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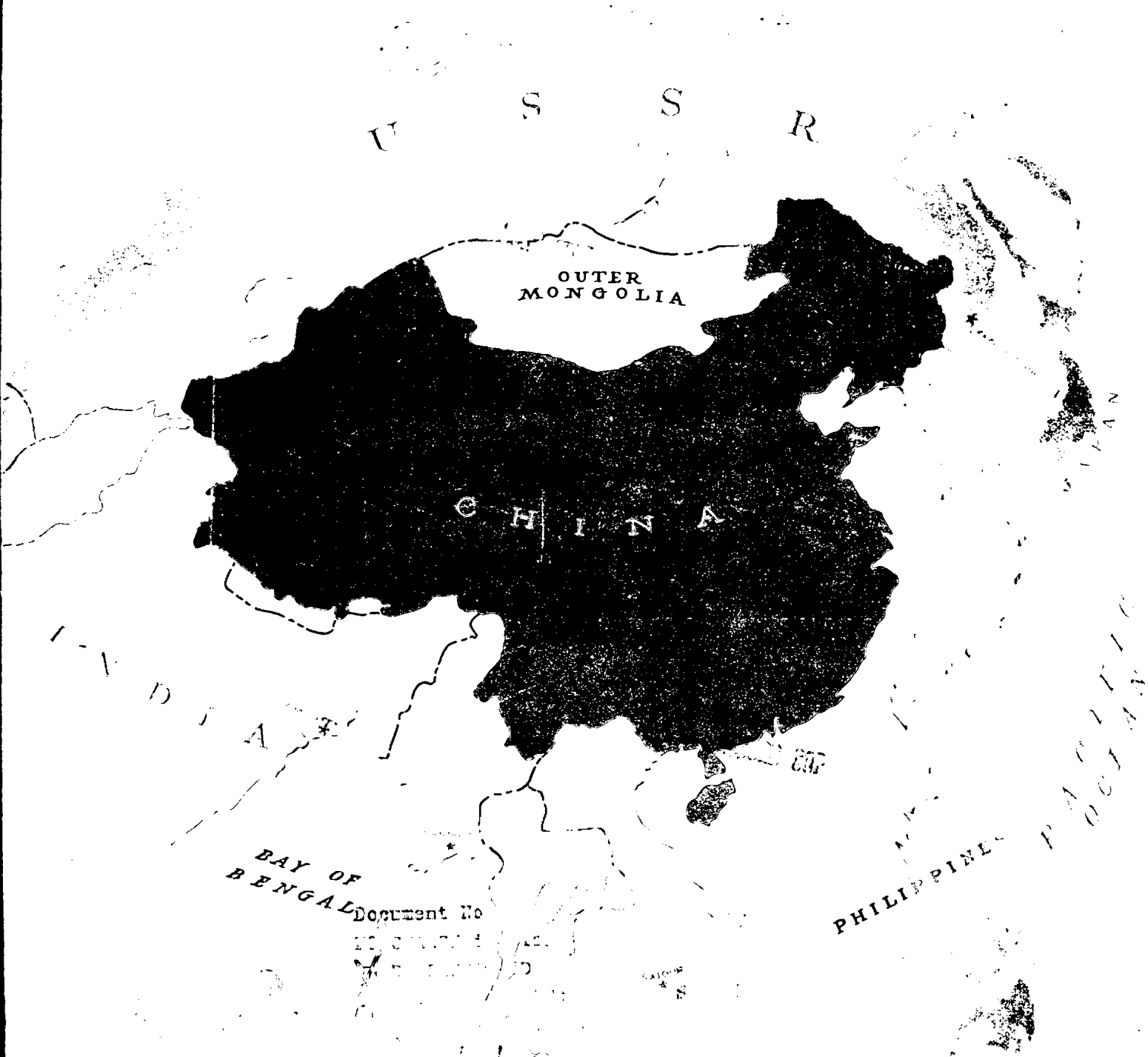
CHINA



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SR 8

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NOTICE TO RECIPIENTS OF CIA REPORT ON CHINA (SR-8)

SR-8 is complete with exception of the following sections which are in preparation and will be distributed to all holders of the Report as soon as they are completed:

Section III - The Economic Situation
Section IV - Foreign Affairs
Section V - The Military Situation
Appendix A - Topography and Climate
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Appendix D - Chronology of Important Events

November 1947

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CHINA

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MAP SUPPLEMENT

(Published as separate report)

SUMMARY

The center of gravity in the Far East lies in China, which is at once the largest state and the base area of East Asia. The great majority of the people in the Far East are Chinese, inhabiting over three million square miles of Chinese soil. Chinese culture—ideas, social institutions, language—has for centuries been the dominant culture of the Far East. Economically, China is an important factor in the life of its neighbors, while politically and militarily China is potentially the greatest power in East Asia.

China is now passing through a critical period of social, economic, and political instability brought on largely by the impact of Western civilization which began in the early nineteenth century and has now been felt in almost every phase of Chinese life. For more than 100 years the Far East has been an area of international friction, principally because of China's internal weakness, which has invited foreign encroachment on Chinese sovereignty. Since the end of World War II, China has failed to derive much profit from the defeat of Japan because it has been torn internally by the civil war between the National Government and the Chinese Communists, while menaced on the north by a revival of Russian imperialism.

Present trends in China are in the direction of increasing instability and extension of Chinese Communist military and political influence. Without foreign assistance, the National Government has little prospect of reversing or even materially checking these trends because of its declining military strength, the maladministration and corruption prevalent throughout the Government's civil and military structure, its inability to cope with economic deterioration, and its lack of popular support. Scarcely any positive factors are operating to promote the stability of the National Government other than (a) prospects of economic and military assistance from the US, and (b) promise of substantial internal reforms. There is, however, considerable doubt that the present Government can or will accomplish the latter. Without such reforms, moreover, it is extremely questionable whether any reasonable amount of US assistance could achieve any long-term political and economic stabilization.

Within Nationalist territory the Nanking Government lacks popular support, and the prestige of Chiang Kai-shek has greatly diminished. Unless in the near future he demonstrates again a capacity for revolutionary leadership, it is unlikely that he can recover the support of the great bulk of politically conscious Chinese. On the other hand, there is no alternative leader or group of leaders in sight. Furthermore, opposition to the National Government, outside the ranks of the Chinese Communist Party, is largely unorganized, lacking in armed strength, and therefore relatively ineffective.

If unchecked, present trends will lead to disintegration of the National Government's authority, decisive military successes for the Chinese Communists, the spread of warlordism, and the acceleration of tendencies toward separatism and rebellion which are now manifest along the northern frontier, in South China and in Formosa. Such general disintegration would facilitate the extension of Chinese Communist influence into areas where it is now excluded or represented only by underground groups, and in

time might result in the domination of China by the Chinese Communist Party. As a last-resort alternative to disintegration, the National Government might seek a compromise settlement of its conflict with the Chinese Communists. But it is inconceivable that the Chinese Communists would accede to such a settlement except on terms which would give them a dominating position in the Government. In the case of either disintegration or compromise, however, it is probable that acute political and economic disorganization would prevail in China for several years. This disorganization would retard the development of a Communist China as an effective instrument of Soviet policy.

Deteriorating economic conditions are exerting a cumulative impact on the political structure of the National Government. While it is true that China's economy, predominantly agrarian, is not susceptible to sudden or complete paralysis, nevertheless there is a real danger that without foreign aid, inflation might assume runaway proportions and quickly lead to a virtually complete collapse of the national currency. Such a collapse undoubtedly would seriously disrupt the economic activities of China's important coastal cities; more significantly, it would probably produce a political crisis of the first magnitude and deprive the National Government of the means of providing adequate financial or material support to the Nationalist military forces.

In foreign relations, questions concerning the neighboring states of Japan and the USSR are of paramount interest to China. For reasons of security, China favors a "hard" peace settlement with Japan, which would prevent the resurgence of the Island Empire as a strong military and economic power. It is equally important for China to establish a *modus vivendi* with the USSR, for in the period of present concern China unaided cannot match Soviet power. With the US, China's relations have traditionally been friendly, and now more than ever China looks to the US for assistance in solving its internal and external problems. However, continuing deterioration in the National Government's position might cause traditional Chinese cooperation with the US on international issues to waver, inasmuch as Nanking would be inclined to a course of opportunism in order to avoid direct conflict with the USSR.

The military advantage in the civil war is shifting to the Chinese Communists, who for several months have been demonstrating that they possess the strategic initiative. The military potential of the Nationalist forces has been seriously weakened by attrition of trained manpower, munitions, and materiel; the present extensive military commitments have almost exhausted Nationalist reserves. The forces of the National Government in Manchuria are in a precarious position. The larger groupings of Nationalist troops in North China now face increased threats to their communications, as a consequence of recent Communist thrusts southward which have established new base areas in Central China north of the Yangtze. The National Government has little reserve troop strength with which to oppose a continuation of such Communist thrusts in Central and even into South China, operations which appear to be within Communist capabilities.

In the Chinese civil war, the USSR thus far has refrained from overt material assistance to the Chinese Communists and, in accordance with the Sino-Soviet Treaty of 1945, continues to recognize the National Government as sovereign in China. It is

apparent, nevertheless, that Soviet sympathies lie with the Chinese Communists who, because of their ideological affinity with Soviet Communists, are in effect an instrument for the extension of Soviet influence. So long as conditions in China continue to deteriorate according to the present pattern, which is favorable to the Chinese Communists, the USSR probably will refrain from open intervention. On the other hand, should US aid be provided to the National Government, the USSR might adopt a more conspicuous role in Chinese affairs. To the extent that US assistance tended to promote the stability of the National Government, such aid would in all probability be countered by intensified activity on the part of the USSR both to further separatist developments along China's northern frontier and to strengthen and encourage the Chinese Communists. In the resultant ascending spiral of support and counter-support by the US and the USSR, the advantage both in terms of cost and effectiveness of aid would lie with the USSR, largely because of the vitality of the Chinese Communist movement and the favorable geographic position of the USSR. Such a course of events would also increase the possibility of a direct clash of interests in China between the US and the USSR.

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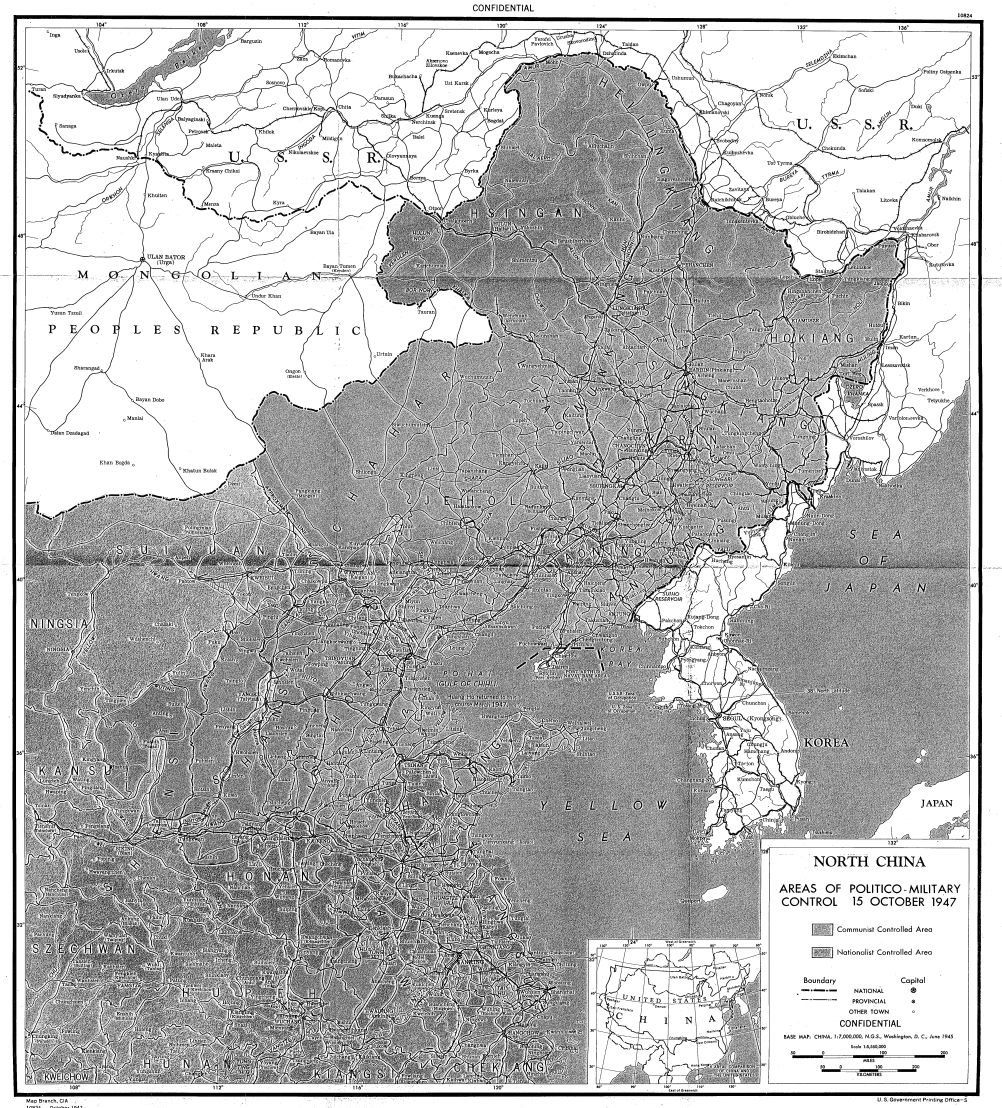

Map Branch, CIA
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SECTION I

POLITICAL SITUATION IN NATIONALIST CHINA

The present Government of China is an oligarchy, purportedly moving in the direction of political democracy. Actual power rests in the hands of a few individuals and groups, prominent as military men and as leaders in the Kuomintang or Nationalist Party. Similarly, the Chinese Communist Party, which opposes the National Government in civil war and controls approximately one-fifth of China, is dominated by a small number of its Party elite and Chinese Red Army generals. In this oligarchical setting, political power depends on military support. A party without its own armed forces, or an individual who cannot command the support of an army, is relatively impotent.

1. Genesis of the Present Political System.

The political system which is now evolving in China is in a fluid state, and is unlikely to attain any real stability until the end of the present civil war. While it bears some resemblance to Western democracy, it retains a strong element of authoritarianism, which is consistent with traditional Chinese concepts and institutions.

a. Government under the Manchus.

The old imperial system under the Manchu dynasty survived into the twentieth century and was finally overthrown only in 1911, within the lifetime of China's present leaders. This old system was characterized by a hierarchical administrative structure, with the Manchu emperor the sole source of authority at the top. He ruled through a body of officials bound to him by ties of personal loyalty, indoctrinated in them by their intensive study of the Confucian classics, which stressed loyalty to the ruler.

In the imperial system there was no government *by* the people, but the emperor ruled *for* the people, and, according to Confucian teachings, in their interest and with their tacit acquiescence. He bore complete responsibility for natural disasters and other calamities which befell them, and when these became especially severe, it was apparent that he had lost the mandate of heaven from which he derived his authority. In such circumstances, Chinese political theory recognized the right of the people to overthrow him by revolution.

During the nineteenth century, the Manchu empire went into a decline which ushered in a revolutionary period comparable to those which, earlier in Chinese history, had marked transition from the rule of one dynasty to another. This period of deterioration was marked in external relations by a series of unsuccessful wars, paralleled by a steady encroachment by foreign powers on the territorial integrity and independence of China. The British victory over China in the Opium War of 1839-42 resulted in the first unequal treaties imposed on China and opened the country to foreign trade. In a subsequent conflict with the British and French in 1858-60, the Manchu dynasty was temporarily driven from its capital in Peking, but the complete weakness of the

Manchus was not revealed until China fell easily to Japan in the war of 1894-95. In the immediately following years the foreign powers continued to broaden their spheres of influence and nearly achieved the partition of China. This was prevented more by mutual rivalry among the powers than by any resistance the monarchy could provide.

During this same period the Manchu dynasty was weakened internally by a series of bloody insurrections, chief among which were the Taiping Rebellion that disrupted South and Central China from 1849-64, and the Boxer Rebellion in 1900. The Taiping Rebellion was primarily a peasant revolt directed against the Manchus whom the Chinese had always considered as foreigners. It also took the form of an attack on landlords and property owners and was characterized by confiscation of estates and burning of land charters. The Boxer Rebellion originated as a secret society revolt against the Manchus, but was diverted by the dynasty into an antiforeign movement. It was suppressed by joint intervention of the foreign powers, which, as a consequence, imposed further servitudes and a heavy indemnity on the Manchu regime.

b. The New Republic—A Period of Chaos 1911-1927.

The anti-Manchu movement, which achieved the overthrow of the dynasty in 1911 and the founding of the Chinese Republic, was led chiefly by young Chinese who looked hopefully to the West as, in part, the model for China. Their activities began as early as 1894 under the leadership of Sun Yat-sen, a foreign-educated Cantonese, but his revolutionary Nationalist Party, subsequently known as the Kuomintang, was unable to set up immediately a constitutional government over all of China, and a period of internal chaos followed. Power in the new republic initially passed to Yuan Shih-kai, a former Viceroy under the Manchus, who was not interested in developing political democracy in China and actually tried in 1915-16 to revive the imperial regime with himself as emperor. Following his death in 1916, there was no individual leader sufficiently strong to command nation-wide support. Control over the government at Peking passed into weak hands, with local military leaders holding the real power in North China until 1927.

Meanwhile a secession government was set up in Canton by Sun Yat-sen and his followers in 1917. Although lacking international recognition as the national government of China, the southern group gradually increased in strength. Seeking advice in reorganizing and strengthening the party, Sun Yat-sen in 1923 invited Soviet advisers to Canton, and a period of close Soviet-Chinese cooperation ensued. The basis for this cooperation had been established earlier in the year in a series of conversations at Shanghai between Sun and Adolf Joffe, the chief Soviet representative to Far Eastern countries. In a resulting joint memorandum Joffe concurred with the view of Sun that neither Communism nor the Soviet system was suitable for China, whose problem was primarily the attainment of unity and complete independence. In the solution of this problem Sun was assured of Russian support.

The first National Congress of the Kuomintang, held in 1924, admitted Chinese Communists into the Party. In the same year the Whampoa Military Academy, under the direction of Chiang Kai-shek and with German and Russian military men as instructors, was established to create an officer crops for the Nationalist Army.

The death of Sun Yat-sen in 1925 did not impede the progress of the Nationalist revolution. The new army, under Nationalist and Communist leadership, marched northward and by 1927 had seized control of Central China. The Nationalists, however, were unwilling to inaugurate a program of class warfare, such as the Communists advocated. Consequently the two groups split apart, and Chiang Kai-shek, in a bloody purge of 1927, expelled the Communists and Russian advisers from the Kuomintang.

c. *The National Government under the Kuomintang 1928-1945.*

By 1928 the Kuomintang armies had established control over North China and completed the unification of the country. The new regime, which established its capital at Nanking, was soon recognized as the National Government of China by all the major powers except the USSR.

In its first years the new government successfully overcame both a movement of warlords to dispute its authority and separatist tendencies in South China; however, the Chinese Communists, who in 1931 set up a Soviet Republic in Kiangsi, proved a more formidable obstacle to unity. The National Government, in a series of military campaigns was unable to exterminate the Communists, but in 1934 succeeded in driving them from their stronghold in South China. After their famous "long march" the Communists set up a new center of resistance in Shensi province in North China.

The expansionist activities of the Japanese, commencing with their invasion of Manchuria in 1931 and gradually becoming an increasing threat to North China, resulted in a temporary United Front agreement between the National Government and the Communists in early 1937. This understanding was in effect when the Sino-Japanese war began in July of that year; and limited cooperation against Japan continued until the end of 1940, when disagreement led to an open clash between Nationalist forces and the Chinese Communist New Fourth Army. Thereafter, the National Government maintained a tight blockade of Communist-held areas.

d. *Developments since V-J Day.*

At the close of the Japanese War a race developed between the Chinese Communists and the National Government for control of areas occupied by Japan. The National Government, aided by US air transport, succeeded in gaining possession of major cities, but large areas of the North China countryside were occupied by the Communists. In an effort to stop civil war, the National Government and the Chinese Communists entered into negotiations in the late summer of 1945, and with the assistance of General Marshall, reached a truce agreement on 10 January 1946. In the latter part of February the National Government and the Communists signed an agreement providing for the reduction and unification of their armed forces.

A Political Consultative Conference (PCC), including representatives from the Kuomintang, the Communist Party, the China Youth Party, the Democratic League, the National Socialist Party and other groups, met in January 1946. On 31 January, following concessions by both the Kuomintang and the Communist Party, a series of resolutions concerning constitutional provisions were issued. It was agreed to convene a National Assembly for the purpose of adopting a permanent constitution, a final draft of which was to be prepared by a constitutional committee appointed by the PCC.

In this short-lived atmosphere of harmony, the Communists and minor party leaders began negotiations regarding representation in a coalition government.

The right wing of the Kuomintang, however, soon revealed its lack of sympathy with the PCC resolutions, which it attempted to modify during the March 1946 plenary session of the party's Central Executive Committee. The previous atmosphere of harmony changed into one of suspicion, and thereafter opposition by extremists both in the Kuomintang and the Communist Party wrecked these agreements. In January 1947 the US Government recalled General Marshall and withdrew from its mediatory role.

Civil war was reintensified in the spring of 1946 when the withdrawal of Soviet occupation forces from Manchuria opened a new war theater. During that year the National Government made some headway against the Communists. Nevertheless, it was unable to destroy any sizeable groups of Communist forces and made little progress in its major aim, to gain control over the railroads of North China.

Chiang Kai-shek convened the National Constituent Assembly in November 1946 as planned, but the Communists and the Democratic League refused to attend. The Assembly, which was composed of Kuomintang members, Social Democrats, members of the China Youth Party, and some independents, adopted a new Constitution which is scheduled to become effective 25 December 1947. After the adjournment of the National Assembly in December 1946, the National Government commenced negotiations with the China Youth Party and the Social Democratic Party, for the establishment of a coalition government. These negotiations were finally completed in April 1947, under a new premier, Chang Chun, a leader from the moderate wing of the Kuomintang. Each of the two minor parties was allotted four seats, as compared with seventeen for the Kuomintang and four for nonpartisans, in the new State Council, the highest organ of the Government. Three Youth Party members and two Social Democrats were named to the Executive Yuan, while the less important Legislative Yuan and Control Yuan were expanded to include non-Kuomintang members. The new Interim Coalition Government announced a policy of seekig a "political solution" of the "Communist problem," and initially held open several seats in the State Council to permit subsequent participation in the government by the Communist Party and the Democratic League.

Shortly after its inauguration, on 23 April 1947, the Interim Coalition Government was confronted by major problems. A wave of student demonstrations calling for increased government subsidies and a cessation of civil war swept through universities and colleges. A new Communist offensive in the northeast threatened to dislodge the National Government from its foothold in Manchuria, while additional military reverses were suffered in Shantung. Financial assistance from the US, counted upon to help achieve economic stability, was not forthcoming. The Export-Import Bank had earmarked $500,000,000 to be held available until 30 June 1947 for loan to China on a project by project basis, but the US Government allowed the time limit to expire with no action. Casting aside all pretense of seeking a "political solution" of the "Communist problem," the National Government in early July 1947 declared all-out war against the Communists, who were classed as "rebels." The State Council then issued

a Mobilization Decree designed to enlist the full resources of the nation in an effort to crush the Communist "rebellion."

The arrival of an American "fact-finding" commission under General Wedemeyer in the latter part of July was at first interpreted optimistically as a prelude to active assistance on the part of the United States. This optimism, however, was followed by a wave of disillusionment when it became apparent that these expectations lacked a basis in fact. The candid statement which General Wedemeyer delivered before the State Council on 22 August 1947 and his briefer public announcement came as a shock to government circles and to the Chinese people generally. The maladministration and official corruption, which the General stressed are generally admitted by Chinese as true; however, they regarded it damaging to their self-respect that such blunt criticism should be expressed publicly by a foreign emissary. In reply government leaders have stressed that there can be no quick solution of the enormous problems confronting China, and have called attention to actual remedial measures which have recently been initiated. Meanwhile the National Government has continued arrangements for national elections, to be held in November and December, in preparation for the inauguration of a government under the new constitution on 25 December 1947.

2. PRESENT NATIONAL GOVERNMENT STRUCTURE.

a. The Theoretical Structure of the Government.

The new constitution outlines the theoretical structure of the government which is scheduled to become effective in China on 25 December 1947. This charter gives expression to the doctrines elaborated by Sun Yat-sen whose claim to originality lies in his blending of Western democratic concepts with basic Chinese institutions. The Father of the Chinese Republic organized and clarified his findings as (1) the Three Principles of the People or *San Min Chu I;* (2) the Four Rights of the People; and (3) the Five Powers of Government. While the Kuomintang in particular reveres Sun Yat-sen as its founder, his ideas have in general been accepted throughout China by all other political parties and factions, even the Communist Party claiming the *San Min Chu I* as an integral part of its ideology. Such diverse acceptance is possible because Sun Yat-sen's ideas are such that they may be interpreted to please at once both the ardent nationalist and the convinced socialist.

(1) *Sun Yat-sen's Ideas on Government.*

The Three Principles of the People are (a) the Principle of Nationalism, (b) the Principle of Democracy, and (c) the Principle of the People's Livelihood. By Nationalism, Sun meant government *of* the people, or freedom and equality for the developing nation-state of China. It is this principle which has received most attention from the Kuomintang, and supports its policy of primary emphasis on national unity. The second principle, Democracy, signifies government *by* the people or the exercise of sovereignty by the entire citizen body of China. The third principle, the People's Livelihood, or government *for* the people, may be interpreted broadly as socialism. This principle is not a denial of capitalism, but Sun believed that the concentration of capital in the hands of the few should be made impossible by adoption of measures of equalization in land ownership and regulation of capital. In Sun's view, however, these measures were to be carried out without recourse to violence.

Sun Yat-sen maintained that the people had Four Rights, namely those of election, recall, initiative and referendum. Under the control of the people, the government exercised Five Powers: the executive, legislative and judicial powers so well established in Western political thought; supplemented by two others, peculiarly Chinese and borrowed from the Imperial system. The first of these latter, the power of examination, is concerned with the recruitment of civil officials through a system of public examinations, while the other, the power of control or censorship, is essentially supervision of the conduct of government officials.

(2) *The Three Stages of the Revolution.*

In the lifetime of Sun Yat-sen (1866-1925) the Chinese people obviously were not ready for a democratic form of government, and in order that the people might be prepared for the exercise of sovereign authority, Sun provided for three stages in the transition from the political chaos which followed the fall of the Manchu empire to a representative system. The first stage, a period of Military Operations, was designed to eliminate the local warlords and to achieve the unification of China by force of arms. The next was a period of Political Tutelage, during which the people, under the leadership of the revolutionary party, would be educated politically to the end that they could develop the ability to exercise their Four Rights. The third and final stage in Sun's plan was to be the Constitutional Period itself, marked by the inauguration of a democratic government under a permanent constitution based on Sun's doctrines.

Between 1926 and 1928, forceful unification of China was accomplished by the Kuomintang armies. The period of Political Tutelage, under the Kuomintang then began and still continues, even though initially it was not anticipated that it would be so protracted. An Organic Law of 1928 and a Provisional Constitution, adopted in 1931, established the five-Yuan system for the purpose of exercising the Five Powers of Government, and it entrusted the Kuomintang with governing powers on behalf of the people for the duration of the Political Tutelage. This constitution originally was to be in effect for only five years, when it was to be replaced by a permanent constitution marking the end of the period of Tutelage and the commencement of representative government. Difficulties in convening a National Constituent Assembly, however, followed by the outbreak of war with Japan, forced postponement of the third stage.

Since the close of the Japanese war, the Kuomintang has taken steps to terminate the period of Political Tutelage. Under the leadership of that Party, a new permanent Constitution was adopted on 25 December 1946. To assist in the transition from Kuomintang Tutelage to representative government, the National Government was reorganized in April 1947, as an Interim Coalition Government, in which two minor parties were accorded some representation. This Interim Coalition regime is to span the period until a new government is inaugurated under the permanent constitution.

(3) *The New Constitution.*

In the Constitution, sovereignty of the Republic of China is vested in the whole body of citizens, with no qualifications for citizenship other than possession of nationality of the Republic of China. The government established to exercise this

sovereignty has six principal organs—a National Assembly and Five Yuan. Of these, the National Assembly, the Legislative Yuan and the Control Yuan are elective bodies, while the Executive, the Judicial and the Examination Yuans are appointive. A series of checks and balances between one branch of the government and another is a notable feature of the Constitution. (See chart facing I-8.)

(a) *Operation on the National Level.*

The Constitution provides for a strong executive branch. The President, elected by the National Assembly for a six-year term and eligible for reelection, has the power of appointing the president of the Executive Yuan, with the consent of the Legislative Yuan, and of appointing the presidents of the Judicial and Examination Yuans with the consent of the Control Yuan. In addition to powers normally belonging to a chief executive, he has that of issuing decrees with the force of law in times of emergency such as national calamities, epidemics, or serious financial or economic crises. Such decrees, however, require the approval of the Legislative Yuan within thirty days.

The Executive Yuan is, in effect, the Cabinet of the Chinese Government, and its membership consists of a president or premier and more than 20 ministers. The president of the Executive Yuan is made responsible to the popularly elected Legislative Yuan by two provisions in the Constitution. The Executive Yuan must report on its administrative policies to the Legislative Yuan, which has the right to interpellate the premier and ministers. It may ask the Executive Yuan to alter an important policy, and if such a resolution is upheld by a two-thirds vote, the premier must abide by that decision or resign. While the Executive Yuan may veto legislation, a two-thirds vote of the Legislative Yuan overrides such a veto, and the premier must abide by that vote or resign. It is to be noted, however, that in view of the two-thirds rule, so long as the executive branch can control a minority barely in excess of one-third in the Legislative Yuan, these provisions by which the premier is responsible to the legislature are ineffective.

