should take over all Japanese aircraft, military and non-military, and Japan’s air bases should be demolished.

(b) Japan should be deprived of her navy, naval bases, and shipbuilding yards for naval vessels.

(c) Japan should not be allowed to maintain a national army.

(d) Armament factories should be confiscated; the import of arms into Japan should be prohibited and the import of strategic raw materials controlled.

(e) An International Commission, with agencies on the spot, should ensure the enforcement of the disarmament clauses of the treaty. It is argued by some Chinese that prolonged supervision by such a Commission is essential; that Western experts underestimate Japan’s will and capacity for renewed aggression; that the impracticability of prolonged control has been unduly exaggerated.

(4) Reparations.

Financial reparations, such as followed the last World War, appear to be regarded as impractical in China. Reparation demands center around two main proposals. (a) It is proposed that Japan should be made to surrender in favor of China all her investments, properties and material assets (whether state-owned or not) in all of China including Manchuria. This is obviously a vital question from the Chinese point of view, as Manchuria is expected to play a key role in the post-war industrialization of China. (b) The suggestion is made by Chinese—and by others as well—that a considerable part of Japan’s machinery for heavy industry be transported to China in order to help in the reconstruction of China, in order to prevent Japan’s rebuilding her armament
industry, and as just retribution for the Japanese attack on China.

In conclusion it may be said that the main differences of opinion between Chinese and Americans in relation to the proposed peace terms which have appeared to date seem to relate to the amount of economic freedom to be given Japan. This issue hinges in turn on the question of whether or not liberal elements will control the Japanese government after the war. Should this be the case, it is believed by many thoughtful observers that the Chinese would alter their views concerning such matters as the removal of Japan's industrial equipment to China. (For arguments against the destruction of Japanese industry, see "What Future for Japan?" by Lawrence K. Rosinger, Foreign Policy Reports, September 1, 1943.)

2. What role should the United States play in China's post-war industrialization?

China is grimly determined to speed up the pace of her industrialization after the war. Even for a country where paper plans always flourish in abundance, China is today producing an astonishing number of plans for postwar industrialization. Every government ministry is formulating programs; official and unofficial planning conferences have been held; and the Generalissimo himself in his famous book *China's Destiny* (issued in China last spring but not yet released abroad) has set forth "masses of figures" to be achieved both on a ten year schedule and in longer periods. The objectives cover such matters as an increase in the output of iron, coal and steel; the production of machinery, locomotives, automobiles, steamships, etc.; the expansion of light industries; and the further development of export commodities.

a. What stake has the United States in the post-war industrialization of China?

It is argued that the aims of Chinese industrialization are by no means of interest to China alone. Looking back over modern history it is clear that China—with important resources and a potential market of 400 million customers—has been an inevitable cause of conflict among the Powers for advantages, exploitation and conquest. Many feel that there will be no end to this struggle until China is strong,
strong enough to defend herself. Only a self-dependent and vigorous China, it is said, can bring peace to the Far East. A prerequisite of China’s strength is economic power and for this reason, if for no other, the United States should regard China’s industrialization as essential.

In addition, however, there are those who consider that the industrialization of China may help the United States, Great Britain and other nations in the solution of some of their own economic problems. Post-war China, it is stated, should be able to absorb idle American capital and furnish a market for foreign goods. Sceptics point out that China has, for the last hundred years, been regarded as the coming El Dorado of the American trader, but that this dream has never approached realization. The answer given by some to this criticism is that the Chinese cannot buy consumers’ goods in large quantities while they remain a nation of poverty-stricken peasants. In this connection, emphasis is placed on the benefits that should accrue from industrial progress. During the period of China’s industrialization, her import demands will be primarily for capital goods, while over a longer period of time, as the experience of the past has shown, the industrialization of China will mean greatly increased and varied foreign trade, and will contribute considerably to the maintenance of a prosperous world economy.

b. On what terms should the United States participate in Chinese post-war industrialization?

In the years immediately after the war, some economists believe, China may find it more difficult to obtain capital goods than funds. The blockade, they point out, has made it impossible for China to make use of either the $500 million loan granted by the United States in 1942, or the money which is accumulating through the remittances of overseas Chinese and through foreign expenditures in China. When the war is over, China will presumably have this money for immediate use.