(b) *Central and Local Government.*

To avoid excessive centralization of government, the Constitution provides, in detail, for distribution of powers between the Central Government on the one hand, and Provincial and *Hsien* (County) Governments on the other. Matters which properly are of national concern, such as foreign affairs, international trade, currency, and law codes are reserved for the Central Government. Matters which are essentially local are reserved for the Provincial and *Hsien* governments, while a list of intermediate matters may be delegated by the Central Government to Provincial and *Hsien* governments. If control over all these intermediate matters were delegated to Provincial Governments, the resulting division of power would be somewhat comparable to that between the Federal Government of the United States and the various state governments, whereas retention by the Central Government of control over these matters would mean a highly centralized political system.

The establishment of government over a province is left to a Provincial Assembly, which is to be convened to enact a Provincial Self-Government Law.

The Constitution imposes no limitations other than that each Provincial Government have a Provincial Council and a Provincial Governor, both elected directly by the people; and that the Provincial Self-Government Law conform with the Constitution. Similarly, each *Hsien* or County shall have an elected Council and Magistrate. The *Hsien* Self-Government Law, enacted by the *Hsien* Assembly, must be in conformity with both the Constitution and the Provincial Self-Government Law of the Province within which the Hsien is situated.

(c) *Civil Rights.*

The Constitution insures to the citizens of China extensive civil rights such as equality before the law, freedom of person and domicile, freedom of speech, freedom of academic instruction, publication and correspondence; as well as freedom of religious belief, assembly, and association. Rights of citizens include election, recall, initiative and referendum, thus in theory providing the voters a continuous control over those who exercise the powers of government on their behalf. Article 23 of the Constitution provides, however, that the enumerated rights and liberties of citizens may be restricted under certain circumstances, such as "averting an imminent crisis, maintaining social order or advancing public interst."

Citizens have duties as well as rights, these obligations being chiefly to pay taxes and perform military service, in accordance with law; while it is both a right and a duty for all persons to receive a "citizen's education."

b. The Form and Operation of the Government in Practice.

The Interim Coalition Government formed in April 1947 and empowered to rule until the new Constitution becomes effective admittedly is not democratic, but is an extension of Tutelage ostensibly under a coalition rather than under exclusively Kuomintang leadership. Actually, non-Kuomintang participation in this government is very limited both numerically and in influence. Despite numerous gestures in the direction of reform, the present government has not yet demonstrated any ability to carry out progressive policies, nor does it seem to have capacity for internal reform. Maladministration and corruption are rife throughout the government, with little indication that these weaknesses will be corrected in the near future.

(1) *Concentration of Power in Executive Branch.*

The Interim Government, in its outline (see chart facing page I-10) bears some resemblance to the structure of government described in the new Constitution. Its principal organs include five Yuan to exercise the Five Powers of Government, with a President above them as head of the state. In the present National Government, however, there are no elective organs and no popularly elected National Assembly. Instead, a State Council of some 20 to 40 members advises the President, and, under his chairmanship, makes important policy decisions. The President, elected for a three-year term by the Central Executive Committee of the Kuomintang, selects and appoints the members of the State Council. Together with the State Council, he also names the presidents and vice-presidents of the five Yuan. Since the President actually dominates the State Council, there are scarcely any restrictions on his exercise of power.

The functions and powers of the five Yuan correspond in theory with those attributed to them in the new Constitution. Among the five Yuan, however, the Executive has in fact a primary position. While it does not determine policy—such decisions being made in the State Council—it executes policy decisions, issues decrees and mandates as necessary, and initiates law bills to be submitted to the Legislative Yuan. The powers of the Legislative Yuan are quite limited. It is not a policy-determining organ, nor does it initiate legislation. A large share of its lawmaking function is handled by the Executive Yuan in the form of executive decrees and mandates. The Judicial, Control and Examination Yuan are even less significant and less active than the Legislative Yuan. Their powers are largely theoretical.

(2) *Continuation of Kuomintang Domination.*

The present government is not really a coalition inasmuch as the Kuomintang holds all the important posts and a far greater number of all government posts than have been allotted to non-Kuomintang groups. The government does not include representatives of the Communist Party or the Democratic League, both of which refused to participate in the reorganization of the Government. Some seats in the State Council, as well as a few posts in the Executive, Legislative and Control Yuans, have been allotted to minor parties and independents. The Kuomintang predominates in the State Council, however, with 17 of the 29 positions, while the presidents of the five Yuan and the heads of all important ministries and commissions are Kuomintang members. The withdrawal of one or all of the non-Kuomintang representatives in the present government would not affect its stability or cause the leading ministers to resign. Furthermore, the president of the National Government is, in fact, the Tsungtsai or leader of the Party. The Central Executive Committee of the Kuomintang still has the legal right to elect the president of the National Government, and Kuomintang members in the National Government are bound by Party discipline to follow directives issued by the principal organs of the Party.

In spite of this Kuomintang predominance, there was some expectation at first that the new government would pursue progressive policies. The new premier, Chang Chun, is a leader of the moderate wing of the Party, while Sun Fo, reputedly its leading liberal, is Vice-President. Party members chosen for the State Council and for important posts in the Executive Yuan were almost without exception men of moderate views. Within the Kuomintang, however, the position of the moderates is less strong. Conservative elements hold a leading position in the Party's Central Executive Committee and in its Central Political Council, an advantage which has the effect of balancing the increased strength of Kuomintang moderates in the National Government.

Policy decisions in the National Government usually take the form of resolutions passed by the State Council. In practice, this government organ, which is dominated by Chiang Kai-shek, receives its inspiration from resolutions and directives emanating from the Kuomintang Central Political Council or the Standing Committee of the Central Executive Committee. As a consequence, the Interim Coalition Government, in spite of the progressive reputation of its leadership, has accomplished little political, economic or military reform.

(3) *Nonobservance of Civil Liberties.*

Civil liberties, such as are enumerated in the new Constitution, are largely nonexistent under the National Government. Close surveillance of the press has achieved what, in effect, is tight censorship. Following Kuomintang directives, newspapers show a marked uniformity in their editorial comments on current problems and in the emphasis which they attach to various news items.

Freedom from arbitrary arrest, the sanctity of the home, and freedom of association are widely disregarded by the secret police who are omnipresent throughout Nationalist China. Such police, formerly operating under the Bureaus of Investigation and Statistics of the Government and the Kuomintang, were supposedly abolished together with these bureaus at the time of government reorganization, but no real dissolution has taken place. The direction of secret police activities and related intelligence work probably comes under the Ministries of National Defense and Interior, but at present the organizational pattern is not clear. At any rate, the power of secret police is widely felt, especially in South China, and its activity is expanding just at the present time when preparations are in progress for national elections to usher in constitutional government. During the summer months, repressive measures have been intensified as a means of quelling popular discontent with the government and its policies. In particular, members of the Democratic League and college and university students charged with Communist affiliation or leanings have been the victims.

The president of the Executive Yuan, Chang Chun, has indicated some lack of sympathy with arbitrary action against students. He has disclaimed responsibility on the grounds that these activities are not controlled by the Executive Yuan but come directly under the supervision of the Generalissimo. In a statement on 28 July, however, Chiang Kai-shek also expressed regret that he cannot now accord to the people all the civil liberties specified in the new Constitution. Blame, he stated, falls on the Communists because of their appeal to arms and their subversive activities against the National Government.

(4) *Maladministration and Corruption.*

Administration is disorderly and inefficient throughout the National Government, both in its central organs, and in its provincial and local branches. One explanation is the complex structure of numerous bureaus and offices which have overlapping functions and suffer from lack of clear delimitation of authority. Establishment of administrative efficiency would require wholesale reorganization, combining some agencies and abolishing others, but this would be difficult to accomplish without large-scale dismissals of personnel. Another reason for inefficiency is the prevalence of incompetent officials. China is relatively weak in trained administrators, but the National Government fails to make maximum use of those available. Incompetent officials, and third-rate military men, instead of being permanently released or retired, are reshuffled in posts both in national and provincial governments. An indication of this weakness was open criticism of the Foreign Ministry in the May 1947 session of the People's Political Council and in the press because the Ministry did not choose diplo-

matic personnel on the basis of merit and ability, but filled posts with politicians ousted from office and protégés of powerful political figures.

(a) *Shanghai.*

Chinese administration of the city of Shanghai has proved incapable of providing orderly government, as exemplified recently by two unruly episodes. A crowd of disgruntled employees seized possession of the French consulate in the former French concession. An appeal by the owners of the premises for police intervention was waived by the municipal authorities, on the grounds that no property damage or personal injury had ensued. In midsummer, a minor dispute at one of the city's theatres developed into a bloody clash between municipal police and military gendarmerie. This led to a city-wide police strike, causing traffic confusion and endangering the persons and property of both Chinese and foreign residents. In this instance, the root of the conflict lay in the overlapping authority of the civilian municipal government and the military administration still superimposed over the city.

(b) *Manchuria.*

The attempt of the National Government to recover effective control over Manchuria has been unsuccessful, not only because of Communist military opposition but also because of maladministration and graft. A dual system of control, under Tu Yu-ming and Hsiung Shih-hui, the highest military and political authorities respectively, resulted in jealous rivalry and continual controversy. In August 1947, after more than a year of maladministration, the National Government finally moved to correct this situation by abolishing the Northeast military command and uniting both military and civil administrations under the Chief-of-Staff Chen Cheng. This corrective measure may have come too late, however, to repair the prestige of the National Government in Manchuria where, instead of drawing upon native Manchurians to fill government posts, the National Government brought in outsiders who have treated the local population as inferiors and have exploited their positions for private gain. There has been in effect a sort of "carpetbag rule," which has not only made the National Government unpopular with the native population but has accelerated economic deterioration in Manchuria.

(c) *Taiwan.*

The record of the National Government in Taiwan (Formosa) is even more sordid. This island, which enjoyed a high degree of industrial development under the Japanese, emerged from the war with little damage. Under Chinese administration, however, the economy of Taiwan has disintegrated, and the Nationalist regime has become intensely unpopular. The Chinese governor, Chen Yi, who had compiled an unsavory record during previous governorships of Fukien and Chekiang, placed mainland Chinese in all desirable positions, retained some Japanese technicians as advisers, and awarded only very subordinate positions to Taiwanese. As a consequence, the native population found it had merely exchanged Japanese domination for subjugation under mainland Chinese.

Whereas Japanese exploitation of Taiwan had been orderly and efficient, Chinese administration has been characterized by lawlessness, economic decay, and industrial stagnation. Chinese officials, often unqualified for the posts they occupy,

have been over-concerned with extracting personal profit from their tenure of office. The unpopularity of the administration had grown to such an extent in late February 1947 that a series of rebellions broke out spontaneously in all the large cities. The government, with the aid of military reinforcements from the mainland, drove the insurrectionists underground, but only after several days of terrorism in which thousands of Taiwanese lost their lives. The shocking nature of reports from Taiwan led, in time, to the removal of Chen Yi from his post as governor. His influence, nevertheless, remains strong among Chinese officials on the island. On the surface, Taiwan is quiet, but no substantial improvement, so far as Taiwanese are concerned, has developed under the new governor, Wei Tao-ming.

There are numerous other instances of corrupt practices in Nationalist China. Within the army, commanders have withheld money intended as pay for troops in order to invest such funds in their personal interest. Conscription measures are evaded by the rich, who are able to "buy off" their sons from military service. UNRRA relief efforts in China, channeled through Chinese officials of the CNRRA, have been dissipated by "squeeze" and by sale of supplies on the black market in Shanghai, Hankow, and other cities.

Dishonesty among government officials in the middle and lower brackets is largely a result of their economic insecurity. Pay increases for civil servants lag behind the deterioration of the currency and rise in the cost of living. Many of these officials are forced into corrupt practices to avert papuperization.

Lack of integrity among top level officials, for whom economic security is not at stake, is more deplorable, and is indicative of the low moral tone of the whole regime. While there are undoubtedly some men of real integrity who occupy prominent positions in Chinese political and economic life, there are others who show no hesitation in disregarding the law and public interest, when that conflicts with personal profit. Even Sun Fo, the Vice-President of the National Government, who is highly honored and respected among Chinese leaders, has demonstrated that he is not above such conduct.

3. POLITICAL PARTIES.

a. The Kuomintang.

The Kuomintang (or Chinese Nationalist Party) is the largest and oldest of Chinese political parties with a present membership of about 4,000,000. Founded by Sun Yat-sen over 50 years ago, and dedicated to the realization of the *San Min Chu I,* this party led, first, the overthrow of the Manchu regime in 1911, and, second, the unification of the country in 1926-1928. For two decades it has enjoyed the unique distinction of exercising governing powers on behalf of the Chinese people, and during this period the National Government has been responsible to the Party. With the reorganization of the National Government in April 1947, however, the Kuomintang has proclaimed the end of the period of Political Tutelage. When a constitutional government is inaugurated, the Kuomintang will cease to enjoy special distinctions and will assume a position of legal equality with other Chinese political parties.

While the Kuomintang still has a virtual monopoly control over the National Government and its armies, it is gradually losing the sympathetic support of great masses of Chinese who once saw in it Sun Yat-sen's revolutionary machine. The Party no longer provides the inspirational leadership characteristic of its earlier years. Since 1928 there have been few changes in its high councils. Its youthful revolutionary leaders of the 1920's have grown conservative as a consequence of long years in power and are now hostile to ideas of change and to the introduction of liberal reforms which might weaken their domination and jeopardize their personal interests.

(1) *Ideology.*

Three elements are blended in the ideology of the Kuomintang, (1) the doctrines of Sun Yat-sen, (2) the teachings of the present Party leader, Chiang Kai-shek, as set forth in his recent work, *China's Destiny* (1943), and (3) anti-Communist sentiment, which to a greater or lesser degree pervades the whole Party and in some factions has become an obsession.

The whole program of the Kuomintang has been designed to bring fulfillment to the teachings of Sun Yat-sen. The national revolution, following the pattern outlined by Sun, is now on the threshhold of the third and final stage, Constitutional Government. The new Constitution, in the drafting and adoption of which the Kuomintang played a leading role, features Sun's concepts of the Five Powers of Government and the Four Rights of the People. In its attempts to realize the Three Principles of the People, however, the Kuomintang has placed primary emphasis on the first principle of Nationalism. The second principle of Democracy will be realized in theory with the inauguration of the new constitutional government, but relatively less attention has been given to the third principle of the People's Livelihood.

In *China's Destiny* (1943), which has been widely circulated as required reading within the Kuomintang, within its junior affiliate the *San Min Chu I* Youth Corps, and in educational institutions, Chiang Kai-shek has revealed his ideas on recent problems. Written in wartime and designed primarily for Chinese readers, the book is both nationalistic and conservative in tone. In brief, Chiang chiefly attributes the woes of China during the nineteenth and twentieth centuries to the former "unequal treaties" imposed by foreign countries. The salvation of the country lies, not in slavish imitation of the West, which has little to contribute except the great benefits of modern science, but in holding to Chinese culture and in a return to Confucian virtues. Though Chiang discusses at length projects for reconstruction, such as railways and highways, harbor development, mining and electric power, agricultural improvement, and public health, his critics deplore his essentially conservative outlook and his neglect of problems developing out of population increase and lack of agrarian reform.

Since the purge of 1927 which drove Communists out of the Party, anti-communism has been a major motivating force in the Kuomintang. This sentiment has flourished for two reasons: the leadership of the Party, aside from the purely military element, has been composed to a large extent of landlords, industrialists and financiers to whom the growth of communism is unpalatable; and the Chinese Com-

munists, in establishing a "state within a state," have become a cancer in the body politic, a continuous obstacle which has frustrated the efforts of the Kuomintang to bring about complete unification of China under its tutelage. Anti-communism is not shared with equal intensity by all factions within the Party, but this sentiment lies near the heart of the Kuomintang and is a principal tenet in the ideology of the conservative "CC" clique, which forms the backbone of the Party's organization.

(2) *Organization.*

In the early 1920's the Kuomintang was organized along the lines of the Russian Communist Party, with the help of Soviet advisers who had been invited to Canton by Sun Yat-sen. In form, the present organization is a hierarchy, permeated by "democratic centralism," which signifies directives descending from party leaders on the top level to the masses of party members below; these directives, however, are theoretically in sympathy with "democratic impulses," originating on the lowest level and passing upward through the party hierarchy to the top. In actuality, the descending directives are all important, while the democratic impulses are infrequent and of minor significance.

Organs of the Kuomintang are found on five levels: the nation, the province, the hsien (county), the chu (district), and the sub-district. At each level there is a party congress, with an executive committee to exercise authority when the congress is not in session. Each organ of authority must take orders from the next higher organ in the hierarchy and carry out its resolutions. (See chart facing page I-16.)

(3) *Cliques and Factions.*

The solidarity of the Kuomintang is qualified by internal factions and rival cliques which frequently are in conflict with each other in the struggle for power within the Party. Central Executive Committee meetings regularly are the occasions for vigorous verbal attacks by one faction against another. "Out" groups criticize the "in" groups in a manner somewhat similar to parliamentary attacks and debates in Western dual-party government. On other occasions one faction will attempt to discredit another by underhanded methods. As an illustration, it is known that the "CC" ultra-conservative group had some role in stirring up the student strikes and demonstrations of May 1947, for the purpose of discrediting the moderate Kuomintang leaders of the Interim Coalition Government.

Chiang Kai-shek, although he holds the position as *Tsungtsai* and is chairman of the principal party organs, is not an absolute dictator over the Party, but he does stand above these contending groups. His power derives largely from his close relations with factional leaders who are bound to him by ties of personal loyalty and opportunism, and from his ability to balance one group against another without becoming totally dependent on any one in particular. Of these factions, the two most important are known as the "CC" clique and the Political Science group.

The "CC" or "Central Clique" is the most powerful faction within the Kuomintang. Led by the brothers, Chen Kuo-fu and Chen Li-fu, both of whom have close personal ties with the Generalissimo, it is extremely conservative in its policies. Strongly nationalistic and representing the landlord interests, it is passionately anti-

Communist and favors a renewed emphasis on Confucianism. This clique is tightly organized, strictly disciplined, and largely controls the organization of the Party. Chen Li-fu is head of the Party's Bureau of Organization, and thus occupies a position of power in determining Party membership and in dispensing patronage.

The "CC" is an active rival of the Political Science group, with which it vied for important government posts at the time of the reorganization of the National Government in March-April 1947. In the outcome, the "CC" was unsuccessful, losing power in the National Government, where Chiang favored Kuomintang moderates in his appointments. At the same time, however, "CC" strength in the Party was increased when Chiang conferred on it a leading position in the important Central Political Council, to which Chen Li-fu was appointed as secretary. In the Central Executive Committee, the "CC" occupies a position stronger than that of any other faction; approximately one-third of the members of the present Central Executive Committee are attached to the "CC" clique.

In the financial and economic sphere the "CC" is gaining influence. It has obtained control of the Farmer's Bank of China which sometimes acts as the Generalissimo's personal disbursing agency, and through which the clique operates rural and farm credit programs, thereby keeping close contact with landlords. In addition, Chen Li-fu has become vice chairman of the National Economic Council, on which several other members of the clique are represented.

The Political Science group* is a moderate right-wing faction, composed chiefly of businessmen, professional men, and office holders, with rather high selective standards for membership. Its leading figure is Chang Chun, who is President of the Executive Yuan in the present government. It aims at securing major political posts in the Government for its members. Unlike the "CC" it does not have rigid political tenets nor does it have a large membership extending into the lower echelons of the Party. It won a victory in the reorganization of the National Government in April, in securing the premiership and other important political posts, while the "CC" was forced to accept a subordinate role. This advantage, however, has been largely nullified by "CC" opposition from within the Party.

Indicative of its moderate policies, the Political Science group has favored the adoption of a liberal constitution, and until recently upheld the view that the Kuomintang should find a political solution, through negotiation, of its conflict with the Communist Party. Its prestige has suffered, however, because individual members have been conspicuously identified with incompetence and corruption in the National Government, as for example Chen Yi in Formosa, and Hsiung Shih-hui in Manchuria.

Within the Kuomintang, there are several other smaller cliques and factions which have differing points of view on governmental affairs. The leaders in these groups, as in the "CC" and the Political Science group, are loyal and responsive

*The Political Science Group was organized first in 1916, under Huang Hsin, a revolutionary leader second only to Sun Yat-sen. It was so named because of the admonitions of Huang that adherents to the Chinese revolutionary movement needed more political training and study in the field of political science.

to Chiang Kai-shek. Some of these are groups of military men, as, for example, the Paoting clique, consisting of associates of Chiang in the old imperial military academy at Paotingfu, and the Whampoa clique, composed of associates and pupils of Chiang when he was director of the Whampoa Academy, at Canton, in the early 1920's. The latter clique is the most powerful of the military groups. There are other military groups which have a provincial basis, such as the Kweichow clique and the Kwangsi clique. The military cliques are significant inasmuch as they are the principal sustaining force behind the Kuomintang. They are generally conservative in outlook and disposed toward anti-communism, but with somewhat less fervor than the ultra-conservative "CC".

There are a variety of smaller and less significant groups, which in some instances are groups of financiers and bankers, such as the Shanghai Bankers, the Northern Bankers, the Shensi Clique and the Kwangtung Clique. In other cases, small cliques have developed around individual Kuomintang leaders like Sun Fo, T. V. Soong, Chu Chia-hua and others. It also should be noted that some members of the Kuomintang stand apart from these groups, and are direct followers of the Tsungtsai without personal allegiance to some intermediate figure.

(4) *Program and Policies.*

The program and policies of the Kuomintang tend to be identical with those of the National Government, which it continues to control. Briefly summarized, the chief policies at present are all-out war effort to exterminate the Communist "bandits," there no longer being any hope of a "political solution" for the Communist problem; inauguration of a new constitutional government as scheduled to carry to completion the three-stage revolution outlined by Sun Yat-sen, and retention of a leading position for the Party in Chinese affairs, even after the Party is divested of the special legal position it has enjoyed during the period of Tutelage.

Within the Party there is full realization of its present critical situation in Chinese politics. The Kuomintang, in its Central Executive Committee meetings, has not silenced self-criticism which flourishes because of the rivalry between cliques and factions. From the Generalissimo down there is a demand for reform and rejuvenation of the Party. The likelihood that such internal reform could enable the Kuomintang to recover the extensive popular support it once enjoyed is limited, however, by at least two factors: (a) The main source of new strength for the Party is the San Min Chu I Youth Corps which, for years, has been dominated by extreme right-wing Kuomintang leaders. Rejuvenation of the Party from this source would not modify its essentially conservative outlook. (b) Because of the economic and social strata from which its membership is drawn, the Party is not believed capable of actually carrying out a broadly progressive program, such as would appeal to minor parties, independent liberals, and the masses of people in the Chinese countryside.

b. The Chinese Communist Party.

The Kungchantang or Chinese Communist Party (see Section II—Political Situation in Communist China) has recently been outlawed by the National Government. It is nevertheless the most effectively organized opposition party in China

today, controlling approximately one-fifth of China's total area and some 130,000,000 people, and maintaining a well-trained and highly mobile army of more than 1,000,000 regular troops and 2,000,000 irregulars. The Communist Party has also greatly expanded its membership in recent years and at present is reputed to have approximately 2,000,000 members.

The apparent success and support of the Communist Party is largely attributable to its basic policies of agrarian reform and some freedom for individual expression which have been designed to appeal to the poverty-stricken and oppressed peasant. The immediate Chinese Communist aim, as announced by propaganda broadcasts, is the creation of a democratic coalition government on a national scale, while the announced plan for the future is to lead China ultimately to communism. However, it is doubted that the Communist Party would participate in coalition government unless the Party can exercise a controlling influence with at least sufficient representation to enforce veto powers.

c. *Minor Parties.*

The development of minor parties in China has been restricted during the period of Kuomintang tutelage, but in recent years some opportunity for political activity has been permitted. A People's Political Council, formed in 1938 as a representative advisory organ for the National Government, was composed, in part, of non-Kuomintang members. A short time after the end of the Japanese war, a multiparty Political Consultative Conference was convened to discuss constitutional questions. This Conference was attended by members of the China Youth Party, the Democratic League, the Social Democratic Party, and several lesser groups, as well as by representatives of the Kuomnitang and the Communist Party. In the interparty negotiations which have intervened between the PCC and the establishment of the Interim Coalition Government, these three minority parties have played an active, although relatively weak role. Unlike the Kuomintang and the Communist Party, these minor groups have no armies, and because of this lack of military strength, they probably will continue to play a very secondary role in China's politics.

The increasing bitterness of the Kuomintang-Communist conflict has weakened the middle position of minor parties which tend to be driven to one side or the other. The two right-wing minor groups, the China Youth Party and the Social Democrats, have associated themselves with the Kuomintang in adopting the new Constitution and in participating in the April 1947 reorganization of the National Government. By so doing, they have assumed a very minor and ineffective position in the Interim Coalition Government which the Kuomintang still dominates. On the other hand, the left-wing Democratic League has been able to pursue no constructive course other than political action parallel with the Communist Party. In so doing it has lost some of its independence and influence, and—described by the Kuomintang as the "tail of the Communist Party"—its members have been subjected to repressive measures by the National Government.

(1) *China Youth Party.*

Founded in France in 1923 the China Youth Party (Young China Party) originally advocated a national revolution in China to overthrow the warlords and

establish a democratic state. At first, the Party was a secret organization but at its Fourth National Congress in September 1929, it made public its existence. In 1940, the China Youth Party joined with other groups in forming the loose alliance of minor parties which later became known as the Democratic League. The Party, however, stood at the right, and after the end of the Japanese war, because of its conservative views, regularly supported the Kuomintang in interparty negotiations. In 1946 and 1947, its break from the Democratic League became complete, when it joined with the Kuomintang in adopting the new constitution and in participating in the Interim Coalition Government. It gained four seats on the State Council; in the Executive Yuan, it was allotted the Ministry of Economic Affairs, and the Ministry of Agriculture and Forestry, as well as a third post without portfolio; in addition it received 13 seats in the Legislative Yuan and six in the Control Yuan. These gains were not without disadvantage. The Ministry of Economic Affairs is a position of limited power, liable to be saddled with blame for deteriorating economic conditions. The first appointee, Li Huang, a member of the People's Political Council, refused to accept the post, hence it was conferred on Chen Chi-tien, the secretary-general of the Party. The Ministry of Agriculture and Forestry has limited powers and little funds available for its work. This post was filled by Tso Shun-sheng, the acknowledged leader of the Party.

(2) *Social Democratic Party.*

The Social Democratic Party was formed in September 1946, as a result of a merger of the National Socialist Party and the Overseas Democratic Constitutional Party. As compared with other minor parties, the Social Democrats are a right-wing group, but less far to the right than the China Youth Party. Following the amalgamation, Carson Chang, the leader of the National Socialists, became president of the Party. Initially, the new party pledged its full support to the Democratic League, but in December 1946, owing to differences over the issue of participation in the National Constituent Assembly, the League requested the Social Democratic Party to withdraw. Together with the China Youth Party, the Social Democrats participated in the reorganization of the National Government in April 1947. After a long period of negotiation, the Party was awarded four seats in the State Council, two ministries without portfolio, as well as twelve places in the Legislative Yuan, and seven in the Control Yuan. It is noteworthy, however, that Carson Chang would not participate in person in the coalition government.

During the period of government reorganization and after, factional strife has developed within the new party, to such an extent that it has now split into its component parts. One group, under the leadership of Carson Chang, held the First National Congress of the Party in Shanghai at the end of July, but this meeting was boycotted by an opposition group which met in a rival congress in Shanghai in mid-August. The opposition group, which objects strenuously to the "dictatorial attitude" of Carson Chang, consists of the overseas element and its associates, and claims to represent three-fourths of the party strength. It courageously issued a manifesto calling for restoration of peace between the Kuomintang and the Communists, and for protection of civil rights. It blamed the National Government for China's recent misfortunes and urged the Government to adopt an independent foreign policy directed

toward building a bridge between the US and the USSR. Two of its leaders, Wu Hsien-tzu and Li Ta-ming were recently removed from their seats in the State Council and Executive Yuan respectively, for the announced reason of nonattendance.

(3) *The Democratic League.*

The Democratic League, which began with a grouping of minor political parties and associations in 1940, was formally inaugurated under that title in 1944. It was a loose alliance of individuals, groups, and political parties, the most conspicuous of which were the China Youth Party, the National Socialist Party, the National Salvation Association, the Rural Reconstruction Group, the Third Party, and the Vocational Education group. The program of the League calls for national unification and the realization of democracy. It advocates unification by joint action of all parties, as a means of forcing the two major ones, the Kuomintang and the Communist Party, into more harmonious relations. It is insistent that one-party rule should be terminated and replaced by a real coalition government. The extremely liberal character of the League has become more pronounced by the loss of its two right-wing elements, the China Youth Party and the Social Democrats.

Since the time of the Political Consultative Conference of January 1946, the League has been a political ally of the Communist Party in its relations with the Kuomintang. Although the League does not adhere to communism as a doctrine, its recent actions and statements closely parallel those of the Communist Party. It has therefore been accused, in Kuomintang circles, of being a Chinese Communist front. Some of its leaders have been assassinated by Kuomintang agents, and its members frequently have been subject to arrest and investigation. The National Government has recently intensified its repressive activities against League members (Lo Lung-chi, a leading spokesman of the League, has accused the Government of using its Mobilization Program as a cover for these measures of suppression).

4. CURRENT DOMESTIC PROBLEMS AND ISSUES.

The civil war dominates the Chinese domestic scene and has the effect both of aggravating outstanding problems and of thwarting their solution. During the past eighteen months, the conflict, which once appeared capable of solution by negotiation, has developed into a war of extermination. Until recently, the leaders of the National Government proclaimed publicly the policy of seeking a "political solution of the Communist problem," although admitting privately the futility of such a course; early in July 1947 however, it gave up any pretense of following this policy by openly proclaiming its intention to crush the Communist "rebellion" by military force.

a. Political Unrest within Nationalist China.

While military operations have been almost entirely confined to North China and Manchuria, the war has had serious repercussions throughout Central and South China. Among politically-conscious Chinese, sentiment favoring peace is quite general outside the ranks of the Kuomintang as is manifest in resolutions of the People's Political Council, in declarations of minor parties and statements of independent liberals, and in student demonstrations and strikes. These discontented moderate and liberal groups blame the National Government as well as the Communists for the

continuation of the war and deteriorating conditions. They also regard the Government's suppression of civil liberties and its ruthless employment of secret police to quell dissident elements as an integral part of its war policy. As a consequence, the present government has, in effect, lost their allegiance.

These dissatisfied liberal elements are anti-Kuomintang rather than pro-Communist, inasmuch as they are composed largely of persons who are intensely individualistic and therefore not attracted either by Marxism or by the totalitarian program of the Chinese Communist Party. At present they offer little effective opposition to the National Government because of their lack of organization and military strength. There is no single political program to which they all subscribe; nevertheless, the conviction is widespread among them that the present government is a form of gangster despotism, directed by leaders who are hopelessly reactionary and corrupt, and who are interested mainly in self-perpetuation. Many of them, to whom the Generalissimo himself is no longer acceptable as a national leader, hope for the collapse of the National Government, although they have no clear plan for the aftermath. They resent keenly any form of assistance, domestic or foreign, to bolster its position and prolong its corrupt rule.

b. Coalition Government.

At the time of the Political Consultative Conference of January 1946, all parties and factions were in agreement on the necessity of forming a coalition government as the initial step in terminating the period of Kuomintang tutelage and ushering in democratic constitutional government. In March and April 1947, the National Government took the initiative in organizing the present Interim Coalition Government, but non-Kuomintang participation was limited to two of the minor parties and a handful of independents, with the Kuomintang still monopolizing all the positions of real power. Eleven seats in the State Council were originally left unfilled, however, to permit the participation of members of the Communist Party, the Democratic League, and other political elements, but none of these has shown any inclination to join the interim government.

The Communist Party and the Democratic League followed a common policy of standing aloof from the reorganization of the government on the announced grounds that they favored a real united-front coalition, formed not by unilateral action of the Kuomintang, but by joint action of all political groups. They wanted a share in the important ministerial posts and sufficient numerical strength in the State Council, at least one-third of the seats, in order that they might have the power of veto. The major obstacle to their cooperation with the Kuomintang, however, has been the distrust and suspicion with which each side regards the other. With the recent intensification of the war, the Kuomintang leaders of the National Government decided in July no longer to hold positions in the government open for the Communist "rebels," while the Communists, in their propaganda broadcasts, now advocate the formation of a coalition government from which the Kuomintang is to be excluded.

c. The New Constitution.

A relatively liberal document in neutral opinion, the new Constitution conforms quite closely in major respects with the resolutions of the Political Consultative

Conference. It was adopted on 25 December 1946 by a multiparty National Constituent Assembly which was convened by the National Government, but which the Communists refused to attend. Plans for elections to the new National Government are being carried through and apparently the Constitution will be put into effect on schedule in the areas of China controlled by the National Government.

The Communists advocate that the new Constitution be abolished and urge Chinese to boycott the coming elections. The Democratic League has announced that it will not participate in the elections. Particular features of the Constitution are unpalatable to the Communists, to members of the Democratic League, and to other independents and liberals. There is, for example, no ironclad assurance that the civil liberties enumerated will be upheld, inasmuch as Article 23 permits their suspension under certain conditions. Liberal critics would like to see an extension of the power of the legislative branch in relation to the executive branch and are apprehensive that the President and the Executive Yuan may dominate the new government. In the view of these critics, the distribution of powers between the Central Government and the Provincial governments is weighted in favor of the former and may lead to an unhealthy degree of central control over provincial affairs.

Even more strongly, however, the Communists have objected to the fact that the Constituent Assembly was convened unilaterally by the National Government rather than by joint action of all the political groups represented in the Political Consultative Conference. The Communists and other opponents of the National Government suspect its announced intention to inaugurate a liberal constitutional government and fear that the Kuomintang will manipulate the coming elections to its own advantage, exploit the strong executive branch, and, under the guise of constitutional government, continue its domination. There is substance for their fears in the known view of some reactionary Kuomintang leaders that China still is not ready for termination of the period of Tutelage.

d. Military Reform.

The evils of excessive militarism, a persistent feature of Chinese political life throughout the history of the Republic, have been particularly acute since the end of the war with Japan. With approximately four million men under arms, the country has a larger military establishment than its economy can sustain. Civil administration suffers from the prominence of military men in civil government posts, while armed forces are used not for national interest so much as by parties, factions and individuals to enhance their political power. That these evils are recognized as such by the Chinese themselves is shown in three articles of the new Constitution.

> Article 138. The land, sea and air forces of the whole land shall, independent of individual, regional or party affiliation, be loyal to the State and protect the people.
> Article 139. No political party or faction or individual may make use of armed forces as an instrument in the political struggle for power.
> Article 140. No military man in active service may concurrently hold civil office.

e. Economic Deterioration.

Heavy military expenditures entailing inflationary expansion of the currency are only one aspect of deteriorating economic conditions in China. The civil war has

shelved reconstruction projects, while communications in North China and Manchuria are constantly disrupted with attendant industrial stagnation in these areas. In many parts of China supplies of raw materials and foods are short, largely because of a faulty transportation and distribution system. Both internal and foreign trade have declined sharply.

These weaknesses have resulted in general economic insecurity which is sapping the strength of the National Government and undermining the morale both of top officials and of the rank and file of civil servants. This feeling of insecurity, together with virtually uncontrolled inflation, is a major cause of the corruption which is so prevalent throughout the government. Economic deterioration, evidenced by a rapidly depreciating national currency, is also attacking the vitality and morale of the Nationalist armed forces.

Material economic improvement appears to require a vigorous internal reform program in the political, military and economic fields, together with substantial aid from abroad to support the currency and to facilitate reconstruction. The National Government eagerly seeks foreign aid from the US, but without effective implementation of proposed reforms. On the other hand, the Communist Party opposes all foreign aid to the present National Government and threatens that any new loans, as well as obligations incurred since January 1946, will be repudiated whenever a new non-Kuomintang government comes to power. In a somewhat more moderate stand, the Democratic League through its spokesman, Lo Lung-chi, insists that any measures of foreign aid be deferred until the end of the civil war.

5. SEPARATISM AND WARLORDISM.

As the power and prestige of the National Government declines, there is an increasing tendency for areas on the periphery of China to achieve some degree of local autonomy or independence. Separatist developments among non-Chinese peoples have existed for some time on the northern frontier of China. Nanking's preoccupation with its war against the Communists precludes any vigorous action to check these developments. Ultimate loss of such areas, however, would not in itself bring about the disintegration of China, inasmuch as few if any Chinese are involved. On the other hand, potential secession movements involving the Chinese populations in Taiwan (Formosa) and South China are a much more serious concern for the National Government.

a. Separatist Movements along the Northern Frontier.

Among the Mongol and Turki peoples on the northern frontier of China, there is quite general dissatisfaction with rule by the Chinese, who both in history and at present have proved incapable of handling minority groups in a conciliatory manner. After the revolution of 1911, Outer Mongolia broke away, in fact, from the control of the new Republic, and in 1946, the Nanking Government formally recognized the existence of an independent Mongolian People's Republic. Independence for the Mongols in Outer Mongolia in turn has had a strong attraction for other Mongols in northwest Manchuria, in Inner Mongolia (the provinces of Chahar, Suiyuan and Ningsia) and Jehol. In the eastern part of this area, autonomous Mongol movements are developing with the friendly support of the Chinese Communists, who bar the National Government from intervention in this region.

Further westward, an acute minority problem exists in Sinkiang, where the Chinese constitute no more than 10 percent of the population. The non-Chinese peoples of Sinkiang, long oppressed by their Chinese rulers, are attracted to related peoples across the border in the Soviet Union. That part of the province west of the Manass River is controlled effectively by a rebel Turki group, and there has been extensive Soviet economic and political penetration of this region, which is now, in effect, an autonomous state with pro-Soviet orientation.

b. Discontent in Taiwan.

Insurrections on the island of Taiwan, in February and March 1947, were vigorously suppressed, but a revolutionary movement is brewing underground. Taiwanese Chinese have developed an intense hatred for their mainland rulers, during two years of inefficient and corrupt government. While at present the Taiwanese lack the arms and organization necessary to stage a successful revolution, a further weakening of the National Government, coupled with withdrawal of troops, would create a situation favorable for an independence movement. A significant body of opinion in Taiwan, which is under *de facto* Chinese rule until the island's status is finally determined by a Japanese peace treaty, hopes that the area will not be placed directly under Chinese sovereignty but administered by the UN, the US, or a group of international powers.

c. Secession Tendencies in South China.

The South China provinces of Kwangtung and Kwangsi have repeatedly exhibited revolutionary and secessionist tendencies. In 1931, the authority of the National Government at Nanking was challenged by a new but short-lived independent government at Canton. Again in 1936 an unsuccessful armed revolt was staged by the Kwangsi generals, Li Tsung-jen and Pai Chung-hsi. After the allegiance of these two generals to the National Government was re-established, they were removed from South China by Chiang Kai-shek, and at present Li Tsung-jen is head of the Generalissimo's headquarters at Peiping while Pai Chung-hsi is Minister of National Defense. Their names, however, continue to be linked with possible separatist movements in Kwangsi and Kwangtung.

In recent months, popular unrest has been on the increase in the South. Nearby Hongkong, a refuge and a propaganda base for discontented elements, has become the center of intense political activity. The most outspoken opposition to the National Government stems from a disaffected group in Hongkong led by Marshal Li Chi-shen, veteran Kwangtung military leader and once Kuomintang chief of staff. Because of his public outbursts against the National Government, Li was expelled from the Kuomintang in August 1947. Although the group led by Li Chi-shen does not control military forces of its own, it is reportedly in contact with surviving Communist elements in Kwangtung and on Hainan Island.

The most powerful figure in South China is Chang Fa-kwei, director of the Generalissimo's Canton Headquarters. While Chang has showed no outward signs of disloyalty to the National Government, he was associated with separatist movements in the past, and has been agitating for the return of his troops, sent to the north. He is a potential leader of a South China independence movement.

The vulnerability of South China to separatist revolts has been increased by the withdrawal of troops for service in North China. At the present time, however, the chief potential troublemakers have either been removed from South China or stripped of troops which are personally loyal to them. These measures of the National Government are still effective deterrents to rebellion, which is unlikely to occur unless there is further weakening of the government at Nanking. The appointment in September 1947, of T. V. Soong as Governor of Kwangtung, appears to be a further move on the part of the National Government to check separatist tendencies in the South.

d. Revival of Warlordism.

In addition to these separatist tendencies, a revival of warlordism elsewhere in China is a disintegrating force. The warlord is a combination militarist and politician, with control over a private army, his chief source of strength. Usually such a leader finds a regional basis for his authority through holding the governorship of a province. In this position he usurps functions and authority which really belong to the National Government and rules in an autonomous manner, exercising complete control over political and economic life in his area. Some warlords, who have been progressive in outlook, have introduced reforms in their regions; but more frequently warlords are reactionary military men who exploit the people for their personal profit.

Shansi province, since 1912, has been under the virtually autonomous rule of the "Model Governor" Yen Hsi-shan, one of China's most powerful and influential warlords. At present his regime is threatened by Communist attacks on the one hand, and the desire of the National Government to undermine his power on the other but he at least has demonstrated sufficient strength to survive these unfavorable circumstances. Sikiang, since its establishment as a province in 1938, has been ruled by General Liu Wen-hui, an outstanding example of the old-style warlord governor. Called "the opium-vending governor," Liu encourages opium growing in his domain, but under the noble-sounding doctrine of "opium suppression," prevents anyone but his own men from handling the lucrative opium trade. In January 1947 a large-scale people's rebellion broke out against his corrupt regime, but Liu was able to quell this uprising by military force. The National Government has made no effort to remove him from office.

In Szechuan the Government's control is far from strong. Ex-warlords, although shorn of their military power, control the economy of the province and are using rice, opium and private banks as weapons to undermine the position of the governor, Teng Hsi-hou, also a former warlord. Rice has been withheld from the people, and the result has been riots among the local population.

Ningsia and Chinghai Provinces have been governed for more than a decade by General Ma Hung-kwei and General Ma Pu-fang, respectively, both of whom maintain regimes which are virtually independent of Nanking. In both the provinces of Kweichow and Yunnan, in China's southwest, actual power is in the hands of local warlords.

6. STABILITY OF THE NATIONAL GOVERNMENT.

National rule in China is due, in December 1947, to pass into the hands of a new constitutional government, following general elections in November and December.

These elections, if they take place as scheduled, will not appreciably modify the Kuomintang control of the National Government, inasmuch as the Chinese electorate is inexperienced, and the Kuomintang machine is still sufficiently powerful in local politics to manipulate the elections more or less at will. Although the Kuomintang is capable of exploiting the coming elections, the real power of the National Government is steadily declining, and is approaching a critical stage.

A number of military, economic and political factors are operating against the National Government. The Communist armies in the north are gaining in relative strength and are assuming the strategic initiative in the civil war, while the military potential of the National Government is weakening through attrition. Deteriorating economic conditions are exerting a cumulative impact on the political structure of the National Government. Within Nationalist territory, the regime lacks popular support, although the dissatisfied elements are as yet unorganized and lack armed force. In its foreign relations, the National Government has failed to solve satisfactorily outstanding issues with the USSR, and has as yet been unsuccessful in its recent efforts to secure substantial US military and economic aid.

The principal factors now tending to promote the stability of the National Government are: the promise of far-reaching internal reforms, as to which a majority of politically articulate Chinese entertain strong misgivings, and the prospect of large-scale assistance from the US.

a. Probable Developments if US Aid Is Withheld.

The most likely prospects in the near future, if US aid is not forthcoming, are (1) steady disintegration of the National Government, or (2) a compromise settlement with the Chinese Communists. A third but less likely prospect would be for the National Government to carry out a revolutionary reform program so as to rally popular support, increase its military potential, obtain access to privately-held foreign assets, and achieve greater budgetary balance.

(1) *Political Disintegration and Expansion of Communist Influence.*

Unless the decline of the National Government is checked by internal reform and foreign aid, its authority will probably diminish to such a degree that it will no longer be able to provide effective government for China on the present national scale. As Nationalist power wanes, the Communists will solidify their control over Manchuria and parts of north China, and probably extend their military operations into the rural areas of Central and South China. Separatist tendencies and the growth of warlordism will accelerate, and the real authority of the National Government would thus, in time, become limited to large cities in the Yangtze Valley. Such political disintegration would facilitate the extension of Chinese Communist influence into areas where it is now excluded or represented only by underground groups. Some obstacles would remain, however, which the Communists would have to overcome before acquiring a dominant position over the entire country. (a) Popular sentiment which now, as a reaction to the maladministration and corruption of the National Government, is inclined to be favorable to the Communists, probably would shift against them. As the balance of power swung to the advantage of the Communist Party, more attention would be focused on its totalitarian program and ruthless methods, as well as

its presumed connection with the USSR. As a consequence, the Chinese Communists might lose much of this sympathetic support. (b) Although warlord regimes, because of their reactionary characteristics, would provide fertile soil for the spread of Communist doctrines, these local military rulers would vigorously oppose Communist penetration of their areas. (c) The Communists, experienced in the rule only of rural sections and lacking political and economic administrators for urban industrial areas, would of necessity be forced to turn to non-Communists for assistance when confronted by problems such as providing an administration for the industrial areas of South Manchuria, or for large cities like Peiping, Tientsin and Mukden. Alliances of this nature would dilute the strength of the Party and tend to make it compromise its program. Nevertheless, it is quite probable that over a period of years, the Chinese Communist Party will succeed in overcoming these obstacles and attaining a position of political supremacy.

(2) *Compromise Settlement with the Chinese Communists.*

Rather than passively accept political disintegration, the National Government may seek a compromise settlement of its conflict with the Chinese Communists. The possibility of such a reversal of policy has been forecast already by prominent leaders in the Government, although it is believed that their statements thus far have been primarily intended to apply pressure on the US for assistance. In the absence of obtaining this result, the Government may in desperation turn to the USSR for mediation of the civil war. In such a settlement, China's foreign policy would be oriented toward Moscow, and within China a new coalition government with strong Chinese Communist representation would result. The establishment of this government would be followed by gradual penetration of Communist influence throughout the national administration.

However, in the case of either political disintegration and expansion of communist influence, or compromise settlement with the Chinese Communists, it is believed that acute political and economic disorganization would prevail in China for many years, preventing an effective consolidation of Soviet control.

(3) *Internal Reform.*

Recently the National Government has re-emphasized a program of reforms and has taken some measures in that direction. An attempt has been made to eliminate the inefficient and conflicting dual control by military and civil officials in Manchuria, and in the municipality of Shanghai. As an initial measure to reform the army, plans have been drawn up for a new training program to take place in Taiwan. The Government itself calls attention to its continual planning with a view to improving the internal administration of the country as evidenced by the adoption of the new Constitution, the recent nation-wide anti-corruption campaign, and the program for the reform of hsien (county) government.

Among both Chinese and foreigners, however, there is considerable doubt that the present government can or will accomplish any fundamental reforms. Its leadership is suspect because of its consistent record of incapacity to carry out progressive policies. It failed to grasp a favorable opportunity for reform, offered when the government was reorganized in March and April 1947, and the opinion is wide-

spread that the group of individuals now in power will not embark on a new course. Prospects for reform seem to hinge on a drastic change of faces in the present regime, a shake-up which would break the Kuomintang monopoly of power and install a reformed administration with leaders from the minor parties and from the ranks of liberal independents in some of the positions of real power.

The reorganization of the Government on such a basis would scarcely be acceptable to right-wing elements in the Kuomintang, but might find support and leadership among Kuomintang moderates. The role which Chiang Kai-shek himself might play in such developments is not clear. To a considerable extent his power rests on the support he receives from the Kuomintang right wing, and it would be difficult for him to dissociate himself from this group unless he were provided an alternative basis of power. Moreover, there is some question as to whether or not he could adapt himself to a broadly representative government with a progressive program. Chiang has lost prestige among Chinese liberals, many of whom refuse to associate themselves with a Government under his leadership. Unless in the near future he demonstrates again a capacity for revolutionary leadership and a genuine inclination toward a progressive program, it is unlikely that he can win back the support of the great bulk of politically conscious Chinese.

If Chiang proves incapable of this effort, his withdrawal from the political scene would be a prerequisite for the formation, in Nationalist China, of a broadly representative coalition. On the other hand, such a movement might founder without his vigorous leadership, for Chiang stands as a giant among Chinese leaders. His departure would inevitably be followed by a brief period of accelerated disintegration, which might continue unchecked. It is true that, with his dominating personality gone, the way would be open for the emergence of new non-Communist leadership, possessing both the freedom and will to accomplish reform. However, the availability of such leadership as well as its capabilities is questionable.

b. Possible Developments if US Aid Is Forthcoming.

Substantial US aid, economic and military, could check the decline of the National Government, but unless it was accompanied by internal reforms, it would be wasted in its application and accomplish little constructive result. If administered under strict foreign supervision, assistance would be widely opposed by Chinese, both in Communist and Nationalist territories as compromising the national sovereignty of China and prolonging the life of an unpopular and corrupt government. Rather than strengthen the position of the National Government, it would widen the cleavage between government and opposition groups.

Substantial aid would tend to promote real stability for the National Government if it were accompanied by effective internal reforms to overcome maladministration and corruption, to reorganize the incompetent military establishment, and to reduce the impact of the civil war on the country's economy.

The National Government, if US aid were forthcoming, would be deterred from turning to the USSR for a compromise solution of its conflict with the Chinese Communists.

c. *USSR Reaction to a US Aid Program.*

To the extent that US assistance tended to promote the stability of the National Government, such aid would in all probability be countered by intensified activity on the part of the USSR, both to further separatist developments along China's northern frontier and to strengthen and encourage the Chinese Communists. The USSR might endeavor to establish independent regimes in Sinkiang and in Manchuria, which together with Outer Mongolia would form a protective line of buffer states from Central Asia to the Yellow Sea. While the USSR would probably defer open action in support of the Chinese Communists, which would be a clear violation of the Sino-Soviet Treaty of 14 August 1945, it could continue to extend effective aid to them by inconspicuous means. Even the provision of Soviet-made equipment could be effected circuitously via Mongolian and North Korean forces; the former are undoubtedly supplied with such material, and there is convincing evidence that the latter have also been so equipped. In the resultant ascending spiral of support and counter-support by the US and the USSR, the latter, by virtue of its favorable geographic position and the vitality of the Chinese Communist movement, would enjoy the advantage in terms of cost and effectiveness of aid.

SECTION II

POLITICAL SITUATION IN COMMUNIST CHINA

The Chinese Communist Party, or Kungchantang, has provided the chief opposition to the Kuomintang for 20 years. It has won a popular support far exceeding that of any of the minor parties and at least comparable to that of the Kuomintang, largely because of the political and military skill of its leaders, its superior organization, and its relatively progressive attitude towards agrarian problems. The Party claims a membership of approximately 2,000,000 and is supported by an army of 1,000,000 regular troops supplemented by some 2,000,000 irregulars.

Outside the USSR, the Chinese Communists form the world's largest Communist Party and the only one which has demonstrated sufficient strength to survive and expand without Russian help. The Chinese Communists have a strong ideological affinity toward the USSR, but for more than a decade they have formulated their plans and policies apparently independent of Moscow. Because of the agrarian character of China, they have changed Marxism from a European form to an Asiatic form, with the peasantry rather than the industrial workers as the main force of the revolution. In their fundamental philosophy, however, they differ very little from Communists the world over. There are differences in method but no real difference in objective. At the present time, they are in a nationalistic, united-front phase of revolution characterized by a program which upholds agrarian reform and permits some political expression by the individual. However, in the words of Party leader, Mao Tse-tung, "Our future program is to push China forward to socialism and communism; that is definite and beyond question."

Approximately one-fifth of the total area and at least one-fourth of the total population of China is controlled by the Chinese Communists. Generally speaking, territory under Communist rule includes most of Manchuria and a large section of North China, extending from northwest Shensi province to the Shantung Peninsula, with the exception of major cities and corridors along rail lines which are held by the National Government. In addition, a Communist force several thousand strong remains unsubdued on Hainan Island and the Luichow Peninsula in the south, while a sizeable underground exists in most of the large cities in Nationalist China.

1. History of the Chinese Communist Party.

The Chinese Communist Party was founded, with Russian guidance, in 1921. A decision to organize the Communist movement in Asia had been taken by the Communist Party in Russia in 1920, as a result of which Marin, Lenin's secretary, was sent to China to organize secretly a Chinese branch of the Communist International. The foundation meeting of the Party was held in Shanghai and was attended by 12 Chinese delegates, including Mao Tse-tung. The Party commenced its activities by conducting an intensive campaign among students in Peiping and laborers in Shanghai and Hongkong.

In 1924 the ranks of the Kuomintang were opened to Communists, and many joined. Although these Communists agreed to support the revolutionary program of the Kuomintang, by 1926 it had become apparent to Kuomintang leaders that the Communists were gaining leadership over the revolution. By April of the following year the differences between the two groups had widened into an open split. Kuomintang leftists and Communists rallied under the Russian adviser, Borodin, at Hankow, while Chiang Kai-shek with Kuomintang right-wing and moderate elements set up a rival government in Nanking. Assured of financial support by Chinese banking groups in Shanghai, and with the moral support of foreign powers which had been alarmed by the anti-foreignism of the leftists, Chiang embarked on a bloody purge of Communists from the Kuomintang. By the end of 1927, the Hankow Government was crushed, its Russian advisers expelled, and the Chinese Communist Party dispersed and driven underground.

After the repudiation of the Communist alliance by the Kuomintang, the Chinese Communist movement wavered for a few years. One group under the leadership of Li Li-san advocated a policy of occupying some of the larger cities and using them as bases from which to fight the armed opposition of the Kuomintang. This policy of "direct action" soon proved a complete failure. Li Li-san, made the scapegoat, fled to Russia where he remained as a virtual exile until his return to Manchuria with the Soviet army in 1945.

Meanwhile in another group attention had been shifted to the hitherto neglected peasants, who from this time began to receive the primary attention of the Chinese Communist movement. Emphasis was also on the strengthening of the Chinese Communist Army, rather than the development of peasant and labor unions, and the employment of that army to protect Communist rural areas rather than attack Kuomintang strongholds in the cities. Mao Tse-tung emerged from this group as Party leader in the early 1930's, but urged a policy of moderation towards the big landlords and rich peasants. Until the Communists were strong enough to take charge of the political and economic administration of the country themselves, in Mao's opinion, they were still dependent on the landlords and merchants. Because he counseled a "go slow policy," Mao earned the disfavor of Moscow. Thus the Chinese Soviet movement and the Chinese Communist Army began under purely Chinese leadership. A central government of Chinese Soviets was set up in the hills of southern Kiangsi, in November 1931, and a constitution was adopted. The capital was captured by National Government forces three years later, but the Communist armies, retreating westward, made their famous "long march" of some 2,000 miles (Oct. 1934-Oct. 1935) to northwest China. Ultimately, the Communists set up a new capital at Yenan, in Shensi province, whence their influence spread into the neighboring provinces of Kansu, Ningsia, Shansi, Suiyuan, and Hopeh.

In early 1937 the National Government accepted the idea of a united front with the Communists in defense against Japan. The united-front idea, which applied to Communists in all countries, had been developed in Moscow as a means for safeguarding the Soviet Union against the threat of fascist aggression, and for expanding the influence of Communists in capitalistic democracies. Under the terms of the united-front

agreement in China, the Chinese Communists pledged themselves to cease subversive activities against the government, to abolish the Chinese Soviet Republic, to support the National Government, and to integrate the Communist army with the armies of the government. Consequently, China was united at the outbreak of the war with Japan in July 1937.

The Communist forces, however, refused to stay within their assigned defense areas. After three years of limited cooperation, disagreement led to a serious clash between the Communist New Fourth Army and National Government forces in January 1941. Thereafter the National Government restricted Communist activity and enforced a tight blockade of Communist areas. With US entrance into the war against Japan, both the Communists and the Kuomintang became more interested in their own status vis-a-vis each other than in fighting the Japanese armies. A virtual truce existed with the Japanese "puppet armies" while the National Government in Chungking and the Communist forces continued their "war within a war." The Communists expanded their areas of control, partly at the expense of the Japanese, but also at the expense of Chungking-controlled areas.

Kuomintang-Communist strife was intensified at the close of the war when the Communists took over from the Japanese a large part of rural China from the Yangtze Valley north. Occupation of major cities like Peiping and Tientsin, however, was forestalled by arrival of National Government troops, brought in by US air transport.

Communist leaders apparently welcomed General Marshall's arrival in China, and the subsequent Political Consultative Conference resolutions and other agreements of early 1946. These paper arrangements were only partially and tentatively put into effect, however, and disagreements over their implementation, combined with Communist occupation of most of Manchuria, led to an intensification of civil war in April 1946. Further attempts at a peaceful settlement in 1946 and early 1947 failed, and the breach has continued to widen. On 28 June 1947 the National Government issued a mandate for the arrest of Mao Tse-tung, and a few days later the State Council issued a resolution branding the Communists as "rebels." Shortly thereafter the Communist Party retaliated with a list of political slogans which indicated that if the Chinese Communists came to power, Kuomintang leaders would be tried as "war criminals."

2. Party Ideology and Program.

The present or immediate goal of the Chinese Communist Partly, broadly stated, is to establish a "New Democracy" based on an alliance of several revolutionary classes led by a proletariat in which the peasantry is the main force. The future or maximum goal is to establish a socialist society in China. In short, "democracy" is the means, socialism the end, even though final achievement of this goal may lie in the very distant future.

The bases for Chinese Communist policy are the writings of Mao Tse-tung, through whom the views of Marx and Lenin have been predigested and applied to China. Mao has interpreted Sun Yat-sen's Three Principles of the People in the light of these doctrines in his chief works, *New Democracy* (1940) and *On Coalition Government* (1945). Although available evidence indicates that Mao has never been abroad, Mao's thinking has been subjected to Russian influence by Chinese Communists who have visited Moscow and returned, and by other contacts.

a. Policies in Communist China.

Communist policies in Communist-occupied areas conform as a rule to Chinese peasant desires. These policies place emphasis, in the political field, on democratic reform which provides some opportunity for political expression by the individual, and in the economic field, on agrarian reform.

In Communist-occupied areas it is Party policy that no more than one-third of the government posts be filled by Communist Party members. Thus the Communists have a basis for claiming that they uphold democratic, united-front government in those parts of China which they control. In the selection of government officials some emphasis is laid on participation from below rather than appointment from above. Where it is deemed sufficiently safe to entrust governmental functions to the local population, it is Communist policy to use the popular ballot. However, policy-making positions are in most cases filled by appointment from above.

The Party policy of agrarian reform is of great political significance. In an earlier period, the Chinese Communists, who are admittedly Marxists, attempted immediate collectivism, but soon abandoned this course in favor of a more moderate policy of land redistribution which permits private ownership of land and is designed to win the support of the mass of the people. The impoverished and oppressed peasants in the northern areas controlled by the Communists have responded with some enthusiasm to this policy since it has the effect of somewhat increasing their small holdings at the expense of more well-to-do land owners. Such measures, however, to the average untutored peasant, have nothing to do with Communist ideology which to him is so much meaningless verbiage.

b. Policies vis-a-vis the National Government.

Communist policy toward the National Government has been aimed at a continuation of hostilities in the hope that economic deterioration, military attrition, and loss of the remainder of Manchuria and additional areas of North China to the Communists, will render the National Government powerless or force it to negotiate on Communist terms.

Besides attempting to break Kuomintang monopoly control over the Government by military means, the Communists also are attempting to undermine the present National Government by means of an active underground. Although all Communists were ordered out of National Government territory after the breakdown of negotiations in March 1947, a sizable Communist underground still exists. Owing to the extreme secrecy of this organization, necessary because of the close surveillance exercised by the Kuomintang, it is difficult to obtain even a rough estimate of its numerical strength. A qualified observer has reported that in South China the Communists retain control of central Hainan Island, and most of the Kwangtung coast from the Luichow Peninsula to Canton. There are also sizable Communist underground groups in the industrial centers of Canton, Hongkong, Peiping, and Shanghai.

There is no indication as yet that the Chinese Communists plan to establish a separate sovereign government over the areas now under their control. The Chinese Communist Party, even though now outlawed by the National Government still sup-

ports the resolutions of the January 1946 Political Consultative Conference as a basis for achieving the announced aim of a democratic coalition government. However, it now rejects any possibility of cooperation with Chiang Kai-shek and his associates who are classed as "war criminals." It denounces the new constitution as an instrument designed to curb the people's liberties, eliminate provincial rights, and institute a dictatorial presidential system. The Party also refuses to recognize any agreements or treaties contracted by the National Government with foreign powers since January 1946.