It is assumed, nevertheless, that in the long run China will need funds, goods and technicians. The Chinese claim, however, that no matter how great the need, they will not accept foreign assistance on the old terms. Loans were formerly guaranteed, for example by the customs revenues, and to ensure the proper collection of these revenues foreigners were placed
in charge of the Customs Administration. Foreign business was conducted, to a large extent, within the sheltering walls of Concessions, free from taxes and other forms of Chinese jurisdiction. Foreign advisers often acted, not as servants of the Chinese Government, but in a partially independent capacity, serving also the interests of foreign Powers. Conditions such as these caused much resentment and were referred to as factors reducing China to a "semi-colonial status." Moreover, it was felt that foreign business, enjoying special privileges, was able to smother China's infant industries by unfair competition. The fact that much of China's industrial development was taking place under foreign control also led to the feeling that policies were instituted in a haphazard fashion which might result in profits for individual firms but which took little account of Chinese economy as a whole.

It is with this experience in mind that Chinese are insisting today that if foreign aid is offered only on the old terms, they would prefer to raise capital within their own country. No one underestimates the hardships this would entail, but China, above all nations, has shown her capacity to endure suffering. Besides privation, any such course would probably mean retarding, to a serious extent, the pace of Chinese industrial development. Moreover it must be remembered that experience has shown that economic isolation means rigid state planning under authoritarian control.

(1) Loans.

If China requires further loans from the United States, should they be made from government or private sources? On the one hand, it is argued that private capital is less politically "explosive" and would therefore be more acceptable to the Chinese. On the other hand, grave doubts are expressed as to whether private capital will be willing to take any such risks without guarantees of security and high returns. The loans floated in this country after the last World War, in relation to Europe and South America, are cited for their disastrous consequences and it is intimated that the American public is not likely to want to repeat this experience. It is suggested that government loans, whether made directly between Washington and Chungking or through some international agency acting as intermediary, will probably be used extensively following World War II.
Whether private or public loans are made, however, it will be necessary to consider certain basic facts. There is nothing to be gained and much to be lost, it is felt, by viewing conditions through rose-colored glasses. Chinese inflation has now reached appalling proportions and both Chinese and Americans recognize that this situation must be remedied if foreign capital is to find its way into China. Political stability is another prerequisite of foreign loans. There is no use blinking the fact that lack of political unity has been a critical problem in modern China. In the decade before the National Government was established, China was torn by struggles between warlords. Even after the advent of the Chiang Kai-shek regime, conflicts between the central government and local factions continued and a long and bitter war was fought with the Communists. Whether these difficulties will be resolved in the post-war era is a question which remains to be decided.

There are other issues, hard to define in black-and-white, but still of importance when considering post-war loans to China. In Western terms, China is still a long way from being modernized, especially as far as her industrial structure is concerned. Moreover, modernization entails a long and difficult experience by means of which China must develop the particular form of economy best suited to her needs. As Professor J. B. Condliffe has stated: "China cannot be turned overnight into a mechanically minded, industrial community. It is too easy a solution to believe that economic development can be achieved simply by transplanting some of the mechanical tricks and tools of the West. These tricks and tools are the tangible results of a long and painful process of scientific application. The fundamental principles of which they are applications need to be applied in new ways to the different problems of China."8

These conditions suggest a post-war period of trial-and-error which may entail considerable confusion. Moreover, certain administrative features must be taken into account. One of these is "squeeze", which though commonly practiced both in political administration and the conduct of business in China, has proved a stumbling block in many phases of her national life.

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8 J. B. Condliffe, "The Industrial Department of China" in National Reconstruction, April, 1943.
Reviewing all these considerations concerning the post-war industrialization of China, it is suggested that the assumption be made that in the immediate post-war period, loans granted to China will be on an inter-governmental basis. The questions that derive from this are: How can these loans be made without returning to the old pernicious practice of infringing China’s sovereignty? On what terms can loans be negotiated that will safeguard United States’ interests?

(2) Foreign enterprise in China.