In Communist-controlled areas, Communist rule is effected by a number of separate governments over "Border Regions" and "Liberated Areas", paralleled by a strong Party political and military organization.

3. PARTY ORGANIZATION.

The Chinese Communist Party is organized on the principle of "concentrated democracy" which stresses obedience, and submission of the individual to the will of the majority. Theoretically, the democratically elected party organs are supreme, but owing to the infrequent meetings of these representative organs, actual authority is exercised by the party organs appointed from above. The Party was originally organized as a branch of the Third Communist International which was officially dissolved in 1943; however, since the Seventh Plenary Meeting of the Comintern, held in Moscow in 1936, there has been no visible working relationship between the Chinese Communists and the Comintern. Similar to the Kuomintang in its organization, the Chinese Communist Party in its structure resembles the Soviet Communist Party, which is the prototype of both. (See chart facing page II-10.)

a. Organization on National Level.

Theoretically, the National Party Congress, elected by the Councils of Provincial Delegates, is the supreme party organ and it elects the Central Party Committee. The Congress is supposed to meet annually, but the Seventh National Congress, convened in April 1945, was the first meeting since 1928. The Communists explain that this lapse was owing to the exigencies of the Civil War.

The Central Party Committee, sometimes referred to as the Central Executive Committee, is the supreme ruling Party organ in the intervals between National Party Congresses, and directs all party activities on a national level. This Committee establishes and appoints the Political Bureau, the Department heads, and the Party Secretariat. The present Central Committee, elected by the Seventh National Congress, consists of 44 members and 23 alternates, with Mao Tse-tung the chairman. The Party Statutes (1928) provide for Central Committee plenary meetings "at least once every three months," but it is not known how often meetings are convened in practice.

The Political Bureau is probably of even greater strategic importance than the Central Party Committee inasmuch as it supervises all political affairs when the latter is not in session. Numerous branches of the Political Bureau extend through all Communist-controlled areas down even to the village level. These branches appear to be a link between the party organization, the army, and the government hierarchy. In newly liberated or unstable areas, a branch of the Political Bureau constitutes the *de*

facto policy-making organ for the government, party, and military units. Mao Tse-tung is the chairman of the Bureau which is composed of 13 members.

The Central Committee establishes the Party Departments and appoints the Department heads. These Departments correspond to the Kuomintang bureaus and committees and, as far as can be ascertained, include Departments for Military Affairs, Foreign Affairs, Finance and Taxes, Party Affairs, Organization, Publicity, Research, Industry, Agriculture, and Minority Groups. The Party Secretariat is composed of Mao Tse-tung, its chairman, and the heads of more important Departments, such as Chu Te, Chou En-lai, Jen Pi-shih, and Liu Shao-chi.

b. Provincial and Local Party Organization.

Communist Party organs parallel government bodies at all levels. Two types of organs are found at each level, directive organs called Party Committees, and popular or representative organs such as the Party Members' Mass Meetings and the Councils of Party Delegates. According to the Party Constitution, both types of organs are democratically elected, but in practice this is true only of the representative organs.

The basic unit of party organization is the party cell, established in factories, workshops, schools, villages, and army units. All party members in a town or rural district (chu) meet periodically in a Party Members' Mass Meeting which elects delegates to the District Council of Party Delegates. This District Council of Party Delegates, when in session, supervises party affairs within the town or district and elects delegates to the Hsien, Municipal, and Provincial Councils of Party Delegates. These Councils are the supreme organs at their respective levels. When not in session their authority is exercised by the Party Committees, which, on all but the highest level, are appointed by the next superior Party Committee.

c. Party Membership.

The Party has claimed a membership as high as 2,000,000 members. At least 90 percent of its present members joined after 1937, in the course of the anti-Japanese war. This 90 percent presumably accepted communism in the sense of the more moderate "New Democracy" and not in the sense of the extreme radicalism, characteristic of the period prior to 1937. Therefore it would seem that continued adherence to the general principles of "New Democracy" will be necessary in order to retain the cooperation of these members.

Membership is open to persons from various classes but qualifications are stringent and different according to class. No knowledge of the theories of Marx is required of the applicant, but it is necessary that he sympathize with the general aims of the Party and agree to obey Party leadership. When the Party was first formed, membership was restricted to workers and peasants, but since the united front period (1937) exceptions have been made to include members of the so-called capitalist class.

Party rules enjoin members to devote themselves to the best interests of the masses and to make themselves models of good behavior. Whereas discussion in the formulation of policy is encouraged among Party members, once the Party line is determined, a member must follow it or leave the Party.

4. GOVERNMENT IN COMMUNIST CHINA.

On the national scale, the Chinese Communists have had no government and have even denied the objective of establishing, at present, a national government for their areas. The largest unit of government established by the Party is the Border Region government. The Party has expressed, however, a desire for provincial autonomy and legal recognition for Communist-controlled provinces.

The Communists have modified the traditional system of Chinese government by innovations both in the formal structure and in the political processes. The chief modification in the formal structure is the adoption of a new territorial unit which has been set up where three or four provinces come together, away from the established centers of power—hence the name "Border Region." The principal innovation in political processes is that some emphasis is laid on popular elections.

a. Structure of Regional Government.

Communist regional governments vary in complexity in direct proportion to the stability of the areas. They are patterned after the government in the Shensi-Kansu-Ningsia Border Region, which has been in operation for the longest period and has a more highly developed political organization than the others. In the Shensi-Kansu-Ningsia Border Region the governmental structure is determined by resolution of the Border Region Council which consists of 288 members chosen by popular ballot. The Council is theoretically elected for a period of three years, but the present Council has been in office much longer. The chief function of the Council is legislative and its resolutions have the force of law. The Council also has executive functions which are mainly appointive. It names a Government Committee, a Standing Committee, the Chief of the Supreme Court, and the Chairman and Vice-Chairman of the Government, over which the Council has the power of recall. The Government Committee, composed of 18 members, is the highest governmental body when the Council is not in session.

Apparently governments in other areas are not subordinate to the Shensi-Kansu-Ningsia Border Region Government, and appear to have considerable local autonomy. The integrating influence is supplied by the Communist army as an arm of the Party. An important aspect of this integrating influence consists of use of army radio communication facilities for government business. In newly liberated areas the political structure is closely integrated with the military organization and the governments are under the tutelage of the political officers of the armies. As conditions become more stable and as political processes become more clearly defined, the governments apparently come more directly under the leadership of the Party.

b. Government in Practice.

Despite the emphasis on elections, the governments are largely guided from above by the Party and influenced from below by Party indoctrination of the masses. The principal Communist leaders like Mao Tse-tung, Chou En-lai and Chu Te do not hold positions in the governments but derive their authority from their positions in the Party hierarchy. Most measures initiated by Border Region and local governments are Party measures; and even non-Party measures must have Party approval to insure their adoption. In general, the Party exerts its control through its personnel in the

governments; the fact that it has only one-third of the representatives imposes no difficulty in control because the Party is the only political organization which is strongly organized and ably led. The Party's ability to get its "slate" elected in the Councils results, at least in part, from the selection of a list which has sufficient appeal to draw support from virtually all quarters. Popular approval of Party programs appears to follow largely from the belief of many people that the programs are planned to further their welfare.

In a legislative council, the Party can count on a solid one-third nucleus to back its measures, and consequently needs to win the support of only a small fraction of the remaining members to secure a majority. This support appears to be gained, not by crude, browbeating tactics, but by the drafting of measures so as to win some non-Party approval, and by the confinement of party-sponsored bills to fairly important matters. Also, it is easy for the Party at present to control legislative councils, inasmuch as the non-Communist two-thirds is composed largely of unorganized and politically unsophisticated country people.

c. *Civil Liberties.*

Certain individual "freedoms," such as freedom of speech, freedom of press, and the right of *habeas corpus* have been granted by Communist-inspired resolutions of the Shensi-Kansu-Ningsia Border Region Council. Whether or not these freedoms really exist is a controversial point. Popular criticism of the functioning of government is encouraged in Communist areas, but such criticism may be applied only to particular policies and their execution, not to basic Communist policies or the government's right to exist. The Party line, once determined, must be followed. Owing to rigid Party discipline and indoctrination, restrictions on freedom of speech are to a large extent self-imposed.

In Communist areas there is no real freedom of the press inasmuch as the press and radio are owned and operated by the Party and the Army. Staff members are selected for proven loyalty to the existing regime, which implies their willingness to conform to all official policies. The right of *habeas corpus* apparently is qualified by considerations of public safety in time of war, particularly in cases of "traitorous activity," a term which may be subject to various interpretations.

5. Chinese Communist Attitude toward Foreign Powers.

Since the Chinese Communist Party is not a legal political entity in international relations and has not set up a central government over its various Border Regions, it does not have *de jure* foreign relations. Nevertheless, the Chinese Communists have some external contacts, and from time to time have indicated their policies toward various foreign powers.

One of the current keynotes of Chinese Communist foreign policy is self-sufficiency. In February 1947 Chou En-lai, who is the principal party spokesman on matters of foreign relations, stated that the Chinese Communists expect to work out their own problems without the mediation of any foreign country. A subsequent statement by another spokesman pointed out that the Communists never intended to request financial loans from foreign powers, as "Communist areas are trying to be self-sufficient."

On the other hand there is reason to believe that under unfavorable circumstances the Chinese Communists may look abroad for aid. Statements from Communist sources of a less official nature have at various times, suggested that the Party might appeal to the UN for a solution of its conflict with the National Government, or predicted that the issues of civil war would be solved, not in China, but in negotiations between the US and the USSR.

a. Friendly Policy toward USSR.

Throughout their history the Chinese Communists have consistently followed a course parallel with the Soviet Party line. They have upheld every action of the USSR, even though at times it has appeared difficult to reconcile these actions with the interests of China. If the Chinese Communist Party ever gains control of the National Government, it would presumably pursue a foreign policy friendly to and cooperative with the USSR. There is no irrefutable evidence, however, of the extent to which the USSR has extended material aid to the Chinese Communists nor of the extent to which the Chinese Party has direct ties with the Soviet Party.

b. Critical Attitude toward US.

The Chinese Communist Party professes friendship for the American people but insists that the policy of the US Government is imperialistic and hostile to the best interests of China. It is harshly critical of every US step which may be interpreted as a measure to bolster the National Government, such as the Wedemeyer mission to China. In the event that a Communist-dominated regime comes to power, its attitude toward the US may be expected to be governed by the actual state of foreign relations between the US and the USSR.

6. Possible Conflict within the Party.

There are recurring reports, chiefly from Nationalist sources that factional strife exists within the Communist Party. The reported cliques appear to fall into four main categories. (1) *The International Clique* (also known as Yang Kung or foreign-returned Communists) consists of Soviet-educated persons. They have been opposed by Mao Tse-tung, who criticizes them as too doctrinaire. This group is especially prominent in Manchuria. (2) *The Intimate or Mao Clique* (also known as Tu Kung or Indigenous Communists) includes Mao's most loyal supporters and is the real political power of the Party. They believe in Mao's adaptation of Marxism to Chinese conditions rather than in the pure Marxism of the International Clique. (3) *The Military Clique* consists of the Army leaders who possess real military power. So long as the Communists continue to wage war this clique is expected to increase its power. Mao appears to fear that these military men may become so powerful that eventually they may assume political control over the Party. He places political commissioners in the Army as a measure of control over them, but has to yield to them to some extent to carry on the war. (4) *The Elder Clique* consists of elder Communist leaders. None of the members of this clique holds real power. Their ideas resemble those of left-wing Kuomintang members and are not strongly anti-American.

Of these cliques the first two are the most significant. The Intimate or Mao Clique, sometimes referred to as "Yenan Communists," wants to become established as

the controlling regime within China and is primarily interested in the growth of Communism inside the country. This group is supported by a considerable number of individuals who have become convinced that Communism offers a better hope for democracy and reform in China than does the program of the National Government. The other group, the "International" or "Manchurian Communists" is largely controlled by Chinese Communists indoctrinated in the USSR and is the principal pro-Soviet group. Li Li-san, who returned in 1945 from a 15-year sojourn in the USSR; appears to be a leader of this group in Manchuria.

7. STRENGTH AND INTENTIONS OF THE CHINESE COMMUNISTS.

The Party, in extent of area controlled and in the number of its armed forces, is stronger now than it has ever been. The basis of its strength in China is its program of long-needed agrarian reforms, which has a great appeal to the impoverished peasantry; its apparent unity of purpose; its politically astute indoctrination and treatment of its troops; and the sympathy and support of the USSR. Perhaps its greatest strength, however, comes from the general disillusionment of the Chinese people with the corruption and misgovernment of the Kuomintang.

The weakness of the Communist Party lies in its lack of administrative and technical personnel for organization and administration of complex urban areas; the suspicion among the majority of politically conscious Chinese of its connection with Soviet Russia; the general anti-Communist feeling of the Chinese people arising from the early days of Communist excesses in China and the many years of anti-Communist propaganda in the Chinese press; the war-induced necessity of heavy requisitions; and the crude and ruthless execution of land confiscation and taxation which have antagonized large numbers of potentially valuable supporters.

At present the Party steadfastly refuses to enter into negotiations with the National Government, whose Kuomintang leaders it distrusts. It appears to favor continuation of hostilities, with the expectation that economic deterioration in Nationalist China, military attrition in the Kuomintang armies, and territorial gains in Manchuria and North China, will critically weaken the National Government or compel that Government to negotiate for peace on Communist terms.

The Communists still maintain that they favor a coalition government, but now reject the idea of a coalition which would include Chiang Kai-shek and Kuomintang "war criminals." The coalition presently urged by the Communist Party would be composed of Communists and members of minor parties and independents, with the possible inclusion of Kuomintang moderates. On the basis of announced Party aims the Communists intend eventually to dominate any coalition government in which they participate.

Establishment of a separate government over all or part of Communist-held areas does not appear to be favored by the Party at the present time. On the other hand, the Chinese Communists may decide to take such action if conditions develop adversely for them. In this event, however, they will probably still retain their long-range objective of gaining political supremacy over all of China, and will seek to promote that end by military and infiltration tactics.

SECTION VI

STRATEGIC CONSIDERATIONS AFFECTING UNITED STATES SECURITY

1. China as an International Problem.

An independent China, ruled by an effective government, would tend to promote stability in the Far East. For more than 100 years East Asia has been an area of international friction, the principal cause being the incapability of various Chinese governments to resist successfully encroachments upon China's sovereignty. Despite the fact that the US has been more sensitive to disturbances in the Western Hemisphere and in Western Europe than in the Far East, conflicts concerning China since the latter part of the nineteenth century have, nevertheless, regularly involved the US in major diplomatic or military activity.

From the economic viewpoint, China is an important factor in the life of its neighbors, both Japan and the USSR. For Japan, China has a twofold significance, as a market and as a source of raw materials, notably North China coking coal, which cannot be obtained conveniently elsewhere. For the USSR, the most favorable communications from Siberia to the sea lie across Manchuria, to the warm-water ports of Dairen and Port Arthur, and the economy of China's northeastern provinces is complementary to that of the Soviet Far East. From the political and military viewpoints, China is potentially the greatest power in East Asia; consequently these neighboring states regard apprehensively any developments which tend toward the realization of this latent strength and seize upon periods of China's weakness to establish control over Chinese territory.

Within China the region of greatest strategic significance in international disputes of the past 50 years has been Manchuria and the adjacent parts of North China. (Korea is an important appendage to this area.) Geographically Manchuria is the natural crossroad of land communications linking Siberia, China, and Japan-Korea, and has an extensive railroad network. It is an important source of food supplies, and so long as the resources of North China are available to supplement those of Manchuria, the latter area is a favorable location for the development of heavy industry. Historically, Manchuria has been the battleground between Japan and Russia, with the advantage shifting from one to the other, dependent on which has been able to apply the greater military force. In this struggle both powers have come into conflict with China, the titular sovereign, but Chinese governments, because of their military weakness, have not been able to play a decisive role. Nevertheless Chinese interest in establishing effective control over Manchuria is persistent and real. More than 30 million Chinese constitute the overwhelming majority of Manchuria's population and China has looked hopefully to this area as a base for industrial development.

Currently, lack of stability in China provides an opportunity for foreign encroachment. At the same time the defeat of Japan has placed the USSR in a position of unmatched power among Far Eastern nations. Restoration of a balance in Far Eastern power relationships has consequently fallen directly upon the US.

2. CHINA AS A THREAT TO US SECURITY.

The possibilities that China might present a threat to US security would vary with three circumstances: (a) an unstable, weakened, and divided China; (b) a Communist regime in Manchuria and China proper north of the Yellow River or in all of China, in which case, a *de facto* Sino-Soviet alliance can be assumed; and (c) a unified non-Communist China under an effective central government.

a. An Unstable China.

China in isolation is no threat to any other area of the world at present, but considered as an area in which international interests come into conflict, an unstable China is a danger to peaceful conditions in the Far East. Chinese Communism is a dynamic movement capable of expansion, and the Chinese Communists are ideologically aligned with the Soviet Union. Under these circumstances, in view of the world-wide divergence of US and Soviet interests, China must be looked upon as a potential source of international friction.

b. A Communist China.

If a Communist state covering all or a large part of China were established, the Soviet Union would acquire for practical purposes another Soviet republic. The food surpluses and raw materials of Manchuria and resources of North China would be available to the Soviet Far East; the Chinese Red Army would become a wing of the Soviet military machine, with bases in China available for Soviet use. Communist parties elsewhere in the Far East would gain in prestige and strength. Furthermore, under Communist domination China's vote in international conferences and its veto power in the United Nations would follow the Soviet line. These developments, without doubt, would threaten the broad security interests of the US.

However, this threat would be qualified. The political influence of a Communist China would be countered somewhat by the widespread distrust of Chinese ambitions among the peoples of Southeast Asia and the hostility of native nationalist movements to overseas Chinese communities.

The principal economic contributions that a Communist China might make to Soviet economic strength would consist of critical raw materials—led by tungsten, antimony, molybdenum, and mercury—some Manchurian food surpluses, and possibly limited quantities of manufactured goods. Chinese port facilities would also provide economic advantages to the Soviet Union. On the other hand, assuming a Communist China closely associated with or subject to the direction of Moscow, the USSR might also incur substantial liabilities in China: material, technical, and administrative responsibilities for supporting the economic life of that country. The USSR would be faced with the need, for maximum political and economic exploitation of China, of making long-range commitments to reconstruct and develop China's transportation, mining and industrial facilities; moreover, foodstuffs might have to be supplied, partly out of Manchurian surpluses, to Chinese urban deficit areas for a number of years, perhaps indefinitely. Much of South China's great resources of tungsten and antimony, furthermore, would probably continue to move, through legal or illegal channels, in the direction of the highest bidder, regardless of the country with which China may

be politically aligned. On balance, the net economic contribution that a Communist China might make to the USSR in the foreseeable future would not be substantially greater than the benefits that would accrue to the USSR by implementation of the Sino-Soviet Treaty—whose terms give the Soviet Union a large interest in Manchurian economic assets—and by the maintenance of friendly relations with the Chinese National Government.

Militarily, the Chinese Red Army could not become a significant factor in an international struggle, unless the USSR undertakes extensive training and makes available substantial quantities of modern equipment.

c. A Unified Non-Communist China.

If it were possible for China to emerge from its current difficulties as a unified, non-Communist state, the prospects for stability in the Far East would be generally enhanced, and US security interests would thereby be strengthened. This would be particularly the case if the unified China included Manchuria, for without that area a Chinese irredentist movement would inevitably arise. The creation of a unified state comprising all of China would not eliminate divergences of interest between the USSR and China in Northeast Asia, but the development of a more even balance of power between these two states would probably reduce the danger of real conflicts arising from these divergences. If, in addition, both China and the USSR could be brought into a multilateral trading community of the major nations, peaceful trade between China and the Soviet Far East would also tend to reduce the possibility of Sino-Soviet friction over the resources of Manchuria and North China.

Although it is unlikely that a unified China would directly threaten the US in a military sense, Chinese ambitions in Southeast Asia might lead to Sino-US differences. Once the internal problems of China were settled, Chinese imperialism, built around the problems confronting the overseas Chinese communities, might arise. However, although a possible irritant in international relations, this development would probably not pose a threat to Asiatic peace that US or UN intervention could not meet.

3. China as a US Ally.

As a prospective military ally of the US, China offers both advantages and liabilities.

a. Political Factors.

If political stability, in the sense that it exists in the US or the UK, is taken to be a valuable characteristic in a potential ally, the case for China is not a strong one. China has a tradition of sectional and provincial loyalties and is confronted with several difficult minority problems. A majority of its population is illiterate, and the country is inexperienced with political institutions that permit orderly and peaceful changes in governing bodies.

On the other hand, the fact that the great majority of China's people are of a common race and share in a unique cultural history is a powerful force toward political unity, broadly conceived. As the nation-wide character of the resistance to Japanese aggression showed, this fundamental tendency toward unity can have military significance, particularly when China is endangered by a foreign invader.

Another political factor requires mention. China's geographic position, its size and population, and its success in escaping colonial status give it great potential

influence throughout Asia. Although developments in China need not necessarily be decisive for the fate of other Asiatic nations, nevertheless, a non-Communist China, allied with the US, would be a force tending to restrain the growth of Communism elsewhere in Asia, and its emergence would be a blow to the prestige of Communism throughout the world.

b. Economic Factors.

It is highly improbable that China can achieve status as an important industrial power for many years. China might attain some of the essential requirements for industrial expansion, but it would still be hampered by small reserves of iron ore, very modest petroleum resources, and seriously deficient supplies of many other raw materials, notably timber. An additional limitation of considerable importance is China's extreme shortage of technical personnel and an apparent inability to apply modern technological practices in the more advanced industrial and scientific fields. On the score of industrial potential, therefore, China is not a promising ally. Even with full control of Manchuria, these generalities would still, for the most part, hold true. In a war occurring within the foreseeable future, it is most unlikely that China could make any net industrial contribution as an ally of the US.

China's major economic contribution would be in the field of strategic raw materials, notably tungsten and antimony. Relative to Soviet needs for Chinese output, the US needs for Chinese tungsten would probably be less and for Chinese antimony probably greater in any prolonged period of expanded US and USSR industrial production in preparation for a possible world conflict. However, in weighing the significance of critical materials in terms of China's strategic importance, it should be noted again that under almost any assumed political conditions in China, valuable supplies of metals from South China would probably continue to flow directly or indirectly toward the most profitable market.

In the field of agricultural production, China has relatively little to offer. Total crop yields are very large, but surpluses above domestic requirements are produced only in a few crops such as soybeans. The possibility that Chinese output could be expanded to provide large exportable surpluses is remote. It is also unlikely that Chinese food production could take care of the needs of a sizeable army based in China.

In terms of specialized facilities of great potential wartime value such as a large commercial air transport industry, China may promise some advantages to the US. Lack of land transportation facilities and China's vast distances make probable a fairly steady growth of domestic air traffic and the requisite aircraft servicing facilities. On the other hand, China does not possess a large ocean-going merchant fleet, and there is little likelihood that one can be developed for many years.

Occurrences of fissionable ores in China, which are believed to be localized and low-grade, are considered to be of only minor importance to either the US or the USSR. This conclusion takes into account the availability and accessibility to the latter two countries of fissionable ores in other areas.

c. Military Factors.

China's principal military assets, as an ally, lie in its vast manpower and in its geography.

The Chinese soldier is poorly equipped, however, in terms of adaptability to the technical requirements of modern warfare. In the great majority of cases, he is illiterate and completely unacquainted with mechanical devices. Moreover, Chinese industry is unable to supply him with the tools of modern war. Neither of these problems seems susceptible of solution in any period of present concern. It would be incumbent upon the US to equip and probably to train the Chinese Army if China's major military potential were to be developed at all. Since the cost in US resources would be substantial, the probable tendency would be to concentrate upon a small, highly trained force. If this were done, the factor of greatest importance, China's manpower, would be minimized.

Geographically, China's position in Asia makes it a potential site for bases from which US aircraft could strike at otherwise remote areas of the USSR. If it can be assumed that such bases could be kept in a state of readiness for the outbreak of war, and great logistic difficulties overcome, they might be of significant value for at least the early stages of the conflict, and the existence of such bases might make it necessary for the USSR to divert manpower and military resources to the task of invading China. However, it should be noted that US plans for use of Chinese air bases would entail moral and practical responsibility either for equipping and supplying Chinese armies or for placing US defensive forces in China. It is inconceivable that any Chinese government would grant bases to US aircraft without obtaining assurances that aid in meeting a Soviet invasion would be forthcoming. In any event, the value of air bases in China will tend to diminish with further development of long-range bombing.

Because of its great area, difficult terrain, and absence of vital targets, China has the capacity to continue resistance against a foreign invader for an extended period, as was demonstrated in its resistance against Japan. In this sense, China could be an ally of considerable value to the US in a possible war against the USSR. The advantages to the US, however, of a war front in China against the USSR would be limited, because of the remoteness of that front from the centers of Soviet power.

SECTION VII

PROBABLE FUTURE DEVELOPMENTS AFFECTING UNITED STATES SECURITY

Present trends within China are in the direction of further instability and an extension of Communist military and political influence. Such developments would adversely affect US security interests inasmuch as they would lead to political disintegration, or to a compromise settlement between the National Government and the Chinese Communists on terms favorable to the latter. In either case, however, acute political and economic disorganization probably would prevail in China for several years. This disorganization would retard the development of a Communist China as an effective instrument of Soviet policy.

The National Government of China, because of its dwindling military strength and resources, has little prospect of reversing or even checking the present trends toward instability and extension of Communist influence unless it receives external assistance, for which the US is the obvious source. Moreover, with continuing deterioration in the Chinese Government's position traditional Chinese cooperation with the US on international issues may waver, because the National Government would be inclined to adhere to a course of opportunism to avoid direct conflict with the USSR. Extension of US aid to the National Government as a means of checking or reversing these trends involves a number of potential disadvantages. To the extent that such aid failed to promote the stability of the National Government, Chinese resentment against the Government and the US would increase. On the other hand, to the extent that US aid succeeded in promoting stability, the prospects of Soviet counteraction would be increased, and this course of events might lead to a direct clash of interests in China between the US and the USSR. A third and related consideration is the drain upon US resources that assistance to China would entail.

Although the probable cost of US aid to restore stability to the Chinese National Government can be estimated only within wide ranges, it is considered likely that US nonmilitary grants or credits of from one to two billion US dollars, extending over a three-year period 1948-1950, would be required to bring about the minimum of internal economic stability needed to support the National Government's military-political position. Furthermore, in order to have a reasonable assurance of the re-establishment of National Government control throughout China, excluding Manchuria, within this three-year period, it has been tentatively estimated that the US would have to provide military support for thirty Chinese divisions in the form of training and equipment, plus continuing weapon and ammunition supplies. It is not realistic, however, to assume that the National Government would accede to an aid program which does not include Manchuria within its ultimate objectives. If Manchuria were so included, the costs of aid would be considerably greater and might even double the above estimates.

Finally, it should be re-emphasized that the foregoing estimates depend on two basic assumptions that are open to serious question: (a) that the National Government

can carry out the necessary reforms to make such aid effective; and (b) that there will be no significant Soviet counteraction. In considering measures to aid the Chinese National Government, therefore, the US must face the real possibility that a one or two billion dollar aid program may represent only the first of several installments which would be required to restore stability to China.

APPENDIX E

BIOGRAPHICAL DATA

CHANG CHIH-CHUNG.

Director of the President's Northwest Headquarters; member of the Standing Committee of the Central Executive Committee of the Kuomintang; member, Political Science Group.

Born Anhwei Province, 1891; graduate of the Paoting Military Academy, 1916. Served in the Army of the Southern Military Government under Sun Yat-sen, 1916-1918. Joined the Northern Expedition as Chief of Staff of the Second Division of the Nationalist Army, 1926. Studied abroad, 1927; visited Europe and the United States. Dean of the Central Military Academy, 1929; member of the Kuomintang Central Executive Committee since 1937; Governor of Hunan, 1939-1940; Secretary General of the San Min Chu I Youth Corps, 1943-1946. Engaged in negotiations with the Chinese Communists, 1944-1946, and was acceptable to them as a negotiator. Governor of Sinkiang, 1946-May 1947; during his tenure as Governor of Sinkiang, he attempted to clean up governmental corruption in the province. His enlightened treatment of the minority problem, as indicated by the part he played in settling the Ining uprising of 1946, has earned him the respect of the natives. Appointed Director of the Generalissimo's Northwest Headquarters in 1946.

Chang has enjoyed a long-time close relationship with Chiang Kai-shek to whose influence he owes his present position in Chinese politics. Politically liberal with tolerance for leftist views, he believes in friendly cooperation with the Russians in Chinese areas contiguous to Russia.

CHANG CHUN.

President of the Executive Yuan; member of the State Council; chairman of the National Economic Council; member of the Standing Committee of the Central Executive Committee of the Kuomintang; member of the Political Science Group.

Born Szechuan Province, 1888; educated at Paoting Military Academy and the Japanese Military Staff College in Tokyo; first associated with the Generalissimo during the period of his military training. Returned to China, 1910; active in the revolutionary movement in Shanghai. Joined the Northern Expedition, 1926. One of the Nationalist staff officers and part of the group which, with Chiang Kai-shek, split from the left wing of the Kuomintang, 1927. Member of the Central Executive Committee of the Kuomintang since 1929; Mayor of Shanghai, 1929-1931; Governor of Hupei Province, 1933-1935; Minister of Foreign Affairs, 1935-1937, during which time he participated in the Sino-Japanese negotiations and won some slight concessions for China. Speaks Japanese and some English. Vice President of the Executive Yuan, 1937-1939; Secretary-General of the Supreme National Defense Council, 1939-1941; able Governor of Szechuan Province, 1940-1947; Kuomintang representative at the meetings of the Political Consultative Conference (PCC), January 1946. Visited the US, September to November 1946; President of the Executive Yuan since April 16, 1947.

Loyal friend and supporter of Chiang Kai-shek, and as President of Executive Yuan, holds a position of importance in the National Government.

CHANG CHUN-MAI (CARSON CHANG).

Member of the People's Political Council (PPC); chairman of one wing of the Social Democratic Party.

Born Kiangsu Province, 1886; brother of Chang Kia-ngau, governor of the Central Bank of China; educated at the Middle School of Education at the Institute of Modern Languages, Shanghai; then at Waseda University, Tokyo, 1904-1909, and Berlin University, 1913-1915; studied political science in England, 1915-1916. Held various minor government posts and was associated with newspapers in Peiping and in Shanghai prior to 1928. One of the organizers of the Chinese National Socialist Party which first met in Peiping, 1929. Was the most prominent leader of the National Socialist Party and represented his Party in the People's Political Council (PPC) from 1938 until its merger into the Social Democratic Party in 1946. Confined to virtual house arrest during the war; was a delegate to the Institute of Pacific Relations Conference, Hot Springs, Virginia, January 1945; delegate to the World Security Conference, San Francisco, April 1945; attended the Political Consultative Conference (PCC), January 1946, as representative of the Democratic League; favored Social Democratic Party participation in the National Assembly, November 1946, as a result of which his connections were broken off with the Democratic League. In

the last year has favored his Party's participation in the National Government but has refused to hold government office himself. His Party split its ranks in August 1947 and Chang now controls the weaker faction which includes no prominent liberals and few well known names.

CHANG FA-KUEI.

Military leader in South China.

Born Kwantung Province, 1896; after graduating from Wuchang Officers Academy, became commander of an independent platoon of the newly formed Nationalist Army. This later became a brigade and was combined with the 4th Army of Li Chi-shen, 1925; participated in the Northern Expedition, 1926 and after military successes, promoted to Vice Commander of the 4th Army. Became a leading figure of the Hankow regime, 1927, his "Ironsides" Division having gained a good reputation in the Northern Expedition; lost many of his troops to the Chinese Communists at the time of the Communist uprising at Nanchang, August 1927, then came south and seized Canton. In control of the city when the Communist *coup d'etat* took place there December 11-13, 1927; subsequently his troops driven north. Broke with Nanking and the forces of Chiang Kai-shek, 1929, and marched his troops southward from the Yangtze to join forces with the Kwangsi warlords in an unsuccessful attack upon Canton, 1931. Toured Europe and America several years, 1932-1935; returned to China, 1935; became commander of bandit suppression forces, Chekiang-Fukien-Anhwei-Kiangsi border area, 1936. During the Sino-Japanese war, was Commander-in-Chief of the 4th war Area (Kwangsi and West Kwangtung) where groups of Annamites were trained under his command for the reoccupation of Indochina; accepted the Japanese surrender at Canton, September 1945, and was appointed Director of the Generalissimo's Headquarters there but in November 1947 was replaced in this position by T. V. Soong, the new Governor of Kwangtung Province. At this time Chang was appointed to the Military Advisory Council in Nanking, a sinecure. Chang also was designated as future governor of Hainan Island in May 1947, but Hainan has not yet been established as a separate province.

Because of his strength in the south as well as his record of past differences with the Generalissimo, Chang's name has been mentioned in connection with a possible separatist movement in South China. He has recently expressed himself as being anti-Communist.

CHANG HSUEH-LIANG.

Popular Manchurian leader; since December 1936 a political prisoner of the Chinese National Government.

Born Liaoning Province, 1898; eldest son of the late Chang Tso-lin, brother of Chang Hsueh-ming of the Nationalist's Northeast Headquarters and Chang Hsueh-shih, who is now operating with the Chinese Communist forces. Graduated, Military Training Academy, Mukden. Commander of Chang Tso-lin's bodyguards, 1919; commander, 3rd Fengtien Mixed Brigade, defeating the Anfu troops in the Anfu-Chihli War, 1920; sent to Japan to attend the Japanese autumn maneuvers, 1921; took active part in the Chihli-Fengtien war of 1922 and 1924; Commander-in-chief, Peace Preservation Forces, Manchuria, after the death of his father, 1928; member, State Council, Nationalist Government and Chairman Northeastern Political Council, 1928; commanded defense forces during Sino-USSR clashes in North Manchuria, 1929. Joined forces with the National Government in the struggle between the Generalissimo and the Northern Coalition of Feng Yu-hsiang and Yen Hsi-shan and became Vice-Commander-in-Chief of Army, Naval and Air Forces of the National Government, 1930; member, Standing Committee, North China Political Council, 1931; ousted from Manchuria by Japanese invasion of 1931; became Acting Chairman, Peiping Branch Military Council, 1932; member, Executive Committee, Central Military Academy, 1933; traveled abroad, 1933-1934; cured himself of the narcotic habit and became Deputy Commander-in-Chief, Bandit Suppression Forces in Honan, Hupei and Anhwei, 1934; director, Administrative Department, Provisional Headquarters of the President of Military Affairs Commission, Wuchang, 1935; Vice Commander, Bandit Suppression Forces in Shensi, 1935-1936; joined with the Communists in kidnapping Chiang Kai-shek at Sian, December 1936; dismissed from all posts. Now under detention in Formosa.

Many Manchurians are agitating for his return to Manchuria where he symbolizes native leadership.

CHANG KIA-NGAU.

Governor of the Central Bank of China; Chairman, Board of Directors of the Joint Board of the Four Government Banks; member of the Central Executive Committee of the Kuomintang; member of the Political Science Group.

Born Kiangsu Province, 1888; brother of Carson Chang, the leader of the Social Democratic Party. Educated at the Foreign Language School, Shanghai, 1902-1905; at the High Technical School, Peiping, 1906-1907; at Keio University (Department of Economics), Tokyo, 1907-1910. Participated in the Revolution, 1911, and made Secretary to the Governor of Chekiang Province, 1912; clerk in the Bank

of China, 1914, becoming Assistant Manager of the Shanghai Branch of the Bank of China, 1917. General Manager and Director, Bank of China, 1928-1935; Deputy Governor, Central Bank of China, 1935-1947; Minister of Railways, 1935-1937; Minister of Communications, 1937-1942; traveled in the US and Europe, 1943-1945; adviser to the Chinese delegation, Bretton Woods, and delegate to the International Civil Aviation Conference, Chicago, 1944. At the close of the Sino-Japanese war, appointed Chairman of the Economic Commission of the Generalissimo's Headquarters for the Northeast and concurrently Chairman of the Board of Directors of the Chinese Changchun Railway and Special Commissioner in the Changchun office for the Central Bank of China. In these positions was severely criticized by the CC Clique. Resigned all previous positions on becoming Governor of the Central Bank of China in March 1947.

A prominent banking and business executive of Shanghai, Chiang Kia-ngau is an able administrator with an understanding of Western ideas and a sympathy for Western business methods. Conservative in politics and business, he recently urged curtailing of the military control of Central and South China in favor of establishing greater civilian authority.

CHEN HUI-TE (K. P. CHEN).

Banker; member of the State Council.
Born Kiangsu Province, 1880; attended St. John's University in Shanghai, and graduated with a B. C. degree from the Wharton School of Commerce, University of Pennsylvania, 1909. Returning to China, served for a short while as Finance Commissioner of Kiangsu, leaving his post to enter banking. Founded the Shanghai Commercial and Savings Bank and has served as general manager since 1915. Founded the China Travel Service, an affiliate of the Commercial and Savings Bank, and a pioneer in its field in China. Member of the Board of Directors of the Bank of Communications, Bank of China and the Central Bank of China for many years. Serves numerous commercial enterprises in an executive capacity and has been a member of many government bodies concerned with economic matters. Headed the mission which successfully negotiated the Sino-American silver purchase agreement of 1936. At the time he impressed his American counterparts with his outstanding ability and integrity. Headed an economic mission to Washington which negotiated a credit loan to China, 1938. Attended the International Business Conference held at Rye, New York, in 1944, as chief of the Chinese delegation and remained in the United States until 1946. Was appointed a member of the State Council in April 1947.

Chen is a liberal, both in political and economic ideology, and a sincere nationalist. While not a member of the Kuomintang, his best friends in the government are members of the Political Science Group. One of the outstanding private bankers in China, he is described as the best type of constructive Chinese businessman. He likes the US and is, in turn, liked and respected by Westerners.

CHEN LI-FU.

Vice-Chairman of the National Economic Council; Minister of Organization of the Kuomintang; member of the Kuomintang Political Council; President of the Chung Yang Jih Pao Corporation (official news organ of the Kuomintang); leader of the CC Clique.

Born Chekiang Province, 1899; brother of Chen Kuo-fu, Director of the Joint Board of Four Government Banks; educated Peiyang University, where he received his B. Sc., 1923, and the University of Pittsburg where he received an M. S. degree, 1924. Secretary, Headquarters of the Commander-in-Chief of the Nationalist Army, 1927-1928; Chief, Intelligence Section of the Kuomintang Central Organization, 1928; member of the Central Executive Committee of the Kuomintang since 1929; Director, Kuomintang Board of Organization and concurrently Secretary General of Central Executive Committee and Central Political Council of the Kuomintang, 1929-1931; Minister of Organization of the Kuomintang, 1932-1938; member of the State Council, 1933; acting Director of the Central Political Institute of the Kuomintang, 1937-1938; Minister of Education, 1938-1944; reappointed Minister of Organization of the Kuomintang, 1944; member of the Presidium of the Central Executive Committee of the Kuomintang, 1947, and concurrently Vice Chairman of the National Economic Council, 1947.

Important right-wing Party man and leader of the CC Clique, Chen is a long-time loyal friend of the Generalissimo, upon whom the latter can count for important support through his control of sections of the Kuomintang and much of the secret police. An extreme nationalist. Chen maintains a good deal of behind-the-scenes political power in the KMT, and has economic interests which have strengthened his hold on both government and party. He is strongly anti-foreign and anti-Communist.

CHEN CHENG.

Chief of Staff of the Ministry of National Defense; Director of the President's Headquarters in the Northeast; Secretary General of the San Min Chu I Youth Corps; member of the Presidium of the Central Executive Committee of the Kuomintang.

Born Chekiang Province, 1900; graduate of the Paoting Military Academy, 1922; became instructor of the Whampoa Academy, 1924, during the period when Chiang Kai-shek was principal. As professional soldier, rose from the ranks to become company commander, 1925. Kidnapped together with Chiang Kai-shek at Sian, December 1936; subsequently became administrative Vice-Minister of War until 1938. Director of the Political Training Department of the National Military Council and concurrently Secretary-General of the San Min Chu I Youth Corps, 1938-1940; Commander-in-Chief of the Chinese Expeditionary Forces in Yunnan, Burma, and India, 1943; Minister of War, 1944-1946, succeeding Ho Ying-chin. His relations with Ho, now Chief of the Chinese Military Staff Committee delegation to UN, have never been good and his attempts at reorganization of the War Ministry were stiffly opposed by Ho, then Commander-in-Chief of the Chinese Armies. Chief of Staff of the Ministry of National Defense since 1946; reappointed Secretary-General of the San Min Chu I Youth Corps, March 1946; since August 1947, overall political and military commander in Manchuria.

A trusted lieutenant of the Generalissimo, Chen has been associated with Chiang Kai-shek since their days of military instruction at Whampoa. He is highly regarded by US military leaders who worked with him during the war.

CHEN KUO-FU.

Member of the Board of Directors of the Joint Board of the Four Government Banks; Chairman of the Board of Directors of the Farmers Bank and of the Central Cooperative Bank; Chairman of the Board of Directors of the *Ta Kang Pao* (CC Clique paper); member of the Standing Committee of the Central Executive Committee of the Kuomintang and of its Presidium; a leader in the CC Clique.

Born Chekiang Province, 1892; nephew of the late Chen Chi-mei, associate of Sun Yat-sen and brother of Chen Li-fu, Kuomintang Minister of Organization. Educated in Nanking and studied at the Military Primary School of Chekiang, 1908-1911; later promoted to the Military Middle School, Nanking. Active in the 1911 Revolution with his uncle, Chen Chi-mei, working in Shanghai. Joined the Kuomintang, 1926; Secretary to Chiang Kai-shek and Chief of the Party Organization Department, concurrently member of Kuomintang Central Supervisory Committee. Vice President of the Control Yuan, 1929-1931; Governor of Kiangsu Province, 1933-1936; member of the Standing Committee of the Kuomintang Central Executive Committee, since 1938. Dean of the Kuomintang Central Political Institute, 1938-1942. Minister of Organization (Kuomintang), January-November 19, 1944; Chairman of the Board of Directors of the Farmers Bank, appointed October 1945; Chairman of the Board of Directors of the *Ta Kang Pao*, elected November 1946.

Prominent right-wing party member and a leader of the CC Clique, Chen Kuo-fu has long been very close to Chiang Kai-shek and has held important Kuomintang posts. Due to poor health he has not been so conspicuous a public figure as his brother, Chen Li-fu.

CHIANG KAI-SHEK.

President of the Republic of China; leader of the Kuomintang; leader of the San Min Chu I Youth Corps; Commander-in-Chief of all military, naval, and air forces.

Born Chekiang Province, 1886; brought up in modest circumstances; attended Paoting Military Academy, 1906, and 1907 received military training in Japan where he met Sun Yat-sen and belonged to his revolutionary Tung Meng-hui Party. Active in revolutionary period, 1911-1920; one of the founders of the Kuomintang, 1920; Principal of Whampoa Military Academy, 1923, where he taught many of the men later to become his generals in the Chinese Army. Visited USSR for a short period, 1924. Began to split from the left wing of the Kuomintang, 1926, and did not move his headquarters to Wuhan when the Nationalist Government moved there in November 1926. His forces entered Shanghai, March 1927, and after an attempted Communist "purge", established the National Government at Nanking in April. At this time, broke completely with his USSR advisers, who had been attached to the Government at Wuhan. Because of dissension in the ranks of his party, retired to Japan from August 1927-January 1928. In Shanghai, 1927, married Soong Mei-ling, daughter of the wealthy Soong family; three years later he was converted to the Methodist faith of his wife. Organized the drive to take Peiping, 1928, and since that date has been the virtual leader of China. Resigned from the Government for a time, 1931, owing to growing dissidence of the autonomous Canton group. Returned to the Government shortly after Japanese attack upon Shanghai, 1932, and has since been President of the National Military Affairs Commission. President of the Executive Yuan, 1935-1945, except for a brief period in 1938, and Tsung Tsai leader of the Kuomintang, since 1938. Kidnapped at Sian, December 1936; following his release, Communist Kuomintang forces were for a time united to fight the war with Japan. Visited New Delhi, India, to confer with Gandhi, Nehru, British and US military leaders, 1942. President of the Chinese Republic, 1943 to date;

attended the Cairo Conference, November 1943 and conferred with President Roosevelt and Winston Churchill. Author of *China's Destiny* (1943) and *Economic Theory*.

Since 1927, Chiang has been undisputed leader in Nationalist China. Chiang's strength lies primarily in his leadership of the Kuomintang and his control of the army and secret police. In the Kuomintang he has maintained his power through his ability to preserve a balance between the opposing factions without being exclusively dependent upon anyone. However, the great prestige which he enjoyed during war years and before has visibly diminished since V-J Day.

CHOU CHIH-JOU.

Lieutenant General; Commanding General, Headquarters, Chinese Air Force; member, Central Executive Committee, Kuomintang.

Born Chekiang Province, 1898. After graduating from Paoting Military Academy, 1922, became a lieutenant in the 2nd Division, Chekiang Forces, and later, 1924-1925, was instructor at the Whampoa Military Academy. Served on the General Staff of the 21st Division and later as Chief of Staff of the 11th Division, 1930. Participated in Honan, Shantung, and Hunan campaigns and in the Anti-Red Suppression Campaign in Kiangsi, 1931-1933. Traveled abroad to study aviation, 1933-1934. Commandant, Central Aviation School, Hangchow, 1934-1938; chairman, Aeronautic Commission, National Military Council, 1936-1946; member, Chinese Mission to Cairo Conference, 1943. As Commanding General, Headquarters, Chinese Air Force, since 1946, has been contending with the Ministry of Communications for control over civil aviation.

CHOU EN-LAI.

Member of the Central Committee of the Chinese Communist Party; member of the Party Politburo and of the Party Secretariat.

Born Kiangsu Province, 1898; graduated from Nankai Middle School, Tientsin, 1917; attended Waseda University, Japan. Returning from Japan, enrolled at Nankai University, and was there first associated with revolutionary activities. Led student demonstrations and was arrested in 1919; imprisoned for about one year. Went to France for study 1920, and was one of the organizers of the French branch of the Chinese Communist Party, 1921. Later went to Germany and with Chu Te formed a Berlin branch of the Party. Returning from Europe in 1924 joined the Chinese Communist Party as secretary to the Kwangtung Provincial Party Committee. Director of the Political Training Department of the Whampoa Military Academy, 1925, and also served as secretary to General Bluecher, Russian adviser at Whampoa. Appointed by the Chinese Communist Party to head Party work in the Kuomintang armies, 1926. Assigned to organize workers in Shanghai, led the uprising of March 21, 1927, which failed when Chiang Kai-shek entered the city. Arrested, was sentenced to death, but later escaped. Went to Moscow where he studied at the Chungshan University from late 1927 until 1930 and during this period served as the Chinese delegate to the 6th Congress of the Comintern. Returning to China 1931, joined the Kiangsi Soviet and served as secretary of the Central Communist Bureau. In 1932 became a political commissioner under Chu Te. Participated in the "Long March" and in 1935 was appointed a member of the Politburo of the Chinese Communist Party, and was elected to membership of the Executive Committee of the Communist International by the Seventh World Congress. Chief Chinese Communist representative in the negotiations at Sian during the kidnapping of Chiang Kai-shek, December 1936. Chief Chinese Communist representative in Chungking, 1937 to November 1946, and as such was involved in all negotiations between the Communists and the National Government. Vice-Minister of Political Training of the National Military Council of the Central Government, 1938-1940. Although appointed a member of the 4th People's Political Council in 1945, did not attend the meetings. Returned to Communist territory in November 1946 after negotiations with the National Government.

The Chinese Communist Party's number one man in liaison with the National Government and with foreigners, Chou is a skillful and able negotiator.

CHU TE.

Commander-in-Chief of the Chinese Communist Armies; Vice-Chairman of the Revolutionary Military Council; member of the Central Executive Committee of the Chinese Communist Party; member of the Party Politburo and of the Party Secretariat.

Born Szechuan Province, 1886. Received a primary and middle-school education in Szechuan before attending the Yunnan Military Academy. Fought with the Nationalist forces in Yunnan and Szechuan, 1911-1921. Studied in Europe, 1922-1926. Founded the Berlin branch of the Kuomintang, 1924. He had previously formed a Berlin branch of the Chinese Communist Party in collaboration with Chou En-lai. Deported from Germany for subversive activities, 1926. Returning to China the same year, he organized Kuomintang troops in Szechuan. In Nanchang with other military leaders led an open revolt against Chiang Kai-shek, 1927. Defeated at Nanchang, they attacked Canton and Swatow

without success and then retreated from the Nationalists through southern Kiangsi and western Fukien. Joined forces with Mao Tse-tung, May 1928. Made commander of the 1st Red Army Corps, 1930, and at the First All-Soviet Congress of the Chinese Communists was elected Commander-in-Chief of the Chinese Communist Army, 1931, a post he still holds. Named to the Politburo of the Chinese Communist Party, January 1934. In charge of military tactics on the "Long March" and arrived in northwest Shensi in October 1935. After the United Front was formed in 1936, was appointed by Chiang Kai-shek as Commander of the 8th Route Army, vice-commander of the 2nd War Zone and a member of the Supreme National Defense Council. In Yenan during most of the Sino-Japanese War.

FU TSO-I.

Governor of Chahar Province, Director of the Kalgan Pacification Area; member of the Central Executive Committee of the Kuomintang.

Born Shansi Province, 1895, of a middle-class family in South Shansi; graduate of the Paoting Military Academy, 1918. Served successively as a battalion commander, regimental brigadier, and divisional commander in the Army. First distinguished himself as an able officer in the Shansi Army of Yen Hsi-shan. Governor of Suiyuan Province, 1931-1946; Commander of the 35th Army in Suiyuan, 1931. During the Sino-Japanese war, fought the Japanese in Suiyuan and Shansi; Vice-Commander of the 8th War Zone, 1944-1945; Commander-in-Chief of the 12th War Zone, 1945-1946. His troops captured Kalgan from the Communists in 1946. Appointed Governor Chahar, October 1946, and Commander of the Kalgan Pacification Headquarters early in 1947. He commands Nationalist troops in Suiyuan, Chahar, and the northern portions of Shansi, Shensi, and Hopei.

Fu is the foremost Nationalist military and political leader in Inner Mongolia today, although he is fanatical in his hatred of the Mongols.

HO YING-CHIN.

Chief, Chinese Military Mission to the US; Chief, Chinese delegation to the United Nations Military Staff Committee; Director, Strategy Advisory Council; member, Central Political Council, Kuomintang.

Born at Hsingi, Kweichow Province, 1889; graduate of Tokyo Military Staff College. Participated in the 1911 Revolution; dean and instructor, Whampoa Military Academy, 1924; governor, Fukien Province and Commander-in-Chief, Eastern Route Army, National Revolutionary Army, 1926. Commander-in-Chief, National Revolutionary Army, 1927; governor, Chekiang Province, 1928; Minister of War, 1930-1944, but was retired in late 1944 because of US and liberal Chinese pressure. State Councillor, 1931; acting president, Peiping Branch, National Military Council, 1933; Chief of General Staff, National Military Council, 1937-1946; member, Supreme National Defense Council, 1941; director, San Min Chu I Youth Corps, 1943; Chief, Chinese Military Mission to the US and Chief, Chinese delegation to the United Nations Military Staff Committee, since 1946; member of Kuomintang Central Executive Committee since 1926 and of the Central Political Council, since April 1947.

A close personal friend of the Generalissimo, Ho is strongly anti-Communist and maintains a powerful influence in the army by virtue of his association with members of the Whampoa clique.

HU TSUNG-NAN.

Commander of the Sian (Shensi) Pacification Headquarters; member of the Central Executive Committee of the Kuomintang.

Born Chekiang Province, 1902; recently married to a returned US student who was a teacher at Ginling College. Graduate of the Whampoa Military Academy; upon graduation, became a protege of Chiang Kai-shek. Took part in the East River engagement at Waiyeung when the Nationalist forces fought Chen Chiung-min for control of Canton, 1925 and 1926. Fought against the Communists, 1927-1929. Elected a member of the Kuomintang Central Supervisory Committee, 1935. Fought with Nationalist armies against Kwangtung and Kwangsi forces in Southwest China, 1936, and later the same year was transferred to Southeastern Kansu. In December 1936 at the time of the kidnapping of the Generalissimo at Sian, was stationed in Kansu. During much of the Sino-Japanese war was Deputy Commander of the Eighth War Zone with headquarters at Sian, with mission of blockading Communist areas. Appointed Commander of the 1st War Zone with headquarters at Sian, July 1945. Accepted the Japanese surrender in Chengchow, September 1945; his troops were used to protect the southern and northern section of the Peiping-Hankow Railroad, November 1945. Since the end of the war has fought the Chinese Communists; his troops are now in control of southern Shensi, and occupied Yenan in March 1947.

Hu has a long-time record of loyalty to Chiang Kai-shek, and is strongly anti-Communist.

KU CHU-TUNG.

Commander-in-Chief of the Chinese ground forces; member of the Central Executive Com-

mittee of the Kuomintang; member of the CC Clique.

Born Kiangsu Province, 1891, of a middle-class family; graduated from the Paoting Military Academy. Taught at the Whampoa Military Academy where he became acquainted with Chiang Kai-shek, 1924. Joined the Nationalist forces in the Northern Expedition as Chief of Staff of the 3rd Division. Fought for the Nationalist Forces in suppression of the northern warlords, Yen Hsi-shan and Feng Yu-hsiang, and when they were defeated, was made the Director of the Generalissimo's Headquarters at Loyang, 1930. Made a member of the Central Executive Committee of the Kuomintang, 1931. His troops fought the Communists in Kiangsu, Kwangtung, Fukien, Hunan, and Hupei in 1933 when he was Commander-in-Chief of the Communist Suppression Forces. Governor of Kiangsu Province, 1931-1933; Vice Minister of the Ministry of War, 1934-1936, and Pacification Commissioner of Szechuan Province, 1936. During the Sino-Japanese war he was Vice-Commander of the Third War Zone (South Kiangsu, Chekiang and South Anhwei, Northeast Kiangsi, and North Fukien, with headquarters in Kiangsi). As commander of the Third War Zone he was connected with the attack upon the Chinese Communist New Fourth Army in January 1941. He became Pacification Commissioner in Hsuchow, 1945. Appointed Commander-in-Chief of the Chinese Army, May 1946.

Ku is a loyal supporter of the Generalissimo and is said to have gained his recent appointment through the influence of Ho Ying-chin. His military reputation is not very good. During the war he offered little serious opposition to the Japanese and was accused of trading with the enemy. He is strongly anti-Communist but corrupt and inefficient.

KU WEI-CHUN (V. K. Wellington Koo).

Ambassador to the United States; delegate Second Session, United Nations General Assembly.

Born Shanghai, 1888, of wealthy family; attended Chinese universities, and Cook Academy, Ithaca, New York, 1904-1905; Columbia University, B.A., 1908; M.A., 1909; Ph. D.,1912. Minister to Mexico, 1915; Minister to the United States and Cuba, 1916-20. Chief Chinese delegate to League of Nations and representative on League Council, 1920. Minister, later Ambassador, to Great Britain, 1920-1921. Plenipotentiary to Washington Conference, 1921-1922. Minister of Foreign Affairs, 1923-1924. Minister of Finance, following two-year withdrawal from politics, 1926-1927. Prime Minister, 1927. Minister of Foreign Affairs, 1931-1932. Minister, later Ambassador, to France, 1932-1941. Represented China at League of Nations and numerous international conferences while accredited to France. Ambassador to Great Britain, 1941-1946. Appointed Ambassador to the United States, June 1946. Attended the Dumbarton Oaks and San Francisco Conferences and has attended all sessions of the United Nations General Assembly to date, heading the delegation to the second part of the first session of the Assembly.

Ku is recognized as being a quick-witted, skillful negotiator and an accomplished diplomat. He has functioned creditably for almost 30 years as a polished representative of China abroad, despite changes in the home government. He is reported to have a lack of decisiveness in negotiation.

KUEI YUNG-CHING.

Acting Commander-in-Chief of the Chinese Navy.

Born Kiangsi Province, 1901; graduate of the Whampoa Military Academy; studied at the Infantry School in Dresden, Germany. Rose from the ranks to be Commander of the Central Military Academy's "Model Brigade," which he led in battles around Shanghai, late in 1937. Chief representative for China at King George VI's Coronation, January 1938. Military Attache in Berlin, 1941-1942; head of the Chinese Military Mission to Great Britain, December 1944; Chief, Chinese Military Mission to the Allied Control Mission, Germany, 1945-1946; member of the Chinese delegation to the UN Chiefs of Staff Conference, London, January 1946.

Admiral Kuei is a man of ability whom military sources feel will do much in the training of naval personnel and the building up of a Chinese navy. His relations with Americans have been very friendly and he is considered pro-British as well as pro-US.

KUNG HSIANG-HSI (H. H. Kung).

Chairman of the Board of Directors, Bank of China and several other important banks and corporations; Chairman of the Board of Directors, Yenching University; member of the Kuomintang.

Born Shansi Province, 1881, of a prominent Shansi pawnbroker-banking family; married to the eldest of the Soong sisters. Educated at Shansi Mission School; graduated from Oberlin College, 1906; received M. A., Yale University, 1907. Participated in the Revolution, 1911, then became advisor to General Yen Hsi-shan, Governor of Shansi Province; Resident Director of Sino-Russian negotiations for resumption of diplomatic relations, 1924; Commissioner of Finance for Kwangtung Province and concurrently Minister of Finance and Minister of Industry, Labor and Commerce in the Nanking Government, 1927; when these were amalgamated into the Ministry of In-

dustry, became the Minister of Industry, 1930; concurrently member of the State Council and the Kuomintang Central Political Council; resigned from Ministry of Industry, 1932, and appointed Special Industrial Commissioner to tour Europe. Returned to China, 1933, and appointed Governor of the Central Bank of China which position he held until 1945; appointed Vice President of the Executive Yuan, 1933-1937, and Minister of Finance, 1933-1944; Special Envoy and Chief Delegate of the Chinese Government to the Coronation of King George VI of Great Britain, 1937; President of the Executive Yuan, 1938; Vice President, 1939-1945, during which time Chiang Kai-shek was President of the Executive Yuan; State Councillor, 1943-1947; Chief of the Chinese Delegation to Bretton Woods, 1944; appointed Chairman of the Board of Directors of the Bank of China, 1946; Kuomintang Delegate to the National Assembly, November 1946. Has been visiting the US since August 1947.

Wealthy and prominent banker-industrialist, brother-in-law of Madame Chiang Kai-shek and T. V. Soong, Kung has many US business associations. He has been in and out of the government several times and rivalry for government posts has long existed between Kung and Soong though they hold prominent executive positions in several business enterprises.

LI LI-SAN.

Political advisor to General Lin Piao, Chinese Communist commander in Manchuria; member of the Standing Committee of the Central Executive Committee of the Chinese Communist Party.

Born 1900, Hunan Province; reported to have a Russian wife whom he married in the USSR after 1931. Educated in Chinese elementary schools; went to France to study as a member of a worker student group organized by Mao Tse-tung, 1919. One of the founders of the French branch of the Chinese Communist Party, 1921. Deported from France for activity in student movements; returned to China and worked in the Chinese labor movement, 1922. Played a prominent part in Chinese Communist Party activities for a brief period after the split of the Communists and Kuomintang, 1927. During this period, 1927-1930, was closely allied with Communist International, working to get control of main Chinese industrial cities, a tactic which was opposed by Mao Tse-tung and his Chinese Communist followers; was ousted from the Chinese Communist Party when the Comintern agreed to support Mao Tse-tung in 1931. Went to the USSR supposedly because his tactical policy was more extreme than that of the Communist followers of Mao Tse-tung and remained there until 1945. While in Russia worked for Profintern (Red International of Trade Unions), 1932-1934; Editor of a USSR-sponsored Chinese paper, 1934; from 1938-1945 was head of the Translation Department, Moscow's foreign language publishing house. Elected member of the Standing Committee of the Chinese Communist Party *in absentia* in April 1945; returned to Manchuria with the USSR troops in September 1945; was Communist representative at the Peiping Executive Headquarters in 1946; now in Manchuria with headquarters in Harbin.