While some of the above considerations apply to the carrying on of foreign business (industrial, financial and commercial) in China, some special problems are also present in this connection. Americans will face a new situation in having to conduct their business affairs without the benefit of extraterritorial privileges. Those who believe that this should offer no difficulties point to the fact that Germans and Russians have, long since, ceased to enjoy extraterritorial rights; that, in the hinterland, foreigners have depended little on extraterritoriality; that some of the larger American and British companies have incorporated under Chinese law in the past.

On the other hand it is argued that, inherent in the new situation, are many unknown factors that will determine the future role of foreign enterprise in China. Possibly foremost among these is the attitude—still undecided—that the Chinese will adopt. There are those who are convinced that the need for assistance will result in China’s welcoming foreign enterprise. Counterbalancing this theory, however, is the fact that the Chinese Government probably will want to maintain control of heavy industry itself and to promote Chinese enterprise in light industry. Today there are indications of the existence of both these trends. In September 1943, a resolution passed by the Central Executive Committee and Supervisory Committee of the Kuomintang lifted the restriction which limited the ratio of foreign capital in Sino-foreign enterprises to 49%; the same resolution also declared that all other regulations governing such enterprise “shall be revised.”

While this suggests that the Chinese will welcome foreign business activity, a different tone has been adopted in proposals made by some Chinese economists. A list of these
published in an article by C. W. Meng includes: (a) The period of existence of foreign factories in China shall be decided by the National Government. Upon the expiration of the period, the National Government may take over the factory with compensation, or may order the cessation of operations within a limited period. (b) Exemption from taxes, which may be specially permitted to Chinese factories as encouragement to the development of domestic industries, shall not be applicable to foreign factories. (c) All staff members and laborers of foreign factories in China shall be Chinese. If it is necessary to employ foreign technicians, their employment shall be reported to the Chinese authorities for approval.

In view of the foregoing, there are, despite the many uncertainties involved, some basic questions which it is well to ask at the present: What role can foreign enterprise play in post-war China that will be helpful and not harmful to Chinese development? How can foreign enterprise conform to the requirements and the interests of the Chinese people and still further its own legitimate aims?

c. What form shall China's post-war industrialization take and how is this related to United States interest and policy?

(1) Heavy vs. light industry?

Among the most discussed problems of post-war industrialization in China is the question of whether to emphasize heavy or light industry. Many economists insist that the logical procedure would be to concentrate on light industry at the outset. This, they recall, was the method followed by such highly mechanized nations as Great Britain and the United States. Moreover, they believe such a choice would be consistent with the present state of Chinese economy which is based on small units of production. Also, they point out that light industry requires less capital and that after China has accumulated funds through the sale of consumers' goods, she will be in a better position to afford the development of her heavy industries.

Others disagree with this approach for several reasons. A nation can achieve economic independence, even in relative terms, they say, only through the establishment of basic industries. Moreover they are convinced that China can not afford the luxury of concentrating on the production of consumers'
goods, when at any moment she may need armaments. In this connection, they assert that the form of Chinese industrialization will depend to a considerable extent on the type of peace settlement that is made and how much security China derives from it.

While the above arguments are heard frequently, it should be remembered that there is still a third possibility, namely, the development of both light and heavy industry at approximately parallel rates.

(2) Government vs. private control?

Closely linked with the debate concerning light and heavy industry is the discussion concerning government and private control. During the war, the government's hold has been extending itself more and more over the entire system of Chinese economy. The war seriously undermined the existence of private modern banks, with the result that the government has gained control of the banking system. Foreign trade is under government direction and most of the heavy industries are government owned.

Those who argue that this process of centralization should continue after the war say that all strategic industries ought, for defense reasons, to be state owned; that if the pace of China's industrialization is to be accelerated, the government alone has the power to do so; that private capital will not have the means either to establish or conduct many of the essential enterprises.

On the opposite side, the argument is advanced that government control over the economic structure of a country means placing the resources and the power in the hands of a small group of people. While many object in general terms, there are also those who object on the specific grounds that this is what is taking place at the moment and that to continue the present policy merely means strengthening the more conservative elements of the Chungking government. People who hold this view are likely to maintain in addition that, in developing a country, free enterprise usually stimulates production and provides a check on bureaucracy.

Which policy will gain the upper hand remains to be seen, but here too it should be pointed out that government and private enterprise may develop side by side. This is in fact the tendency at the moment, with the government taking over
heavy industries and allowing private capital, where it is capable of doing so, to engage in light industries.

(3) **What is the interest of the United States?**

The form that industrialization takes in China will inevitably affect her economic relations with the United States. The amount and nature of the loans China will require, the quantity and type of goods that she will buy and sell abroad, the opportunities left open for foreign enterprise—questions such as these will be determined to a large extent by decisions made in respect to the development of heavy and light industries and the establishment of government and private control.

Moreover, the interrelationship between industrialization and the improvement of agricultural conditions in China is constantly being emphasized. Many point out that industrialization is not an isolated phase of the economic life of a country but must be considered in relation to the whole. The "China market", so long spoken of by Americans, can never materialize while China's "400 million customers" have no purchasing power with which to buy.

3. **How should the United States shape her policies toward post-war China in the political sphere?**

   a. **What problems are likely to arise concerning the policy of dealing with China as a "great" Power? How should the United States meet these?**

At times during the war, the Chinese have felt that they were receiving insufficient recognition from the United States and Great Britain in the planning of United Nations' strategy. This has been due to their lack of representation in certain administrative boards and conferences, and also to the fact that relatively little military assistance has been given China to date and that a large proportion of the Allied emphasis has been put on the war in the Atlantic at the expense—in the Chinese view—of the Pacific area. The participation of China in the Cairo Conference and the Moscow Declaration served, however, to dissipate much ill-feeling. The extent to which this participation has pleased the Chinese can be seen in a statement made by the Chinese News Service shortly after the Cairo meeting:

"China became one of the 'big four' that signed the Moscow Declaration. Now at the Cairo Conference, China was ac-
corded the position of one of the 'big three' in the Pacific war. It is indeed a far cry from the China of unequal treaties, the China of Settlements and Concessions, the China of fears and anxieties, to the new and vigorous China of today, the China that is taking a prominent position in the councils of great Powers.

According to reports, the United States Government is emphasizing the necessity of giving China a leading role among the United Nations, on an equal footing with Great Britain, Russia, and the United States. As far as the post-war period is concerned, it is evident that this policy will be put to the test by having to meet many concrete problems. The extent to which Chinese wishes will be respected in the peace settlement is a case in point. If an international organization is set up after the war, there will be many questions to decide such as the number of votes to be accorded each of the member states and which nations should be represented on the various governing bodies. If an international police force is created, it will be necessary to allocate responsibilities to all the participating countries. In looking ahead to situations such as these, it is well to consider what the policy of the United States ought to be.

b. What policy should the United States adopt toward political problems which may arise in post-war China such as (1) political unity, (2) the strengthening of democracy?

The questions raised below concern the shape of American policy in respect to certain specific domestic problems that may arise in post-war China. This part of the Analysis might well be considered, however, in relation to the more general issues of (a) the means, if any, by which one government is justified in influencing the internal conditions of another, (b) the extent to which such influence may justifiably be carried. The key position which the United States, due to its wealth and power, will inevitably occupy in the post-war period make it essential to face these issues squarely.

(1) Political unity.

It has been extremely difficult for modern China to maintain political unity. Even after the time of the warlords there still remained, in the period 1928-37, many local leaders who governed in their special areas on a virtually autonomous basis. In addition, there have been national parties, one of
which, the Kuomintang, has ruled China since 1928 on a one-party system. The strongest group opposing the Kuomintang has been the Communists. There were—and are—however, other parties which though far less well-known have played a not unimportant role in China.

After the establishment of the National Government, Chiang Kai-shek waged a bitter war against the Communists for ten years. Finally in 1937, the Kuomintang and Communists agreed to set aside their differences and join in a United Front in order to withstand the Japanese invasion. Following this, the Communists who live in the so-called Border Region in the northwest, sent their troops (the famous Eighth Route and New Fourth armies) to mobilize the population and conduct guerilla warfare behind and between the Japanese lines in north and central China. In the areas which thus came under their control, the Communists introduced more popular governmental procedures and agrarian reforms.