Li Li-san is reported to be responsible for all important political decisions in Communist Manchuria. His return to Manchuria was interpreted as a strengthening of Chinese Communist ties with the Soviet Union, and it was thought that a Party split might occur between Chinese Communists in Manchuria, following Li and Chinese Communists in China under Mao Tse-tung. Despite all such reports, there is as yet no evidence of differences in the Party high command.

LI TSUNG-JEN.

Director of the Generalissimo's Peiping Headquarters; member of the Kuomintang Political Council.

Born Kwangsi Province, 1890; graduate of the Kweilin Military Academy. Served in provincial militia, gradually rising from the ranks; subsequently joined the Nationalist forces sometime prior to 1926. Commander of the 7th Army of the Nationalist forces and responsible for the capture of Kiukiang, Kiangsi, from local warlords, 1926. Member of the Northern Expedition as Commander of the 3rd Route Army, 1927, concurrently member of the Military Council. Chairman of the Wuhan Division of the Central Political Council and concurrently Commander-in-Chief of the 4th Group Army in control of Hunan and Hupei; State Councillor, 1928. Opposed the National Government and joined forces with the Kwangsi generals at Wuhan, 1929; deprived of all posts under National Government for his connection with Kwangsi revolt, 1929, but reinstated, 1931. Subsequently retired southward and became Commander of Kwangsi Provincial Army and concurrently member of the Southwest Political Commission at Canton. Connected with the Kwangtung-Kwangsi clique revolt, 1933; Commander-in-Chief of Chinese forces in Shantung, Anhwei, and Kiangsu, 1937-1938. Chairman of the Anhwei Provincial Government, 1938; Commander of the 5th War Zone (East and Central Hupei, North Anhwei, and South Honan), 1939-1945. Director of the Generalissimo's Provisional Headquarters at Hanchung (Nancheng), Shensi, February-November 1945; appointed Direc-

tor of the Generalissimo's Peiping Headquarters, November 1945.

Prominent Kwangsi military leader, not close to the Generalissimo, Li is dissatisfied with his present post in Peiping inasmuch as he feels that he has been "exiled" to the North. His loyalty to the Generalissimo, should separatist movements develop, is very questionable, but his military power has been weakened by the placing of many of his troops in areas not under his control.

LIN PIAO.

Commander-in-Chief of the Chinese Communist Northeastern United Democratic Army; member of the Central Executive Committee of the Chinese Communist Party; Chief of the Military Department of the Chinese Communist Northeastern Political Bureau.

Born Hupei Province, 1908; graduate of the Whampoa Military Academy, 1925. Joined the Socialist Youth and the Kuomintang, 1924, and became a member of the Chinese Communist Party, 1925. Colonel in the 4th Kuomintang Army under Chang Fa-kuei, 1927. Played an important part in the Nanchang Uprising, 1927, after which he joined the Communist 20th Army. Commander of the 1st Army Corps, Red Army, 1932. Participated in the "Long March" 1934-1935. In Yenan founded and became President of the Anti-Japanese Military and Political College (Kang-Ta). Commanded the 115th Division of the 8th Route Army which operated primarily in Shansi and Shantung from 1937 to 1945. Elected a member of the Central Executive Committee of the Chinese Communist Party, 1940, a post he still holds. Represented the Communists in Chungking, along with Chou En-lai, from 1942-1943. Has been in Manchuria since the autumn of 1945.

Regarded as a brilliant general, Lin is said to be the top man of the Communist military hierarchy in Manchuria, although political decisions are left to his political advisers, Li Li-san.

LO LUNG-CHI.

Liberal leader and member of the Democratic League.

Born Kiangsi Province, 1896; educated, Tsinghua, 1921; University of Wisconsin, B. A. and M. A., 1924-1925; studied under Harold Laski, London, 1926-1927; Columbia, Ph. D., 1927. As an intellectual and leader of student movements, entered the Government as a member of the People's Political Council (PPC), 1938, holding the position until 1942. Connected with the Federation of Democratic Parties, 1941. Took part in the organization of this federation into the Democratic League, 1944. Represented the Democratic League at the meetings of the Political Consultative Conference, January 1946, but refused to attend the National Assembly, November 1946. Chief spokesman for the Democratic League.

MAO TSE-TUNG.

Leader of the Chinese Communist Party; Chairman of Central Committee, Political Bureau, Secretariat, and Military Council of the Chinese Communist Party.

Born Hunan Province, 1893, of a peasant family; attended primary school. Enlisted in Revolutionary Army, 1911; resigned and attended Hunan Normal School, 1912-1918. Assistant librarian at Peiping National University, where met many early Communist leaders. Became a Communist, 1921, and attended foundation meeting of the Chinese Communist Party in Shanghai. During period of Kuomintang-Communist cooperation, worked for both parties in Shanghai; organized peasant unions and was forced to flee from irate Hunan landlords to Canton; became editor of Kuomintang *Political Weekly* and Kuomintang Propaganda Agitator. After Kuomintang-Communist split, 1927, was sent to Changsha, Hunan; organized First Division of First Peasants' and Workers' Army and Autumn Crop Uprising; uprising not approved by Central Committee, dismissed from Political Bureau and Party Front Committee. Combined forces with Chu Te, 1928; created 4th Red Army. Founded Kiangsi Soviet, 1930, and became chairman of Soviet government, 1931. Participated in "Long March" (1934-1945) from Kiangsi to Shensi. Elected member of Executive Committee of Communist International by 7th World Congress, 1935. Remained in Communist territory until August 1945 when met with Chiang Kai-shek in Chungking. Order for arrest issued by National Government, June 1947. Author of *New Democracy* (1940) and *On Coalition Government* (1945).

In the development of Communism in China, Mao has favored a program of internal agrarian reform rather than one of international revolution. In the post-war period Nationalist rumors have suggested this might cause a conflict with Russian-returned Chinese Communists. However, to date Mao's position as number one in Chinese Communist leadership appears to be uncontested.

PAI CHUNG-HSI.

Minister of National Defense; member of the Presidium of the Central Executive Committee of the Kuomintang.

Born Kwangsi Province, 1893; attended the Paoting Military Academy prior to participating in the 1911 revolution against Manchu regime. Joined Chiang Kai-shek's Northern Expedition, 1926, and was appointed Com-

mander of the 13th Army and acting Chief of Staff of the Nationalist Forces. Joined other Kwangsi leaders who were among the Western Hills Faction which withdrew from the Kuomintang, because of their dissatisfaction with the previous USSR orientation of the Party, 1929. Opposed the Kuomingtang both politically and militarily from 1929 to 1932, but was reinstated in the Party, 1932. Supported the anti-Japanese demands of the Southwest Political Council together with Li Tsung-jen, 1936, and took command of an anti-Japanese expeditionary force in defiance of Nanking; but was brought back under Nanking later that year and became a member of the Standing Committee of the Military Affairs Commission. Following outbreak of the Sino-Japanese War, July 1937, offered his services to Chiang Kai-shek and was made Deputy Chief of Staff and sent into Shantung to fight the Japanese. During the Sino-Japanese War was Director of the Generalissimo's headquarters in Kweilin and Director of the 4th War Zone. Relinquished the post of Deputy Chief of Staff in May 1946 when he was appointed Minister of National Defense.

Since the start of the Sino-Japanese War, 1937, Pai has been a loyal supporter of the Kuomintang. Anti-Communist, he supports the present military operations. As President of the Chinese National Mohammedan Association, he has considerable influence among Mohammedans in China, particularly those in military groups. An able strategist and a forceful personality, he is something of an ascetic and crusades against ostentation and luxury.

SUN Fo.

Vice President of the Republic of China; President of the Legislative Yuan; member of the State Council; member of the Presidium of the Central Executive Committee of the Kuomintang.

Born Kwangtung Province, 1891; received his basic education in Chinese classics; attended high school in the Hawaiian Islands; B. A., University of California, 1916; M. A., Political Science and Economics, Columbia University, 1917. Son of Sun Yat-sen, he started his career as his father's private secretary; Mayor of Canton, 1921-1922 but forced to flee by Chen Chiung-ming rebellion; reappointed Mayor of Canton, 1923-1924; Governor of Kwangtung Province, Mayor of Canton, Minister of Communications, 1926; member of the Military Council, 1927; Minister of Finance in Wuhan Government to August 1927, as long as it was supported by the left-wing Kuomintang; Minister of Reconstruction in the National Government at Nanking, 1928, never assumed the post but spent the year abroad as Chief of the Political and Economic Mission to Europe and the US; a leader in the autonomous government at Canton, 1931-1932; again joined the Nationalists and became President of the Legislative Yuan, 1932; negotiated with the USSR for aid to China, 1938-1939; participated in the Kuomintang-Communist negotiations, 1945; Chairman of certain sessions of the National Assembly, Kuomintang delegate to the Political Consultative Council, 1946; elected a member of the Presidium of the Central Executive Committee of the Kuomintang; member of the State Council and Vice President of the Republic of China, 1947.

As the son of Sun Yat-sen, he has enjoyed a position of special prominence, and therefore, although he has several times broken with the National Government, he has always been able torejoin it. He has often been a critic of Kuomintang authoritarian tendencies but he now supports the National Government in its struggle with the Chinese Communists. His prestige has suffered because of his vacillating attitudes on important questions in foreign relations.

SUN Li-jen.

Deputy Commander of the Chinese Ground Forces.

Born Anhui Province, 1900; graduated from Tsinghua University, 1923; received a B. S. degree in civil engineering from Purdue; studied at Virginia Military Institute, 1924 to 1927, and at various military institutions in Europe from 1927 to 1929. Starting his career in the Chinese army as a corporal, he became an aide to the Generalissimo, 1931. Participated in the Shanghai campaigns against the Japanese, 1932 and 1937, and was engaged in troop training, 1938 to 1942. Fought under the late General Stilwell, and later under General Sultan in the Ledo Road Campaign, 1943-1945. At the invitation of General Eisenhower, visited Europe after Germany's surrender and then went to the US to inspect troop training. Member of the Chinese delegation to the UN Chiefs of Staff meetings in London, 1946. Subsequently he commanded the New 1st Army in the campaigns against the Chinese Communists in Manchuria as Deputy Commander of the Northeast China Command (NECC). Due to jealousy of the NECC Commander, Tu Li-ming, Sun was removed from the command of the New First Army by Tu, April 1947. Named Deputy Commander of the Chinese Ground Forces, July 1947; has recently been surveying potential training bases for the Chinese Nationalist Army in Taiwan and South China.

Sun is highly regarded by US military specialists who welcome his recent appoint-

ment to direct a Chinese army training program in Taiwan.

SUNG TSE-WEN (T. V. Soong).

Governor of Kwangtung Province; member of the State Council; prominent businessman; member of the Standing Committee of the Central Executive Committee of the Kuomintang.

Born Shanghai, Kiangsu Province, 1891; son of a prominent Shanghai businessman with many connections among business and church groups in the US; educated, St. John's University, Shanghai; B. A., Harvard University, 1915; honorary degrees from St. John's, Columbia, and Yale Universities. Connected with Sun Yat-sen's revolutionary government in Canton, 1923-1926; Minister of Finance in this government, 1925-1927, member of the Central Executive Committee of the Kuomintang from 1928 and governor of the Central Bank of China, 1930-1933; chief delegate, Chinese delegation to the World Economic Conference, London, 1933; Chairman of the Board of Directors of the Bank of China, 1935-1943; Minister of Foreign Affairs, 1941-1945, during much of which time he was in the US where he organized China Defense Supplies, China's wartime Purchasing Commission in the US; Acting President of the Executive Yuan, November 1944 to May 1945; State Councillor, 1944 to date; chief of the Chinese delegation to the United Nations Conference on International Organization, San Francisco, April 1945; Chairman of the Supreme Economic Council, 1945-1947, and concurrently acting Chairman of the Joint Board of the Four Government Banks; President of the Executive Yuan, 1945-1947; withdrew from all Government posts in the spring of 1947 following much criticism of his economic policies both within and without the Kuomintang and the Government. Appointed Governor of Kwangtung Province, September 1947.

Brother of the famous Soong sisters and brother-in-law of Chiang Kai-shek, T. V. Soong has long been outstanding as an important Chinese financier who has played a prominent part in government administration. He speaks and reads English like a Westerner and has often been regarded by Chinese as more Western than Chinese. Belonging to no political clique he is a lone wolf in Chinese politics where his strength depends upon his personal relationship with the Generalissimo with whom he has several times sharply disagreed. During these periods he has retired from government. He is believed to possess large financial holdings in US, as well as assets in China.

WANG SHIH-CHIEH.

Minister of Foreign Affairs; member of the State Council; member of the People's Political Council (PPC) and of its Presidium; member of the Central Executive Committee of the Kuomintang; member of the Political Science Group.

Born Hupei Province, 1891; graduate of Peiyang University; received B. S. from the University of London, 1917, and Docteur en droit from the University of Paris, 1920. Professor Comparative Law and later Dean of the Faculty of Law, National Peiping University, 1921-1928. Member of the Permanent Court of Arbitration, The Hague, 1928. President of National Wuhan University, 1929-1934. Named Minister of Education, 1933-1937, and Minister of Information, 1934-1942; Secretary General of the PPC, 1938-1943. Reappointed to the post of Minister of Information, 1944, served until he was made the Minister of Foreign Affairs, July 1945. Kuomintang delegate to the Political Consultative Conference, January 1946; with Chang Chun was instrumental in formulating the plans of the Conference. In 1943 headed the Chinese Goodwill Mission to Great Britain; as Minister of Foreign Affairs represented China at the Paris Peace Conference, 1946, and the New York Conference of Foreign Ministers, September 1947.

An able government official and a reputable Kuomintang leader, Wang is one of the more important men affiliated with the Political Science Group. He is a moderate, well disposed toward foreigners.

YEN HSI-SHAN.

Civil Governor of Shansi Province; member of the Central Political Council of the Kuomintang.

Born Shansi Province, 1882; graduate of the Tokyo Military College. Belonged to the Sun Yat-sen Revolutionary Party, Tung Meng Hui. When revolution broke out in China, declared Shansi Province independent from the Manchu Dynasty and joined the revolutionaries. Became Military Governor of Shansi and Civil Governor in 1917, and has been virtually the independent ruler of the province for three decades. Contributed troops for the successful prosecution of the Northern Expedition, 1927, and was consequently appointed garrison commander of the Peiping and Tientsin area and Vice-Commander of the National Army. Later revolted and became the head of a short-lived government at Peiping, but was defeated by the Nationalists and forced to retreat to Shansi. Reinstated by the Nationalist Government, 1932, and appointed Pacification Commissioner for Shansi and Suiyuan provinces, and placed in charge of the 2nd War Zone; appointed Vice-Chairman of the National Military Council at the start of the Sino-Japanese War, 1937. During the war his troops were confronted with the Japanese on one side and the Chinese

Communists on the other and did not carry out any large-scale warfare with the Japanese, who took the provincial capital, Taiyuan, in 1937. Met Chiang Kai-shek, September 1945 and was subsequently officially reappointed Civil Governor of Shansi Province.

Yen is one of China's old-style warlords, who was, in the past, virtually independent in his control of Shansi Province. Currently, in spite of Communist and Nationalist inroads, he has managed to maintain control of a restricted area within that province where he supports his own troops and arsenals. He is reported to be utilizing Japanese and German technicians. His record of wartime resistance to the Japanese is dubious, and his loyalty to Chiang Kai-shek is questionable.

YU TA-WEI.

Minister of Communications; member of the Political Committee of the Executive Yuan.

Born Chekiang Province, 1899; graduate of St. John's University, Shanghai; M. A. degree in Philosophy, Harvard; attended University of Berlin on a Harvard scholarship, receiving Ph. D. in mathematics. Entered military life 1927, when the Generalissimo called upon him to act as liaison man with the German military advisers then in China. Became Director of the Ordnance Administration, Ministry of War, 1933. November 1944 appointed member of the Advisory Committee of the War Production Board. Became Vice Minister of War one month later, concurrently heading the Ordnance Administration. Appointed Minister of Communications on May 15, 1946; his efforts to repair railroads under tremendous handicaps have been lauded. He was appointed a non-partisan member of the Political Committee of the Executive Yuan in April 1947.

Yu is generally considered to be able, efficient, and honest. Technically classified as a non-partisan, he is close to both T. V. Soong and the Generalissimo and can usually be counted on to follow the government line.

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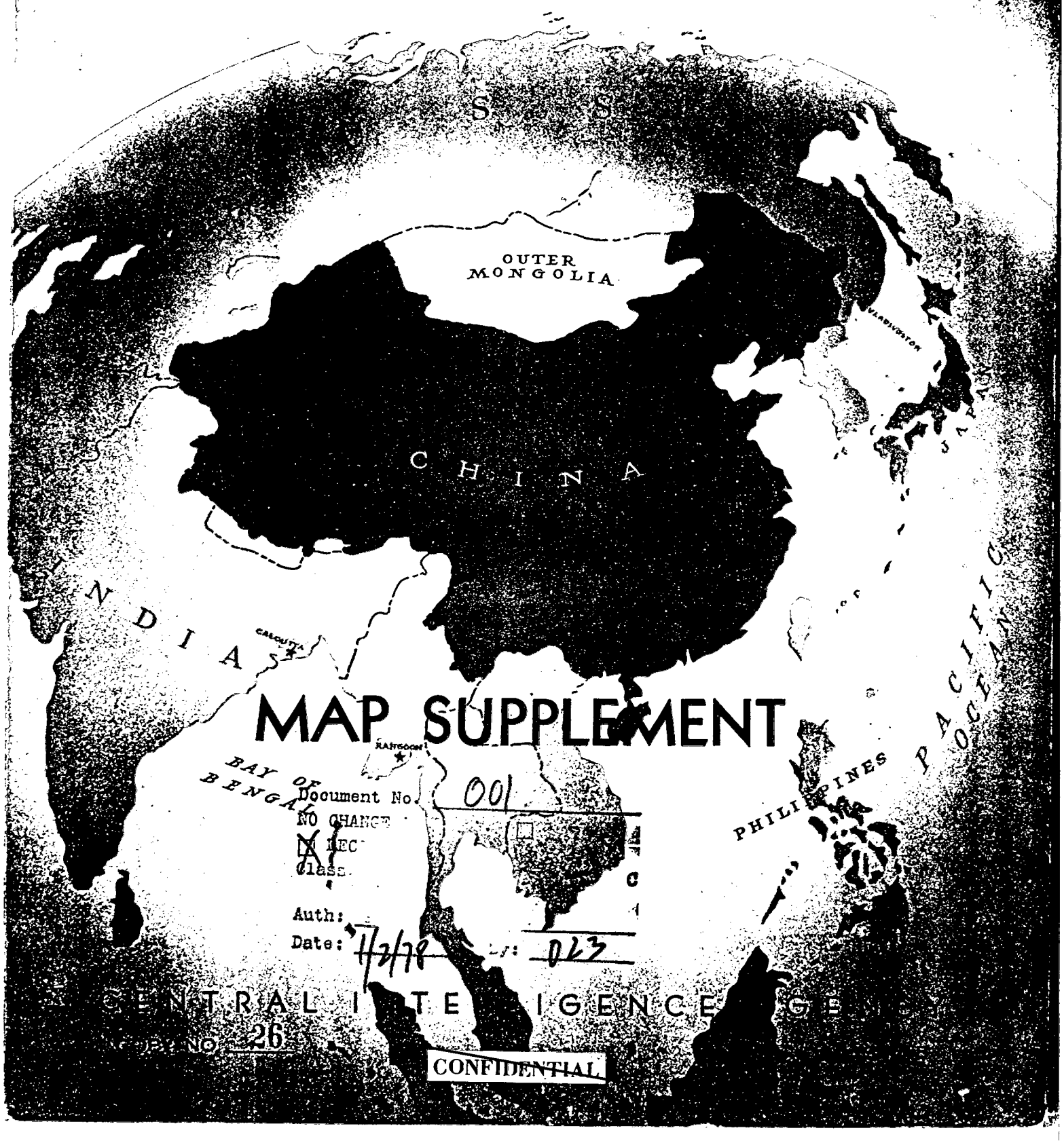
CHINA



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Published: April 1948

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CHINA

SECTION V AND APPENDIX D

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SECTION V — MILITARY SITUATION

SECTION V

MILITARY SITUATION

In almost two and a half years of civil war in China since VJ-day, the Army of the National Government has passed from the offensive to the defensive in its struggle against the Chinese Communists. The conviction once held by Nationalist leaders that the Chinese Communists could be eradicated by force of arms has given way to a realization that the National Government is now engaged in a fight for survival.

The Nationalists at the outset were able to occupy certain key points, but have remained incapable of holding and exploiting all their gains, of opening and operating the major rail lines, or of meeting and defeating major Communist units. Conversely the Communists have freely evacuated certain areas without seriously lessening their combat capabilities. Demonstrating a striking proficiency in guerrilla warfare, they have been able to isolate and either destroy or capture sizable Nationalist units. In doing this the Communists have capitalized on several outstanding weaknesses of the Nationalists: a tendency to overestimate their own power, corrupt and often professionally incompetent leadership, and a lack of industrial and transport support. The Communists have been able to draw Nationalist units into extended and untenable positions, to avoid pitched battles under circumstances unfavorable to themselves, and, infiltrating between Nationalist lines, to set up operational areas behind them.

During 1947 the Communists seized the strategic initiative and spread the civil war from Manchuria and North China into areas of Central China which the Nationalists had previously considered pacified. The Communists now appear to possess the ability to penetrate further into hitherto peaceful areas of China, while the Nationalists do not appear to be able to do more than retard such movements. Deterioration in the military strength of the National Government can be expected to continue as major Nationalist-held areas and units are isolated from each other and from their bases of supply.

1. The Civil War, 1945-1947.*

Following the surrender of Japan on 14 August 1945, the National Government and the Chinese Communists competed in a race to occupy the Japanese-held areas of China. The Nationalists, in contact with the Japanese Army chiefly at the points of its farthest advance into Central and South China, were at a geographic disadvantage in comparison with the Communists who were dispersed throughout the Japanese-held areas in Central and North China. With this initial positional advantage, the Communists were able to receive the surrender of large numbers of Japanese troops and to gain control of considerable portions of the provinces of Shantung, Kiangsu, Honan,

* See map supplement TABS 5, 6, and 7.

Note: This report has the concurrence of the intelligence organizations of the Departments of State, Army, Navy, and Air Force.

Anhui, Hopei, Shansi, Shensi, Chahar, and Jehol. The Nationalists, aided by US transportation of their troops, gained control of the broad areas south of the Yangtze River and the large urban centers to the north. During this period, Soviet forces occupied Manchuria.

It was necessary then for the Nationalists to launch an offensive, based on the Yangtze Valley, into the Communist areas to the north with the primary objective of opening the main north-south rail lines to traffic and to dispose units in positions favorable for a strong Nationalist bid to recover Manchuria's industrial and agricultural riches. However, when the Soviets withdrew their occupation forces from Manchuria in the spring of 1946, the Nationalists had not opened any of the north-south railways and were confronted, moreover, with sizable Communist forces, built up in Manchuria during the previous autumn and winter, apparently with at least Soviet sanction. When the Nationalists drove into Manchuria sanguinary fighting broke out, partucularly at Ssupingkai, but by May 1946 the National Government forces had succeeded in pushing the Communists north of the Sungari River, along which a fairly stable front was established. As a result of these successes, the Nationalists were able to open to traffic the Peiping-Mukden line and the old South Manchurian railway as far north as the Sungari.

To the south, the Nationalists also scored some gains during this period. They forced the Communists out of a pocket north of Hankow and gained control of the area between the Yangtze River and the Lunghai railroad (China's principal east-west rail link, running roughly along the 34th parallel), except for northern Kiangsu Province. But while the Nationalists were able to operate the Lunghai railroad and to open the Tsingtao-Tsinan line, they were still unable to achieve success in their chief objective, the opening of the main north-south railroads between Tientsin and Pukow and between Peiping and Hankow. The Communists, despite the fact that they were mainly fighting defensively, were able to expand their broad belt of territory across North China from Shensi Province to the coast of Shantung.

Nationalist offensive gains continued in the latter half of 1946. National Government troops occupied the right-of-way along the alternate Peiping-Mukden railroad via Chengteh, captured the Communist base of Kalgan, pushed to the Korean border of Manchuria, and drove down the Liaoning Peninsula to the borders of the Soviet-held Port Arthur naval base area. The Communists still continued to fight a defensive war, falling back in the face of frontal assaults and conserving their fighting strength by avoiding pitched battles, confident that the Nationalists were overextending and seriously weakening themselves.

Since early 1947 the Nationalists have scored no major and lasting successes while the Communists have gained the strategic initiative. This shift in the course of the civil war was evidenced both by a series of increasingly powerful Communist drives in Manchuria and also by the Communist blunting and turning of a costly Nationalist offensive in Shantung. The first four Manchurian offensives, which took place during the winter and spring of 1947, were confined to comparatively small-scale, localized attacks on the Changchun-Kirin area and were designed to wear down the New First

Army, key unit in the defense of the northern tip of the Nationalist salient. However, the fifth offensive, mounted in early May, covered a larger area and extended over a longer period. It engulfed most of Nationalist-held Manchuria, forced the Nationalist armies to retreat into the larger cities, lowered their troop morale and fighting effectiveness, and netted the Communists substantial amounts of food and war matériel. When the Communists broke off the offensive in late June, they did not return as previously to their established bases north of the Sungari River, but set up new bases on each flank of the compressed Nationalist salient along the Mukden-Changchun railroad.

The Nationalists, after losing much of the ground they had won the previous year, sent reinforcements to Manchuria during the summer of 1947 and changed the command setup in anticipation of another Communist effort. However, the sixth Communist offensive launched in late September, proved less sensational than the fifth. Although little additional land was taken by the Communists, they did gather considerable food stocks and seriously damaged the recently repaired Mukden-Changchun railroad as well as the Peiping-Mukden line, initial target in this offensive. They inflicted additional heavy troop and matériel losses on the Nationalists, whose troop loss alone was probably the equivalent of all reinforcements sent into the area since the May offensive. When the sixth offensive terminated in mid-November the Nationalist positions in Manchuria had been rendered still more insecure, but the Communists had failed to dislodge them from any major stronghold.

A seventh Communist offensive was in progress during the last weeks of 1947. Despite the severe cold, the Communists for the first time had brought their attacks to the very outskirts of Mukden. The economic and military plight of the Nationalists, confined to a few large urban areas and almost entirely dependent on supply by air, was more marked than at any previous time.

Elsewhere in China during 1947, the Nationalists had occupied the Communists' eastern China headquarters at Lini (southern Shantung Province) in February, the Communist capital at Yenan in March, and the chief Communist seaport, Chefoo, in October. The capture of Chefoo marked the apex of the Nationalist offensive in Shantung. The Nationalists, however, were not able to exploit these gains, because even prior to the fall of Chefoo, the Communists had begun a movement into Central China across the Lunghai railroad as far south as the Yangtze River. This new threat forced the Nationalists to redeploy troops from Shantung, thus defaulting many of their newly won positions. These southward thrusts soon developed into a general southward movement and by the close of 1947 the Communists had become so securely established in Central China that a major offensive by the Nationalists would be required to dislodge them. Such an offensive is probably beyond the present Nationalist capabilities.

2. ARMED FORCES OF THE CHINESE NATIONAL GOVERNMENT.

a. Genesis.

The Chinese Nationalist Army originated at the small military academy founded by the Kuomintang in 1924 at Whampoa, near Canton. This academy, headed by

Chiang Kai-shek, trained the officer cadres for the Northern Expedition of 1926-28 which enabled the Kuomintang, under Chiang's leadership, to gain control of the Government of China. Soviet and German military advisers made a considerable contribution to the training of Chiang's new army, but in the spring of 1927, after the Kuomintang had become firmly established in the Yangtze Valley, the Soviet advisers were expelled as part of the bloody purge which drove the Chinese Communists from the ranks of the Kuomintang.

The Soviet mission was followed at various times by German, British, Italian, and US military missions. The persuasive and continued presence of these foreign advisers, each conferring on the Nationalist troops the stamp of the military establishments in their respective countries, is in a large part responsible for the variations which give today's Nationalist Army the appearance of a complicated mosaic.

By far the most important of these foreign missions for present concern has been that of the United States, the activities of which both during and subsequent to the war with Japan, have wrought significant changes in the composition of the Nationalist forces. Under the terms of the Lend-Lease Agreement of 2 June 1942, the US undertook to create out of China's manpower resources and US industrial power, a compact and efficient military force to serve as the continental arm of a vast and comprehensive pincer movement against Japan. Despite the efforts of Generals Stilwell, Chennault, and Wedemeyer in India, Burma, and China, the program never developed on a large scale because of the priority given to the defeat of Germany in Europe and later because of the emphasis placed on amphibious warfare against Japan.

In 1945 the US did train and equip, to a greater or lesser degree, thirteen triangular armies (3 divisions each), a tactical and transport air force of eight and one-third groups, and a small modern navy. Although these programs were not completed, the thirteen armies represented initially the best striking force in the Nationalist Army. However, combat attrition during the more than two years of civil war has reduced these units to the same status of effectiveness as the best Chinese divisions.

The chain of command in the Nationalist Army, though nominally through the Ministry of National Defense, often operates directly from Generalissimo Chiang Kai-shek to his area commanders and sometimes directly to the field commander. Area commands have been extremely cumbersome, but some effort currently is being made to overcome this. In the lower echelons command is exercised through the orthodox army breakdowns, but commanders in the field have sometimes been denied local initiative by the pressure of the chain of command above them, with even the Generalissimo often interfering in tactical affairs.

b. Strength and Disposition.

As of 15 January 1948 the numerical strength of the Nationalist Army ground forces was estimated to be 2,723,000, organized into 162 divisions; strength in the tactical units was about 2,200,000 with about 1,900,000 in contact with the Communists. There are approximately 1,000,000 tactical troops in the Central China theater between the Yangtze and Yellow Rivers (including Shantung), while in North China there are

625,000, in Manchuria 285,000, and only about 70,000 tactical troops remain in the areas south of the Yangtze.