The Central Government has objected to these Communist activities on the ground that the Communists were trying to "run their own show" by supporting an independent administration and military force and by pursuing their own policies. The Communists, on the other hand, have accused Chungking of maintaining a military blockade around the Border Region and of using repressive measures which they feel makes it impossible for them to relinquish their independence with safety. One cost of the strained relations between the Kuomintang and the Communists has been the frequent recurrence of crises, carrying with them serious threats of civil war.

Civil war, it is evident, would affect not only China but all the United Nations. For this reason, the United States has, indirectly, been drawn into the Kuomintang-Communist controversy. While nothing was definitely known in the past, there were those who felt that the State Department, backed by the power derived from the control of credits and Lend-Lease assistance, was using its influence to avoid civil war in China. Left-wing groups on the other hand, charged that officials in Washington were telling Chungking that it must continue to fight the Communists if it wished to maintain its friendship with the United States. This charge, made publicly by Earl Browder, moved Sumner Welles, then Under Secretary of State, to make a significant statement of American policy which read in part:
“With regard to the specific charge that ‘the State Department in Washington has informed Chungking’s representatives that our Government would be displeased if complete unity was established in China between the Kuomintang and the Communists’, what this statement alleges is the exact opposite of the fact. The State Department in Washington has at all times taken the position, both in diplomatic contexts and publicly, that the United States favors ‘complete unity’ among the Chinese people and all groups or organizations thereof.”

Mr. Welles concluded by saying that “this Government” desires unity within China and within all countries of the United Nations group not only for the sake of the conduct of the war but also for the “creation and maintenance of conditions of just peace.”

The importance of the Kuomintang-Communist controversy to post-war America was stressed also in a broadcast made last August by Raymond Gram Swing:

“While it is undeniable that this (i.e. the Kuomintang-Communist problem) is an internal affair of the Chinese, it is not one that China’s allies can ignore, while the war is in progress. Nor will this country be able to ignore it after the war is over. The Chinese people have all the sympathy of this country, and deserve it. They will need American loans and equipment after the war. Their place as a power and their leadership for stability and development must be assured. So long as the United States has Pacific responsibilities what happens in China will affect us....”

In discussing whether, if serious political friction persists in China, United States’ policy should continue to follow the lines indicated in Mr. Welles’ statement, it is well to remember that the principle enunciated by Mr. Welles has been set forth on a number of occasions by previous administrations in Washington. The United States was, for example, the first country to recognize the present National Government in China and it did so precisely on the basis that the Chiang Kai-shek regime, more than any other group, showed signs of being able to establish and maintain political unity. Aside, therefore, from the question of what our policy ought to be, the support of “complete unity” is in keeping with American

10 Text in Far Eastern Survey, August 11, 1943.
11 Text in Amerasia, September 1943.
Far Eastern tradition and is the policy most likely to be main-
tained.

(2) The strengthening of democracy.

Sun Yat-sen stated that China should go through three
stages of evolution: the first to consist of pacification of the
country under military control; the second to serve as a period
of “political tutelage” to prepare the Chinese people for self-
government; the third to establish constitutionalism. Since
the end of the revolution in 1928, China has been living in the
stage of “political tutelage.” Running parallel to the structure
of the government (which consists of such bodies as legisla-
tive, executive, judicial, examination and control yuans) is
the elaborate organization of the Kuomintang Party that ex-
tends all the way from powerful central committees at the top,
through provincial councils, to small local units. Moreover,
the functions of the Government and the Kuomintang are
closely interwoven.

Since the early 1930’s China has been moving gradually
toward the third or constitutional stage of its political develop-
ment. A constitution was drafted and published in 1936 and
plans were made and set in motion for the calling of a con-
stitutional assembly. The convening of the assembly, how-
ever, was interrupted by the Sino-Japanese War. Recently
the issue has come to the fore again with the announcement
by the Government that a congress will be held to adopt the
constitution within a year after the war.