Because no exact system of rolls exists in the Nationalist Army, and because there is a long-standing and widespread custom among commanders of all echelons to pad rolls and generally to falsify reports, it is extremely difficult to accumulate accurate statistics.

c. Quality of Personnel.

The basic element of all armies in China is the peasant. Generally speaking, the Chinese peasant is illiterate, poor in health, lacking in technical and mechanical skills, and possesses low aptitudes for such skills. On the other hand he has a high degree of native intelligence, is accustomed to hard work, and is inured to the hardships which have been his lot since birth. To a colorful leader, who provides food, clothing, and loot, he is loyal to the death. He is the raw material from which a good soldier can be made. However, this potential has not been widely realized because his training has not been sufficient, his equipment has not been adequate, and his leadership has generally been of a poor caliber.

Officers for the most part are drawn from the more fortunate classes, such as agrarian landlords or city dwellers, who take into the army with them the prejudices of their own superiority. Actually leadershp of the National Army is determined by political expediency rather than military ability, and is saturated with graft and professional incompetence.

The potential development of the Nationalist soldier is further retarded by the absence of a well conceived program of indoctrination in the principles for which he is expected to fight, by inadequate and outdated training methods, insufficient and poor quality food and clothing, and by corrupt and brutal conscription methods.

d. Transportation.

The primary lines of communication of the Nationalist Army lie along the railroads, highways, inland and coastal shipping routes, and air lanes. Eastern China and Manchuria possess a rail and road network which in ordinary times would be adequate to support this army. Since the Japanese surrender, however, only the rail lines from Canton to Hankow and from Shanghai to Nanking have consistently remained open to traffic. Rail lines north of the Yangtze have been either interdicted continually by the Chinese Communists or are subject to intermittent destructive raids. Through traffic along the main north-south lines (1) from Fenglingtu (at the great bend of the Yellow River) to Tatung, (2) from Hankow to Peiping, (3) from Pukou to Tientsin, and (4) from Dairen to Harbin, has been denied to the Nationalists since VJ-day. Other north-south lines and the connecting transverse lines have been cut for periods of varying length—hours, days, or months—by the Communists, who blow up bridges, destroy rolling stock, tear up rails, burn ties, and crisscross the roadbed with trenches. The Ministry of Communications has found it increasingly difficult to repair such destruction. Lack of rails, ties, bridge and ballast materials, and rolling stock, becomes more acute with each successive Communist depredation, reducing the utility of this means of communication, except over short distances.

Highway transport, initially suffering because roads in China generally lack all-weather surfacing, has been further crippled by Communist destructive activity, and by the decreasing value of highway vehicles, because of shortage of gasoline, lubricants, tires, and spare parts. These factors have increased the importance of water and air transport. The Yangtze River, connecting the food-producing areas of Szechuan and Hunan, as well as the arsenals of Chungking and the Hankow area with the coast, is of vital importance, as is coastwise shipping, almost the sole channel for moving troops and bulk supplies into North China and Manchuria. Junks and some larger cargo and transport ships provide a limited supply of bottoms for this movement. Since September 1947, however, shipping along the Yangtze, hitherto secure, has been subject to Communist interruption by raids along the northern bank of the river.

The larger cities of China all have airports, most of which are capable of handling transport aircraft. This is the means used to transport the leaders of the Nationalist armies and in periods of great need, to lift troops into threatened areas. The geratest value of air transport, aside from speed, lies in the fact that the Communists at persent have no means of interfering with it except by seizing possession of the airfields.

e. Weapons and Ammunition.

The basic element of the Nationalist Army is the infantry; the basic weapons, the rifle and the machine gun. These weapons are noteworthy for their heterogeneity —Japanese, German, Danish, Czech, British, Soviet, US, and Chinese. Weapons from each country have their own particular caliber, both for bore and bullet. In those units equipped by the US in 1945, weapons included 30 caliber (M 1917) rifles, 30 and 50 caliber machine guns, Thompson submachine guns, 60 and 81 mm. mortars, 75 mm. pack howitzers, rocket and grenade launchers, 37 mm. antitank guns and Boys (55 caliber) antitank rifles. Equipment in other units of the Nationalist Army is more varied and includes 6.5 mm. (Japanese) and 7.92 mm. (German and Chinese) rifles, 6.5 and 7.7 mm. (Japanese) machine guns, 7.92 mm. (Chinese Maxim) machine guns, 70 mm. (Japanese) mortars, 82 mm. (Chinese) mortars, admixed with 75 mm. howitzers from various sources. All units rely on flat trajectory weapons and mortars, with the 75 mm. howitzer being the largest artillery piece in general use.

Initially those units with US equipment provided the Nationalist Army its greatest fire power. But because original supplies of ammunition have been largely dissipated and because only one arsenal in China is equipped to produce US-type ammunition, the combat effectiveness of units developed by the US and dependent on US weapons is being reduced.

In units possessing Japanese, Chinese, and European-made weapons the problem of ammunition, while not so acute as in the US-equipped units, is limited by the absence of large-scale foreign sources of supply which necessitates a reliance on inadequate home manufacture.

In view of the inadequacy of current production in Chinese arsenals and existing stockpiles, matériel in the hands of unit commanders is necessarily conserved both by an individual commander's refusal to utilize completely his own fire power or to expend supplies in assisting neighboring units even when tactically salutary to do

so. Consequently, daily expenditure of ammunition in Nationalist Army units is considerably less than in the US Army (estimated about 1:2). This in turn certainly has an adverse effect on combat effectiveness.

f. Air Force.

The Chinese Nationalist Air Force, born in the early 1930's, has been continually and wholly dependent on foreign countries for its matériel and personnel training. Early Italian and Soviet influence was eclipsed by that of the US during World War II, when a portion of the Nationalist Air Force was assigned to the Chinese-US composite wing. Joint operations against the Japanese with US airmen, as well as training at US air bases, provided Chinese personnel with a rich background of experience in modern air corps technique.

Under the terms of a wartime agreement between the US and China, the US was to assist in reconstituting the Nationalist Air Force as eight and one-third groups of tactical and transport aircraft. The US was to provide the aircraft and train the necessary flight and maintenance personnel. Prior to the summer of 1946, when the shipment of combat and end-use items from the US to China was halted, the US had delivered about 75 percent of the aircraft required to build up a tactical strength of 550. Since that time the Nationalist Air Force has been operating with little foreign assistance, and consequently on a decreasing scale.

As of 1 January 1948, the Nationalist Air Force was estimated to have a total of 472 military aircraft with 201 in operational use. Among these aircraft were P-40's, P-47's, P-51's, B-24's, B-25's, C-46's, and C-47's. In July 1947 the over-all strength figure of the air force was 102,470 with about 1,473 pilots and 1,700 trained maintenance personnel.

Air force personnel who had received US training were, at the completion of their training, as competent as US air personnel with similar professional backgrounds. However, because of the ever-present necessity to conserve operational aircraft, the average combat pilot flies only about three hours a month. He flies in the daytime, in fair weather, at a low altitude, and not in formation. His skills deteriorate accordingly. Maintenance personnel lack the necessary repair facilities and replacement parts to accomplish what would be regarded by US standards as efficient repair work. The strength of the Nationalist Air Force was, until mid-1947, further attenuated by the practice of spreading aircraft in outlying, poorly equipped airdromes, sometimes without their service personnel, and often under a ground force commander unfamiliar with and unsympathetic to air force problems. This difficulty was partially overcome, however, when Chiang Kai-shek placed some air force units under the direct command of air force officers.

The value of the present air force, while largely in transport functions, also lies in the limited tactical support it can provide against Communist ground operations. Although the number of casualties claimed by the air force have been grossly exaggerated, its activities have in some instances restricted the Communists to night movements, and lowered their troop morale. Furthermore it has been used to prevent large

concentrations of Communist troops and artillery, necessary for assault on strongly defended cities.

China does not have at present either the resources or the technical skills to maintain an air force such as contemplated in the eight and one-third group program. It is estimated that, without further external aid, natural and combat attrition will effectively neutralize the combat arm of the Nationalist Air Force by mid-1948. Transport groups, in the absence of combat losses, will last longer.

g. Navy.

The comparatively weak navy of the National Government of China is currently being bolstered by the US and Great Britain, through training programs and the transfer of ships. In July 1946 the US Congress authorized the transfer to China of not more than 271 surplus naval vessels and small craft, and the establishment of a small advisory group to assist China in training its personnel. A Sino-US Naval Agreement formalizing this arrangement was signed on 8 December 1947, by which time a major portion of the transfers, totaling over 75,000 tons, had been effected.

As of 8 December 1947 the total personnel strength of the Nationalist Navy was 33,750, including marines. In October 1947 the Nationalist Navy stated it had 449 ships totaling 130,000 tons in actual service. Its best units are the vessels received from the US. These make up the major part of the serviceable tonnage and include 1 tanker, 2 destroyer escorts, 2 patrol craft (PCE's of 860 tons each), 4 mine sweepers (915 tons each), 2 river gunboats, and 35 landing ships and landing craft (ranging from 4,080-ton LST's to 144-ton LCT's). The remaining elements are composed mainly of small ex-Japanese ships and former vessels of the prewar Nationalist Navy taken by the Japanese and returned to the National Government at the end of the war. Prior to September 1947, the National Government had received 6 destroyers, 17 destroyer escorts, and 1 small troop transport of the demilitarized Japanese fleet. Some of these ex-Japanese vessels have been rearmed from Japanese Navy stocks in China and have already seen action.

The National Government has naval bases at Tsingtao, Shanghai, Canton, Hankow, Amoy, and at Takao in Taiwan. The Kiangnan Shipyard at Shanghai has seven building ways and can construct ships of 5,000 tons, and has drydock facilities for vessels of 10,000 tons.

The efficiency of the small Nationalist Navy is initially limited by a shortage of sufficiently skilled, trained, and experienced personnel. Although the US has trained a limited number of personnel in US methods at Tsingtao, the Nationalists have been unable to man all of the vessels already in their possession and probably will not be able effectively to use those earmarked for future delivery. They are further handicapped by the heterogeneity of their ships, greatly complicating maintenance, repair, and supply problems.

In addition to its normal coastal and inland waterway patrol functions, during the last quarter of 1947, the Chinese Navy began to play an active although limited role in the civil war. It supported landing operations at Chefoo during September, and during October and November provided naval gunfire in the defense of Yingkow

against the Chinese Communists. In recent months it has also been active in patrolling the Yangtze River where Nationalist shipping has been endangered by Communist raiding groups along the north bank.

h. Potential.

(1) *Manpower.*

It is estimated that the Nationalist Army has still available a manpower reservoir of 32,000,000 men. It is a completely untrained manpower reserve, whose ultimate combat capabilities, under existing conditions, would be limited. It is doubtful if Nationalist China has the ability to train any substantial number from this additional manpower reserve, or to feed, clothe, and equip such additional troops during and after training. In fact, Nationalist China has encountered great logistic difficulties in supplying units already in uniform.

(2) *Resources.*

Even under the best of circumstances, the inadequacy of China's transportation system has resulted in a condition where areas of food surplus exist side by side with areas of food deficit. Therefore, it would always be necessary for the Nationalist Army to rely on its supply system when operating in areas of food deficit. Feeding the Nationalist Army is further complicated by Communist occupation of certain food surplus areas. Moreover, interdiction of existing transport routes, resulting in the overloading of available facilities, places still further limitations on the amount of produce which can be moved to support the operations of the Nationalist forces. Nationalist troops are, therefore, forced to rely on local produce, even in regions where the amount of food grown barely suffices for the local population. In addition, the Nationalist Army, composed largely of rice-eating southern Chinese, is now fighting in the wheat and *kaoliang*-producing areas of North China and Manchuria.

(3) *Industry.*

Nationalist China is not capable of sustaining a western-type army, and cannot in point of fact sustain her partially westernized army of today. Its largest industrial concentrations are too exposed to the war areas to be of full value. Since the Japanese war, the textile mills have made the best recovery and, given sufficient raw cotton, are capable of clothing the Nationalist Army. However, the Communists control about 75 percent of the cotton-producing areas of North China. Iron and steel installations, limited at best, suffered not only from the Japanese war, but those in Manchuria were extensively damaged by the Soviet occupation removals and accompanying looting. Operations in the present civil war lie in close proximity to the main iron and steel concentrations and, in addition to extensive physical damage, a lack of capital and skilled labor reduces the output of the iron and steel industry to a point where it cannot even meet the minimum needs of the Nationalist Army. Communist activities have denied the National Government most of China's coal mines or continued use of the rail lines from the mines.

Of all the units listed by the National Government as arsenals, only the Japanese-built plant at Mukden would have qualified as an arsenal by western standards, but it was critically stripped by Soviet forces during their occupation of Man-

churia. All Nationalist arms plants suffer from lack of trained technicians, essential materials, and modern equipment. They do, however, produce amounts of small arms, grenades, and mortars, as well as ammunition for these weapons, but artillery pieces and US-type equipment, except for limited quantities of 30 caliber ammunition now being produced at Hankow, must be supplied from abroad. The ability of Nationalist arsenals to maintain their forces in the field will be somewhat enhanced by the receipt of arsenal equipment as a part of Japanese reparations.

(4) *Science.*

Little is known definitely of Chinese research efforts in scientific warfare, but it is believed to be negligible. Shortages not only of facilities but of trained personnel make it quite impossible that China will develop now or in the foreseeable future any rocket, atomic, electronic, or bacteriological weapons. Instead, it will concentrate its efforts on the production of the more traditional infantry matériel.

(5) *Finance.*

The purchasing power of the traditionally inadequate wages paid to the rank and file of the Nationalist Army has been further reduced by currency inflation and upward spiraling commodity prices. If the currency were to approach the point of complete collapse, the National Government would be forced to rely entirely on the comparatively inefficient and time-consuming procedure of direct requisitioning to keep its army in the field, with a consequent further decline in Nationalist operational capability.

3. ARMED FORCES OF THE CHINESE COMMUNISTS.

a. Genesis.

Originally a part of the Kuomintang armies, the Chinese Communist military units, along with Soviet military advisers, were forced out in the great purge of 1927. After this break, Communist troops withdrew into the mountains of Chekiang and Kiangsi Provinces. Continued pressure by the Nationalist armies impelled the Communists to undertake in 1934-35 the "long march" to Shensi Province, where a headquarters was ultimately established at Yenan. Except for the United Front briefly established against the Japanese in 1937, the Communist forces have in fact remained outside the military organization of the National Government and have been under military pressure by the Nationalist Army.

Under the necessity of frequently engaging troops superior in training, equipment, and numbers, and in the absence of firmly fortified bases and industrial backing, the Communist armed forces have developed as a guerrilla-type organization. The continued existence of the Communists as a guerrilla force required a broad political, military, and economic base in a partisan countryside. The Communists have been quite successful in achieving this, partly by effecting long-needed agrarian and tax reforms and partly by skillful propaganda.

The total strength of the Communist military forces consists of both regular and irregular troops. The Regulars are divided between the Field Forces and the Local Forces. Field Forces, usually under the command of the top Communist tacti-

cal generals, possess the greatest degree of mobility, operating within a broad area wherever the situation requires. Local Forces are limited to a specific and more restricted area, and are recruited locally for action in their home area. The Field Forces are relatively well equipped and clothed and their command organization most closely approximates traditional army groupings. The same is true of the Local Forces, but to a lesser degree. Irregulars, or the Peoples' Militia, have less equipment, have received less training, and operate in a smaller area than the Regulars. They supply valuable local intelligence and, when not engaged in productive work, can be used in combat to increase fire power to the extent that weapons are available. This organizational breakdown permits easy concentration or decentralization of forces as the occasion demands.

Command in the Communist forces is characterized by a great degree of decentralization and fluidity, essential to guerrilla operations. The central Communist military command is responsible for over-all coordination of strategy, but issues only broad directives to its top field commanders who retain considerable freedom in developing tactics to suit local conditions.

b. Strength and Disposition.

As of 15 January 1948 it is estimated that the strength of the Communist Regular Forces was 1,150,000. Of these, 400,000 are in Manchuria and Jehol, 400,000 in North China, 270,000 in Central China, and about 30,000 in South China. The accuracy of these general estimates is limited by the difficulty in distinguishing regular from irregular Communist troops and by frequent movement between the areas of North and Central China.

c. Quality of Personnel.

The basic element of the Communist armies is the peasant, who shares a common background with his Nationalist counterpart and possesses the same general potentialities. Under the Communists, however, he has realized a greater degree of this potential. For the type of war he is expected to fight, the Communist soldier is more adequately clothed, equipped and trained, and his food is better. He is given an intensive, clever, and continued indoctrination which stresses that the cause for which he fights is just and that ultimate victory is inevitable. His officers, who have advanced on merit, are comparatively honest, diligent, and competent. A feeling of comradeship between officers and men contrasts with the prejudices, brutal practices, and lack of sympathy between officers and men so widespread in Nationalist armies. Consequently, in the Communist armies morale is high and the Communist soldier frequently fights with enthusiasm for his cause. Discipline is rigid and demands that soldiers maintain good conduct and proper relationships with the civilian population.

Actually, use of guerrilla tactics by the Communist Army reduces the requirements for training. The Communist Army does not have a complex system of supply, makes only limited use of technical equipment, and operates largely in small groups employing only small arms. Consequently training of Communist soldiers emphasizes stealth and night fighting, and the proper use of rifle, machine gun, mine, mortar, and grenade. Unit training is adequate up to battalion and regimental levels

and emphasizes the orthodox tactics of small units. However, training of officers in staff functions has in the past been somewhat neglected.

d. Weapons and Ammunition.

In the Chinese Communist Army, as with any guerrilla force, weapons consist almost entirely of those which can be carried on the human back—rifles, machine guns, grenades, and mortars. Practically all the weapons and ammunition in use by the Communist armies were acquired from secondary sources, from Japanese stores captured during World War II, especially in Manchuria during the period of Soviet occupation and in North China following the Japanese surrender. More recently the source has been Nationalist units, through capture, or by defection of whole units with their equipment. These weapons consequently reflect the same heterogeneity which characterizes the arms of the Nationalist armies. Included among the weapons of the Communist armies are: 30 cal. (US), 6.5 mm. (Japanese), 7.92 (Mauser and Chinese) rifles; 6.5 and 7.7 mm. (Japanese), 7.92 (Chinese Maxim), 30 and 50 cal. (US) machine guns; 50 mm. (Japanese) grenade dischargers; various makes of carbines and pistols, Japanese and crude Communist-made bayonets, Communist-made potato-masher type hand grenades; 70 mm. (Japanese), 60 and 81 mm. (US), 82 mm. (Chinese) mortars, 75 mm. (mostly Japanese) howitzers, and some antitank guns.

The Communist forces make extremely efficient use of available weapons by conditioning their tactics to them. However, a lack of trained artillerymen has reduced their use of supporting artillery, although it has been used effectively on occasion, particularly in Manchuria.

Resupply of ammunition is accomplished chiefly by capture from Nationalist units, except for a limited ability of small Communist arsenals to reload expended casings, and from the considerable stockpiles of Japanese weapons.

Frequently reiterated charges by Nationalist sources that the Soviet Union is aiding the Communists on a current basis remain without convincing substantiation.

e. Transportation.

The primary lines of communication supporting the Communists Army are the railroads, highways, and inland and coastal shipping. However, the Communists do not hold any considerable length of operating railroad except in northern Manchuria where the old Chinese eastern railroad from Manchouli via Harbin to Suifenho, and various transverse lines running southward to the combat zones are presently in operation. In areas of actual conflict further south, Communist operations have been primarily directed at denial of the rail lines to the Nationalists by destruction rather than at capture for subsequent use. It is believed that the Communists have rolling stock sufficient for their own comparatively simple needs.

The chief means of transportation throughout the Communist-controlled areas of North China and southern Manchuria are the highways. A limited number of highway vehicles have come into Communist hands but the horse cart and the human back are still the prime movers.

The Communists engage in a limited amount of river transportation, mainly along the Sungari River in Manchuria, and some coastal trade, mainly between

southern Liaoning and the north coast of the Shantung peninsula. This latter trade has been partially curtailed since the Nationalist capture of Chefoo and the surrounding coastal area.

Since guerrilla strategy is predicated on a condition of limited supply, the transportation problems of the Communists are comparatively simple. During engagements, resupply from outside areas is not considered a prerequisite. Because the Communists' high degree of mobility demands a reliance on local procurement, Communist operations have been concentrated in areas of high productivity. Furthermore, because they possess the initiative they can go into profitable areas. These various factors limit the necessity for extensive transport support. However, as Communist operations have expanded in both time and area, the Communists have become more dependent on conventional supply concepts, but enjoy, particularly in Manchuria, secure rear area lines of communication.

f. Navy and Air Force.

The unarmed or partially-armed junks plying the waters of the Yellow Sea, the Po Gulf and Korea Bay represent all that could be termed a Communist Navy. These vessels provide a limited amount of produce and troop transport, as well as liaison between separated units of the Communist Army.

It is possible that the Communist Army has a limited number (50 at the most) of obsolete Russian and Japanese aircraft which fell into its hands after the Japanese surrender and which may now be located at airfields in North Manchuria. It is not known if such aircraft remain operational, or if the Communists have any personnel trained to fly them. However, it is unlikely that the Communists have overcome, or possess the capabilities of overcoming in the future, all of the difficulties relative to the operation of a tactical air force, without external assistance.

g. Potential.

(1) *Manpower.*

Despite the fact that the Communist Army has operated for 20 years on more or less of a war footing, it has not yet exhausted its ability to recruit additional personnel. On the assumption that at least 20 percent of China's population live in areas under Communist control, a reserve of about 5,000,000 males of military age should be available. Actually most of the recruits for the Communist regulars come either from the irregulars, from newly occupied areas, or from defecting Nationalist troops. The Communist Army in the past has been quite capable of recruiting soldiers as rapidly as they can obtain weapons to arm and food to sustain such new recruits.

(2) *Resources.*

Agriculturally, the Communists control extensive sections of China's food-producing countryside, including 90 percent of Manchuria, which is a major food surplus area. These regions produce not only sufficient food for the Communist Army, but in certain areas enough to create a surplus for barter. In addition, due to the local character of large bodies of Communist troops, the rice-wheat culture conflict does not pose the problem it does in the Nationalist Army.

The Communist Army does not rely on the mining and processing of mineral resources to support their military campaigns. Considerable mineral deposits lie within the areas controlled by the Communists, but shortage of machinery, facilities, trained administrators and technicians limit the ability of the Communists to exploit these holdings. Moreover, Communist strategy has consistently dictated the destruction of mines and mine equipment, indicating that the use of these does not yet form a part of Communist planning.

(3) *Industry.*

The Communists operate practically no heavy industry (again because of lack of trained personnel) but do possess a number of widely scattered small arsenals, antiquated by western standards and capable of producing only limited quantities of small arms and ammunition, and of reloading expended casings. Such production is responsible for only a very small percentage of the matériel used by the Communist Army.

Cloth production by widely decentralized Communist textile industry is probably sufficient.

(4) *Scientific.*

The Communists do not have the trained personnel or the facilities to experiment upon, develop, and produce rocket, atomic, electronic, bacteriological or other scientific weapons now or in the immediate future.

(5) *Finance.*

For the present, Communist-controlled areas are mostly rural, containing few large urban centers, so there is little need for extensive financial control over rural-urban relations. Pay in the Communist Armies is extremely small, even by Chinese standards, but soldiers are provided adequate rations and clothing. Trade is carried on largely by barter agreement both within Communist-held areas and between areas bordering upon Communist-held China and Manchuria.

4. Missions and Tactics of the Nationalist Armed Forces.

The basic mission of the Nationalist Armed Forces is to maintain the control of the National Government in presently held areas and to extend that control throughout China by destroying the Communist Army.

In pursuance of this mission, the Nationalists initially attempted to employ the orthodox offensive tactics of a modern, western army and by use of massed, frontal assaults and enveloping movements to occupy key cities, industrial regions, and to open the major lines of communication. However, the Nationalist Army had neither the industrial backing nor the transport facilities, competent generalship, efficient channels of command, nor local command initiative required to successfully mount and maintain such operations. In attempting to fight a conventional war without logistic support against an opponent which did not present the necessary targets for such tactics, the National Government has been singularly unsuccessful.

When the Nationalists have been forced to abandon offensive movements in the face of Communist pressure on their flanks and rear, as in Manchuria, the Nationalist

command has adopted defensive tactics designed to keep open lines of communication and to retain its hold on urban centers. In carrying out such defensive tactics, Nationalist forces have built blockhouses, perimeter defenses around key rail points (stations, switches, bridges) and established fortress defenses, including the old-fashioned moat, around the cities. Displaying a lack of aggressive spirit, Nationalist forces have retired within their defenses, allowing the Communists free reign throughout the countryside. Thus, outlying garrisons do not receive required tactical support, and have been isolated and sacrificed to the Communists. This defensive mentality has contributed considerably to the tenuous position of the Nationalist forces in Manchuria, and progressively in various localities of North China. The Nationalist offensive in Shantung has ground to a stop as the Nationalists have been placed on the defensive throughout all the operating areas in the civil war.

Optimistic predictions of early 1947 in Nationalist circles that the Communists would be forced to accept surrender have given way to a more realistic appraisal of the difficulties facing the Nationalist cause, and a defeatist mentality has developed in some Kuomintang circles.

5. MISSION AND TACTICS OF THE COMMUNIST ARMED FORCES.

The basic mission of the Communist Armed Forces is to provide military security for the Chinese Communist Party and to extend its control throughout China by annihilating the vital strength of the Nationalist Army.

In pursuance of this mission, Communist strategy is designed not only to sap the strength of the Nationalist Army but also, by denying the National Government ready access to industry and transport routes, to disrupt its economy. Tactical action is directed against opposing units and lines of communication rather than directed toward attacking and defending geographic points or urban areas. The formulation of Communist strategy has taken into account Communist limitations in equipment, numbers, and industrial support, in arriving at broad variations of guerrilla tactics, which the Communist continue to employ with great skill. The Communists have realized the apogee of military effect from their limited resources by living off the countryside, operating in small mobile units, avoiding the main strength of the enemy, and joining battle only when they hold the tactical advantage. They have shown no hesitation in withdrawing from areas which would have been costly to defend, but have retained their hold on broad belts of land which isolate the Nationalist forces in separated operational regions. In addition, Communist operations have sealed off rural areas from Nationalist-held urban centers, thus cutting off the flow of produce into cities. They have disrupted Nationalist lines of communication by continuous raids; they have enveloped outlying strongholds, attacking and reducing isolated Nationalist units. Communist groups have retreated before major Nationalist offensives, appearing to give ground, only to materialize suddenly on the flanks or in the rear of the main Nationalist forces. The Communists are convinced that time is operating in their favor and that constant harassment will weaken their foe to the point of collapse, an assumption which appears to be supported by the course of events.

In fact, the balance of military power has shifted to the advantage of the Communists, and they have been able to seize the tactical initiative on an increasingly larger scale. This more recent phase of the war has been characterized by short-term Communist offensives, still following the guerrilla pattern, against certain points necessitating redisposition of Nationalist troops to reinforce the threatened areas. Such troop movements are of themselves valuable to the Communist strategy as they place an additional strain on overworked Nationalist transportation routes, prevent the Nationalists from concentrating their forces or consolidating their positions, and force the Nationalists to undertake troop movements through areas where superior Communist intelligence allows them to ambush the troops in transit. As Communist military strength in an area—such as Manchuria—increases, they have launched offensives over increasingly larger areas and for more extended periods of time. These attacks, still basically along guerrilla lines, make Nationalist reinforcement from within the particular theater impossible and require them to undertake major troop movements from outside to the damage of over-all Nationalist capabilities. In these offensives, as demonstrated in Manchuria, the Communists are inclined less to launch assaults on strongly defended points than to encircle and immobilize them. Recent Communist operations, including the strategic shift into Central China, have displayed an increasing coordination between Communist units in Manchuria, North China, and Central China.

A high Communist military source was quoted as saying in November 1947, "We will hereafter struggle for the possession of large cities." If this proves correct, it means that the Communists are launching upon the next progressive stage in the development of their strategy.

6. Capabilities and Future Trends.

The Nationalist Army does not have the capability, at present, of fulfilling its mission. Not only is it unlikely that it can extend its control to the boundaries of China, but it is also improbable that it can successfully defend its present territories.

In the past the Nationalist command demonstrated a tendency to overestimate its own combat capabilities, to underestimate the Communists, and to fall into related tactical errors, including overextension into thinly held salients. It was and is difficult for the Nationalists to support units so disposed. With almost all of its tactical strength already committed to battle areas, the Nationalist Army does not now have adequate reserves to make replacements. Nor can it reinforce one theater of action from another without weakening, to the point of defaulting, the first. Other limitations on combat efficiency of the Nationalist Army include: a deteriorating supporting economy, lack of adequate communications and industry, corrupt and often professionally incompetent generalship, passive tactics, large and inefficient masses of men under arms, shortages in trained military personnel and technicians, depressed morale among officers and men, and a lack of popular support. On the other hand, the Nationalists hold local advantages in fire power, which in strongly defended positions has deterred the Communists from general all-out efforts at these points. They also enjoy limited but valuable air and naval support.

The Communist Army possesses the capability of at least partially fulfilling its mission. In addition to continuing to provide armed security to the Chinese Communist Party, it is capable of expanding the area it now controls.

At present the Communists hold the strategic and tactical initiative. This advantage, together with Communist control of the countryside, permitting free mobility, generally results in the initial advantage of tactical surprise. The Communists usually have been extremely realistic in estimates of their own and Nationalist combat capabilities. Their leaders, recognizing a situation of limited supply, have ably exploited most available resources and personnel. In areas long under Communist control, they have all but eliminated popular opposition, either by enlisting active support of their land program from the peasants or by forcible means. They have a comparatively honest and capable leadership. As a result of a shrewdly conceived and cleverly conducted psychological campaign, Communist troop morale is very high. On the other hand, the Communists have lacked the ability to sustain coordinated offensives against strongly defended urban areas, and the scope and duration of past Communist offensives have been restricted by limitations in transport, and in supplies of ammunition and food. In addition, areas where the physical geography is best suited to guerrilla activities are inherently not those best suited to support large-scale, conventional military activity.