This declaration of the Government’s has been widely
acclaimed, both in China and in other countries, as a demo-
cratic step and an important move forward in the history of
China. Some criticisms are, however, levelled against certain
features of the draft constitution, such as the fact that the
legislature is to meet only every three years, and will consist
of over 2,000 members, regarded as an unwieldy number.
Also, there are many who consider that the organization and
membership of the constitutional assembly—which was deter-
mined in pre-war days—should be altered as they are said no
longer to represent political conditions in China.

In addition, there are those who, while welcoming the con-
stitution, feel that the gains which can be made through
changes in the structure of any government are limited. De-
mocracy, they say, is not a matter of decrees but has its roots
deep in the conditions of the people. Until economic—and especially agrarian—reforms are effected in China, they believe that democracy cannot be truly vigorous.

The question remains as to what effect the war has had on the democratic movement in China. Many think that significant progress has been made, not only through the advance toward a constitution but also by means of such measures as the establishment of the People's Political Council, which was created in 1938 and is the most popularly constituted of China's governing bodies. Others, however, feel that the tendency during the war—ascribed partly to the fact that China has been cut off from her more progressive and modernized eastern areas—has lain in the direction of strengthening the conservative groups in the country. An indication of this, they declare, is to be found in the strict controls imposed by the Government, especially within the last years. Pearl Buck states, for example, that "the great liberal forces of the recent past in China are growing silent. . . . There is now no real freedom of the press in China, no real freedom of speech." 12

In another article,13 published in Asia and The Americas last November, entitled Post-War China and the United States, Pearl Buck sets forth the thesis that the course of democracy in post-war China may depend to a large extent on the attitude of the United States. The winning of the war will in itself, she says, strengthen democracy everywhere but this is not enough; the freedom of peoples is not won by military victories but "bit by bit in every nation." The essential question, she believes, is whether the United States will "decide for domination and empire" after the war or follow its "own genius in friendly relations with all". Only in the latter case she thinks will the people in Asia—and elsewhere—"breathe more freely and move more slowly", thus making possible the sound development of their own national life.

12 Life, May 10, 1943.
RECAPITULATION OF QUESTIONS

1. What is China likely to want from the peace settlement as regards treatment of Japan? To what extent should the United States join with China in her demands as regards
   a. Territorial settlement
   b. Reform of the Japanese Government
   c. Disarmament of Japan
   d. Reparations

2. What role should the United States play in China's post-war industrialization?
   a. What stake has the United States in the post-war industrialization of China?
   b. On what terms should the United States participate in Chinese post-war industrialization?
      (1) Loans
      (2) Foreign enterprise in China
   c. What form should China's post-war industrialization take and how is this related to United States interest and policy?
      (1) Heavy vs. light industry?
      (2) Government vs. private enterprise?
      (3) What is the interest of the United States?

3. How should the United States shape her policies toward China in the political sphere?
   a. What problems are likely to arise in carrying out the policy of dealing with China as a "great" Power? How should the United States meet these problems?
   b. What policy should the United States adopt toward the problems which may confront post-war China in relation to (1) political unity (2) the strengthening of democracy?
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PROBLEM II
BY WHAT METHOD AND THROUGH WHAT STAGES SHOULD THE FINAL PEACE SETTLEMENT BE REACHED?

PROBLEM III
TREATMENT OF DEFEATED ENEMY COUNTRIES GERMANY

PROBLEM IV
SHOULD THERE BE AN INTERNATIONAL ORGANIZATION FOR GENERAL SECURITY AGAINST MILITARY AGGRESSION, AND SHOULD THE UNITED STATES PARTICIPATE IN SUCH AN ORGANIZATION?

PROBLEM V
RELIEF AND REHABILITATION

PROBLEM VI
INTERNATIONAL ECONOMIC COLLABORATION

PROBLEM VII
EDUCATION AND WORLD PEACE

PROBLEM VIII
PROPOSED METHODS AND AGENCIES FOR INTERNATIONAL ECONOMIC COLLABORATION. SHOULD AMERICA PARTICIPATE IN THEM?

PROBLEM IX
COLONIES AND DEPENDENT AREAS

PROBLEM X
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