During the past year, the military strength of the Nationalists has been seriously attenuated. In the absence of large-scale military aid from foreign sources, abetted by internal reform of the Nationalists, the coming months will see a continued dissipation of the Nationalist armed potential and a further reduction in its popular support. Having already passed from the offensive to the defensive, the Nationalist forces now appear to be incapable of preventing the Communists from containing them in separate geographic areas, isolated from their source of supply and from each other. Nationalist units, without matériel or personnel support in these isolated areas, will suffer the attrition of both time and combat, reducing the rice the Communists will have to pay ultimately for the conquest of the area. It is probable that some of these beleaguered and shut-off urban areas will fall to the Communists without an all-out assault. Therefore, the Communists, although holding the upper hand in Manchuria, may be inclined to suffer the Nationalists to retain their hold on certain urban areas there, for, as the Nationalists continue to dissipate a not insignificant portion of their strength in Manchuria, Communist capabilities in the rest of China are increased. Furthermore, the conquest of these urban areas by the Communists might well prove premature at present, both because the cost in matériel and men would be high and because the possession of a number of large cities would confront the Communists with administrative problems which they may not yet be prepared to assume.

Yet, in the absence of an abrupt change in the current military trends, the fall of all of Manchuria to the Communists seems inevitable. Because the Nationalists will probably defend their Manchurian positions to the end (for reasons of prestige as well as policy), they stand to lose the food resources, the important industrial resources, and all occupying troops. Containment of the Nationalists in separate geographic areas, while currently most advanced in Manchuria and North China, can be expected to

extend to the areas further south. As the southward trend develops, the Communists will continue to make attacks designed to occupy maximum Nationalist garrisons in the areas to the north.

The rate at which the military position of the Nationalist Government has deteriorated in the past year has been especially noteworthy. They have retrogressed from an optimistic, offensive-minded strategy to a pessimistic, defensive state of mind. In the coming months of 1948 Communist actions will probably be aimed at continued offensive moves in Manchuria, harassment of Nationalist movements in North China and along the Lunghai railroad and Yangtze River, a push into the areas south of the Yangtze and possibly into Szechuan, and a resurgence of activity in the Canton area. This will require the Nationalist forces to remain dangerously spread out and tied down in individual garrisons, many of which will be lacking in adequate logistical backing. The Nationalists are completely incapable of coping with Communists' actions on all of these widely scattered fronts.

The sole mitigating factor in the Nationalist outlook is the prospect of further US military and economic aid in the near future. Initially, such aid would only serve militarily to bolster sagging Nationalist morale. Over a longer period of time the effect of such aid, while dependent on its quantity, would be chiefly to keep the Nationalists in the field against the Communists. If such aid were on a large scale, offensives of limited scope could be successfully undertaken; however, it is unlikely that such aid would ever serve to create in the Nationalist Army the ability to eradicate the Communist movement from China. Not only is the movement by now far too well established to be erased by military means but there are great difficulties besetting the effective use of any amounts of US assistance. Besides the great logistic difficulties (production, great distances, and expensive shipment to China, and Nationalist China's poverty in transport) which have to be overcome, it is absolutely necessary that not only the make-up but also the leadership of the Nationalist Army undergo extensive reforms. This would mean that the Generalissimo would have to break with a large number of those military leaders whose support has retained him in the position of power he now holds. A further difficulty is a strong native Chinese sentiment against any foreign intervention. If that intervention takes the form of US aid to an unpopular government, it would provide an extremely effective propaganda weapon to the Communists. Even in the unlikely prospect that these difficulties were overcome, and the Nationalist Army were to give promise of fulfilling its mission, there exists the possibility that the USSR, in those circumstances, would extend some degree and type of countersupport to the Chinese Communists.

The Communists, fighting a war of economic attrition in time rather than a conventional war for fixed points, would probably find the temporal process of Nationalist economic deterioration retarded by the addition of US economic support, but it is not probable that the Communists will be defeated on the battlefield.

APPENDIX D

CHRONOLOGY OF IMPORTANT EVENTS

1839-1842	British victory over China in the Opium War results in the first "unequal" treaties imposed on China and opens the country to foreign trade.
1850-1864	Tai-ping Rebellion, a long and bloody revolt against the Manchus, is finally put down with the help of British, French, and US leadership and volunteer aid.
1899-1901	The Boxer Rebellion, an antiforeign revolt, is put down by the military action of the Foreign Powers after the murder of the German Minister and a siege of foreign legations in Peking.
10 Oct. 1911	The Manchu Dynasty is overthrown and the Republic is established.
1912-1916	Yuan Shih-kai assumes the Presidency of the Republic and centralizes much of the power in his own hands. His endeavor to restore the monarchy fails.
1916-1926	Period of regional warlordism.
1921	The Chinese Communist Party is founded in Shanghai.
1922	The Washington Conference draws up the Nine Power Treaty in which the signatories agreed to respect the sovereignty, independence, and territorial and administrative integrity of China.
1923	Soviet advisers come to China at the invitation of Sun Yat-sen, who is in power in Kwantung, to assist the development of the Nationalist (Kuomintang) Party and Army.
1924	The Kuomintang holds its First National Congress, and the Chinese Communists are admitted into the Party. Founding of Whampoa Military Academy.
12 March 1925	Sun Yat-sen dies.
Summer 1926	Chiang Kai-shek commands the northern expedition, which is launched in an attempt to unify the country and abolish the influence of the northern warlords.
1926	Chiang secures the support of the Chinese bankers and merchants in Shanghai, gaining financial strength for the Kuomintang.
1927	The Customs Administration is returned to Chinese autonomy. Soviet advisers are expelled and the Chinese Communists are driven out of the Kuomintang in a bloody purge. Chiang's power is consolidated with the establishment of the Nanking Government.

6 July 1928	In theory the unification of China is completed with the taking of Peking (now Peiping) by emissaries of Chiang Kai-shek.
18 Sept. 1931	"Mukden incident" begins the Japanese occupation of Manchuria.
18 Feb. 1932	The puppet state of Manchukuo declares its independence of China.
5 May 1932	Sino-Japanese Peace Agreement is signed, terminating hostilities in the Shanghai area.
1934-1935	Chinese Communists, beset by the Kuomintang, undertake the "Long March" overland from South China to Shensi Province, and entrench there.
May 1935	Student demonstrations protest against Japanese expansion in China and call for resistance.
1935	Japanese extend control over Hopei and Chahar.
12-25 Dec. 1936	Chiang Kai-shek is kidnapped by dissident generals at Sian. After his freedom his position is stronger than ever.
1937	Nationalists and Communists form a "United Front" for resistance to the Japanese.
7 July 1937	Incident of the Marco Polo bridge near Peiping intensifies Sino-Japanese hostilities and touches off war, 1937-1945.
21 Aug. 1937	Treaty of Non-Aggression between the Chinese and the Soviet Governments is signed in Nanking.
10 Sept. 1937	The Chinese Red Army is reorganized under the National Military Council to fight as part of the Chinese national army.
20 Nov. 1937	The National Government announces its removal to Hankow. It subsequently moved to Chungking.
1 April 1938	As the Emergency National Congress of the Kuomintang closes, Chiang Kai-shek is elected *Tsungtsai* (leader) of the Party.
30 March 1940	Puppet Nanking government is formed under Wang Ching-wei, with Chen Kung-po as second in command.
18 Jan. 1941	The National Military Council orders the disbandment of the New Fourth Army as a "measure of military discipline," marking the breakdown of the National Government-Chinese Communist United Front.
18 Jan. 1941	Sino-British Yunnan-Burma boundary Demarcation Agreement is signed in Chungking.
9 Dec. 1941	China declares war on Japan, Germany, and Italy.
11 Jan. 1943	US and UK sign treaties with China renouncing extraterritorial rights.

1 Aug. 1943	Lin Sen, Chairman of the National Government dies; Chiang Kai-shek is appointed acting chairman.
10 Oct. 1943	Chiang Kai-shek assumes office as President of the National Government.
1 Dec. 1943	The Joint Declaration of the Cairo Conference is issued by the US, UK, and China. China is promised the return of all territories taken by Japan from China.
17 Dec. 1943	Roosevelt signs legislation repealing the Chinese Exclusion Act.
29 Sept. 1944	Sino-British-US phase of Dumbarton Oaks Conference begins.
9 Oct. 1944	The Dumbarton Oaks agreement on international organization is published.
11 Feb. 1945	Yalta secret agreement is signed by the US, USSR, and UK promising the USSR the restoration of former Russian rights violated by the Japanese attack of 1904.
25 April 1945	The United Nations Conference on International Organization opens in San Francisco, with China as one of the major participants.
8 Aug. 1945	USSR declares war on Japan.
9 Aug. 1945	Soviet Army enters Manchuria.
14 Aug. 1945	China and the USSR sign a Treaty of Friendship and Alliance in Moscow. In these agreements the USSR pledges to recognize only the National Government as central government of China, to respect China's sovereignty in Manchuria, and to refrain from interference in Sinkiang, while China grants special rights to the USSR in Manchuria, and agrees to recognize the independence of Outer Mongolia.
24 Aug. 1945	The National Government ratifies the UN Charter and the Sino-Soviet Treaty. Chiang Kai-shek announces that China will not send forces to occupy Hong Kong if the occupation will cause Allied misunderstanding.
2 Sept. 1945	Instrument of Japanese surrender is signed on board the USS *Missouri*.
9 Sept. 1945	Surrender of the Japanese in China is signed at Nanking.
27 Nov. 1945	General Marshall is appointed as the President's special envoy to China with ambassadorial rank.
15 Dec. 1945	President Truman issues statement of US policy in China calling for cessation of civil strife in China and a united government under President Chiang Kai-shek, as a basis of US support.

27 Dec. 1945	Big Three Foreign Ministers Conference in Moscow announces a series of agreements on the creation of a Far Eastern Commission; an Allied Council for Japan; ultimate re-establishment of a Free Korea, and the reaffirmation of adherence to the policy of noninterference in the internal affairs of China. The USSR and the US announced complete accord on the desirability of withdrawal of Soviet and US troops from China.
5 Jan. 1946	China officially recognizes the independence of Outer Mongolian Republic.
10 Jan. 1946	National Government and Communist representatives announce a military truce. The Political Consultative Conference opens.
31 Jan. 1946	The Political Consultative Conference adopts general principles for the reorganization and nationalization of the armies, the make-up of the National Assembly to review the Draft Constitution, and the structure of the new coalition government.
11 Feb. 1946	Washington and London publish the text of the secret Yalta Agreement signed February 11, 1945.
25 Feb. 1946	An official Chinese statement of policy reasserts China's sovereignty over Manchuria and respect for the Sino-Soviet Treaty of August 1945. An agreement is signed in Chungking providing for a National Army of 60 divisions within 18 months, absorbing the Communist Army.
12 March 1946	Gen. Chiang Chih-chung reports contents of agreement to the Kuomintang Central Executive Committee, granting self-government to Kazakhs in Sinkiang.
24 March 1946	Moscow confirms announcement that the USSR will complete withdrawal of Red troops from Manchuria by end of April.
15 April 1946	Communist leader Chou En-lai, accusing the National Government of violating the truce, declares a state of all-out hostilities to exist in Manchuria.
1 May 1946	The National Government officially returns from Chungking to Nanking.
16 May 1946	The National Government is advised indirectly that all Russian troops have been withdrawn from Manchuria except for some troops at Port Arthur and Dairen.
20 May 1946	Marshall accuses both sides of fomenting hate campaigns which endanger the interests of the nation.
9 July 1946	John Leighton Stuart is named US Ambassador to China.
10 Aug. 1946	Marshall and Stuart issue a joint statement that peace in China appears impossible.

13 Aug. 1946	Chiang announces a 6-point policy including broadening of the Government and convocation of the National Assembly.
19 Sept. 1946	Chou En-lai announces that he has left the Nanking peace talks.
28 Sept. 1946	Marshall requests that all shipments of US military supplies to China be stopped until further notice from him.
4 Nov. 1946	China and the US sign a five-year treaty of friendship, commerce, and navigation.
15 Nov. 1946	The National Assembly convenes to adopt a constitution. The Communists and the Democratic League refuse to attend.
18 Dec. 1946	President Truman, in a statement outlining US policy toward China, reiterates the main points in his declaration of 15 Dec. 1945.
31 Dec. 1946	Chiang signs an order promulgating the constitution.
Jan. 1947	Marshall is recalled from China and appointed Secretary of State.
7 Jan. 1947	Marshall makes a statement on return from China that both the National Government and Communists are responsible for the breakdown of peace efforts and that liberals in the Government and the minor parties are the hope of China.
29 Jan. 1947	US announces conclusion of mediation efforts, withdrawal of troops from China, and closing of the Peiping Executive Headquarters.
1 March 1947	T. V. Soong resigns as premier following the economic crisis.
19 March 1947	Government troops occupy Yenan, evacuated capital of the Chinese Communists.
12 April 1947	Soviet note to China reiterates stand that no Chinese National troops may enter Dairen until the state of war is terminated by treaty with Japan.
16 April 1947	Chang Chun succeeds T. V. Soong as premier.
23 April 1947	Interim Coalition Government is formed, allowing two minor parties, the Youth Party and the Social Democrats, as well as nonpartisans, seats in the Government.
June 1947	Soviet Ambassador Petrov returns to Moscow without a successor being named.
July 1947	US sends fact-finding mission under Lt. Gen. Wedemeyer to China.
18 July 1947	National Government declares all-out war against the Chinese Communists classing them as rebels.
24 Aug. 1947	General Wedemeyer, on departure from China, makes statement harshly critical of the National Government.

20 Sept. 1947	T. V. Soong is appointed Governor of Kwangtung.
Sept. 1947	The 6th Communist offensive in Manchuria begins in latter part of month. During this month Communist armies also begin to penetrate the area of Central China between the Lun-hai Railroad and the Yangtze River.
1 Oct. 1947	National Army captures Chefoo.
27 Oct. 1947	US and China sign relief pact giving US wide supervisory power over China's $30,000,000 share of the post-UNRRA appropriation.
28 Oct. 1947	Democratic League, accused of abetting the Communists, is outlawed by the National Government.
11 Nov. 1947	Marshall proposes a program calling for $300,000,000 in new relief for China.
14 Nov. 1947	Chinese Communists capture Shihchiachuang.
Nov. 1947	The 6th Communist offensive in Manchuria terminates in the middle of the month with the Communists having made important gains in the countryside, but having failed to dislodge Nationalist forces from the major cities.
21-23 Nov. 1947	National elections are held for the first time in China to choose members of the National Assembly.
8 Dec. 1947	An agreement is signed between the US and China concerning the transfer of naval vessels from the US to China.
12 Dec. 1947	Meeting of National Assembly, scheduled for 25 December, is postponed.
17 Dec. 1947	General Wedemeyer, testifying before the US Senate Appropriations Committee, urges aid to China.
19 Dec. 1947	Congress votes interim aid of $18,000,000 to China.
25 Dec. 1947	The new Constitution is "inaugurated," with the old laws continuing in effect until the National Assembly elects a President of China. Date of 29 March 1948 is set for convening of National Assembly.
Dec. 1947	The 7th Communist offensive in Manchuria begins in mid-December.

NOTICE TO RECIPIENTS OF CIA REPORT ON CHINA (SR-8)

Holders of SR-8 are instructed to insert the attached table of contents (dated March 1948) and to destroy, in accordance with security regulations, all other tables of contents which have appeared with sections of SR-8. A new table of contents will be issued when all sections of the report have been completed.

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CHINA

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SECTION III
THE ECONOMIC SITUATION

SUMMARY

Economic ills are almost as significant a factor in China's present critical status as the civil conflict which is itself both an outgrowth and the major cause of economic instability.

Despite sporadic efforts at improvement extending over the past forty years, China remains a vast, overpopulated region in which agricultural resources have been overexploited while natural and industrial potentialities have remained relatively undeveloped. The country's economic development, furthermore, has been constantly interrupted by external and internal strife, and checked by the stubborn inertia of traditionalism.

Had there been no civil conflict, and had the government been free of the various handicaps that now hamper it (see Section I, pp. 10), China might have emerged from the last war as a major power in fact, able to exploit its very considerable resources, to make full use of its enormous labor force, to harness its great hydroelectric potential, and in general to supplant Japan as the industrial leader of the Far East. As matters stand, however, China's postwar weakness, the demands of present military operations, and the impotence of the government have combined to bring about: (a) conditions preventing fundamental economic reform or improvement; (b) a decrease in the already very low standard of living; (c) a virtual cessation of manufacture; (d) lower agricultural production than might have been expected under normal conditions; and (e) an unprecedented inflation which must have brought ultimate economic chaos long ago had not the country been primarily agricultural and thus somewhat insulated from its effects.

While Nationalist China has been thus imperiled by the consequences of unfulfilled modernization, Communist China has hardly been disturbed by problems purely economic. Where the Nationalists were in part dependent on industry, foreign trade, and a stable medium of exchange, Communist areas were based exclusively upon agriculture and an entirely primitive economy. With Manchurian factories stripped or inoperative, the Communists have concentrated upon manufacture of arms in a few necessary arsenals to supplement equipment, chiefly Japanese, left by the Soviets. Having little, but needing little, they have been and will continue able to prosecute the war with fluctuating degrees of success, unaided but unhindered by the usual necessities of modern warfare.

Under present circumstances, there can be no economic future for Nationalist China other than further and accelerated deterioration. Although the same inertia

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NOTE: The information in this report is as of March 1948.

The intelligence organizations of the Departments of State, Army, Navy, and the Air Force have concurred in this report.

that withstood modernization has withstood and may for a time continue to withstand the pressure of China's mounting inflation, the day must eventually come when the national currency as a medium of exchange will be disclosed as an anachronism even to the most dogged peasant. When confidence in the Government's currency is thus lost, the possibility of military collapse would be appreciably enhanced, which as matters stand, can be of advantage to the Communists alone. Although it would be many years before they, or an outside power, could consolidate sufficiently to exploit China's economic potential, Communist forces would at least be in position, should the Government of Nationalist China collapse, for ultimate economic control of one of the chief strategic regions of the world.

Outside aid in the form of capital would be a prime necessity to Nationalist survival of the economic ruin it now faces, but more than monetary aid would be required. Nothing of real value could be accomplished, in any event, until the Communist armies had been defeated or at least rendered incapable of interfering with the means of economic recovery. Even with this menace removed, however, there would remain for China the pressing need for such measures as land reform (which always has been and always will be resisted by powerful vested interests), exploitation of now inaccessible mineral and hydroelectric resources, and construction of a modern transportation system. The Government as constituted at present (Spring 1948), left to its own devices, would probably not carry out such reforms to the limit necessary to insure ultimate economic stability.

SECTION III
THE ECONOMIC SITUATION

Any discussion of the economic situation in China is necessarily dominated by the political implications of the current Civil War. Because of the large areas under direct Chinese Communist control, such matters as economic policy and current economic conditions must be reviewed separately for National China (roughly, the area south of the Lunghai Railroad plus the Peiping-Tientsin-Mukden corridor) and Communist China (the area north of the Lunghai including virtually all of Manchuria).* The economic history and the basic economic resources, of course, must be discussed from the point of view of China as a whole (including Manchuria and Taiwan). The organization of this Section is thus divided into four principal subsections. Of these, the first three—China's Economy: Background and Development; The Segments of China's Economy; and The Stability of China's Economy—deal with the basic resources of China as a whole and treat the current situation from the point of view of Nationalist China. The final subsection—The Economic Situation in Communist China—discusses the economic policies and capabilities of the Chinese Communists.

1. China's Economy: Background and Development.

China is an undeveloped, overpopulated, loosely integrated, predominantly agricultural country. Foreign aggression, political instability, and basic deficiencies in resources have combined to withhold from the Chinese people the material advantages of nineteenth and twentieth century Western civilization.

a. Background of the Present Economy.

(1) *Contact with the West.*

Relationships between China and the Western World in the modern period were first established when Portuguese ships entered the harbor of Canton in the sixteenth century. Trade with Europe for many years afterward was rigidly controlled by the rulers of China so that the exchange of European manufactures for Chinese luxury goods was accomplished only under the greatest handicaps. China's restrictions on its trade became particularly vexatious when, after the Industrial Revolution, England and some other European countries were faced with the necessity of securing additional markets and sources of raw materials.

The difficulties of establishing satisfactory economic relations with China led directly to a series of wars, incidents, and uprisings between China, England, France, Russia, and Japan. China came out the loser in all these engagements and was forced to cede and lease sections of its territory and to grant special privileges, concessions, and rights to foreigners residing in China.

* It should be recognized, of course, that the area under Chinese Communist control has been increasing at the expense of Nationalist China, and to a certain extent this division of the country is ephemeral and somewhat artificial for purposes of economic analysis.

Alarmed by the special economic concessions which foreign powers exacted from the Chinese Government, the United States in 1899 asked that the China trade be open to all nations without discrimination by countries then established in the China ports.

(2) *Internal Reforms and Modernization.*

After China's defeat in the Boxer Rebellion at the beginning of this century, a movement toward modernization was started. Western ideas were introduced in the schools; the army was reorganized, and efforts were made to modernize the administration of the government. A program of public works was started; foreign commerce was expanded, and an attempt was made to introduce a representative assembly. All these trends were temporarily interrupted by the overthrow of the reigning Manchu dynasty and the establishment of a Chinese Republic in 1911.

The Sino-Japanese war interrupted the rather substantial progress which the new republic had made toward the establishment of a modernized economy. China managed to salvage some of its new industrial plant by moving it to Western China beyond the reach of the Japanese armies. The Japanese, on the other hand, expanded and developed the resources of Eastern China for their own use, which were inherited, largely intact, by the Chinese after the surrender of Japan. Despite the ravages of the war, China probably emerged from the conflict at about the same level of industrialization it had reached in 1937.

b. China's Economic Balance Sheet.

(1) *China's Assets.*

A vast reservoir of labor. For maximum exploitation of this labor supply, however, a redistribution of population will be necessary. As a matter of fact, so large is the population of China and so densely populated are those areas where the land is fertile, that it is actually a moot question whether China's 450 million people represent an asset or a liability in terms of the current state of the economy.

A relatively large proportion of land under cultivation. China has approximately 27 percent of its land under cultivation (US has about 23 percent). In relation to the number of farmers, however, the amount of cultivable land is extremely limited; the average size farm is approximately four acres.

A diverse climate. China has all the variations of climate that characterize the United States—from the hot, humid weather of the south, to the cold and dry weather of the north.

Several good ports and navigable inland waterways. The ports of Shanghai, Tsingtao, Tientsin, and Canton now permit a large amount of foreign commerce. The Yangtze, the Yellow, and the West Rivers, and the Grand Canal, together with many other navigable rivers and canals penetrate China's interior.

Some mineral resources. China has a substantial reserve of coal, antimony, tungsten, tin, aluminous shale, magnesium, and molybdenum. Some iron ore and petroleum are also available. To a considerable extent, however, all these deposits are undeveloped and/or currently inaccessible.

(2) *China's Liabilities.*

Lack of a modern, integrated industrial base. In the centuries when other countries developed and expanded its economies, China's energies were spent in buffeting the territorial demands and encroachments of foreign powers and coping with internal political instability. It may be, of course, that even without the problems of external and internal political pressures, China was too loosely integrated in terms of its basic economic resources and too steeped in the philosophy of the past to have developed in the way that Japan, for example, did. In any event, the delay in the development of the Industrial Revolution in China is clearly reflected in that country's inadequate industrial plant, lack of a modern transportation system, and insufficient flood control, water power, and irrigation projects.

An unsatisfactory relationship of population to arable land. Although China is basically an agricultural country, the land has long since reached its population saturation point. The Malthusian checks of war, disease, and famine have periodically operated to reduce the population to that level which current agricultural production could support.

(3) *In Sum.*

China, then, is a diffuse, loosely integrated, agricultural economy with simple, relatively unimportant interregional trade ties and with little modern industry.

The annual production of goods and services in the years 1931 to 1936 averaged slightly more than US $8 billion, approximately 12 percent of that of the United States during the same period. Agriculture, on which 80 percent of the Chinese population directly depends, contributed 70 percent to the total of all goods and services produced in this period; manufacturing contributed less than 8 percent.

In 1937 the industry of China proper amounted to about 2 percent of the industry in the United States in terms of electric power consumed and value of product. This low level of industrial development is consistent with China's lack of large-scale regional or occupational specialization, and is a resultant of a low volume of internal trade.

China's imports in normal years approximated 5 percent of its total output of goods and services. This is a slightly higher proportion than that of the United States' economy. China is ordinarily dependent on outside sources for only a few products essential to the operation of its economy at its present level. Although food and cotton are important items of import, improved internal transportation and a levelling off in population growth could make the Chinese economy self-sufficient (at a low standard of living) in these commodities. Petroleum is the major producers' good which must be imported in quantity.

It is clear that if China's economic problems are to be solved and if the country is to achieve a dominant position in Asia, it must, in the matter of decades, make the industrial strides that other countries have made over the course of a century. China's future economic development must depend principally on imported equipment and technical services which, in turn, are dependent on the availability of foreign credits and, eventually, on greatly increased exports.

c. Dominant Factors in the Postwar Economy of China.

(1) *The Civil War.*

All questions of China's inherent wealth or poverty aside, the most important single influence in the economy of postwar China is the civil war. In addition to creating the atmosphere of fear and uncertainty which dominates all economic decisions in China today, the civil war has seriously and directly crippled production and trade over wide areas of the country.

(2) *The Inflation.*

The inflation, caused in large measure by deficit financing of an almost exclusively military budget and by the disruption of production and trade, has discouraged productive economic activity by diverting capital into speculative channels and by adding to the risks of legitimate and productive investments.

(3) *Confusion in the Government.*

Aside from difficulties of a physical nature such as the shortage of raw materials and the disruption of transportation, the Chinese economy is suffering from administrative uncertainty and confusion which have accompanied government control over formerly occupied areas and seizure of large enemy properties.

d. The Position of Private Enterprise in Postwar China.

Private industrial capitalism has never been deeply entrenched in China. At best, it has been either a foreign importation clinging to the shelter of the treaty ports or a thin disguise for the economic activities of dominant political groups.

State control of industry has an historical and ideological justification in China: Sun Yat-sen advocated nationalization of all basic industries, public utilities, and communications facilities, together with governmental supervision over investment in all other industry. Under Dr. Sun's plan, private investment and operation would be permitted to an unspecified degree in those areas of economic activity outside the government's immediate interest. The Kuomintang has interpreted this program in a way which permits the maximum scope for national ownership and control. In addition, there have developed large industrial holdings and commercial trusts * which are ostensibly privately controlled but which are, in fact, inseparable from the interests of the dominant groups and personalities within the government.

By the time of the outbreak of hostilities with Japan in 1937, the government dominated the railroads, coastal shipping, air transport, and telecommunications. Large government investments had also been made in the electric power and iron and steel industries. State monopolies had been established to control a number of important export commodities. This trend of government control over major industries was accelerated during the war. Upon the surrender of Japan almost all of the important industrial activities established in the formerly occupied areas were seized by the government. Although some of these properties have been sold to private investors, the government will undoubtedly retain control over a substantial number of those remaining in its hands.

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* The Universal Trading Corporation, the Chinese Purchasing Commission, and the Central Trust are examples of such quasi-government organizations.

There are many factors in the current economic scene which will permit the government to expand its control over the country's economic activity. Already mentioned are the large holdings of former enemy assets. In addition, the government is exercising tight control over the important sources of capital and has isolated domestic private capital from foreign contact. Finally, the unstable economic environment engendered by the inflation, the cumulative effects of government monopolies upon the competitive position of private enterprise, and the development of industry by provincial governments have all acted to accelerate the deterioration of private capitalism in China.

Many of these factors are institutional in nature and could be eliminated by a government with different economic objectives. There are some basic elements in the Chinese economy, however, which would tend to dictate a large measure of government control, whatever the philosophy of the government. An ambitious program for development of industry and the closely linked improvement in agricultural efficiency may, in the light of China's current poverty, recommend a policy of government control over investment and regulation of foreign trade. Despite the necessity for government supervision of national development, however, there would still remain a wide area of decision: regulation can be substituted for government ownership; economic development can proceed without new direct ventures by the state and without absolute state control of private ventures or of foreign trade. Within this area of decision the course followed in the future will depend largely on political factors.

2. The Segments of China's Economy.

a. *Agriculture.*

(1) *Importance to the Economy and General Characteristics.*

Agriculture forms the foundation of China's economic and social structure, 80% of the Chinese people being engaged in agricultural pursuits, and providing about 70% of China's national income. A similar percentage of China's total prewar export trade came from agricultural commodities. China depends upon domestic agriculture for about 98% of its food and a predominant portion of its basic civilian necessities.

Although a relatively large proportion of China's land is under cultivation, broad areas are unfit for any sort of farming activity. Farm land is concentrated in the great river areas of East China, the North China Plain, Szechwan Province, and the central plains of Manchuria. Virtually the only arable land not now being intensively cultivated, except those where military operations prevent farming, lie in Manchuria. Cultivation of submarginal land is widely practiced throughout the country.

The density of China's population has tended to conform to that of the country's arable land area; nearly 74% of the population is located in eleven eastern provinces that make up less than 22% of China's total area. The extreme concentration of agricultural production in eastern China, as well as the diversity of China's crops, is shown in Tab 3, Map Supplement.

Farming techniques are an outgrowth of the conditions of excess labor and shortage of arable land. The irrigation systems, crop rotation, transplanting, fertilization methods that have been developed in China are superior to primitive methods used elsewhere. Crop yields, however, although relatively high, suffer from backwardness in the use of insecticides, development of disease-resistant, high-yielding strains and other modern advances in agriculture. Improvement along these lines offer, perhaps, the best promise for expansion of agricultural production.

The bulk of China's agricultural output consists of food crops, principally rice in the southeast and wheat in the northeast. Other important food crops include a wide range of cereals, potatoes, and pulses, the latter led by soy beans, a significant food and industrial crop. In addition to the versatile soy bean, principal commercial crops of importance to both domestic industry and export trade are: cotton, tung oil, tobacco, and tea.

Livestock raising in China is largely incidental to farming, and only about 5% of China's total area is devoted to pasture land. The raising of sheep, hogs, and poultry provide four of China's more important export items: wool, bristles, hides, and egg products. This entire phase of Chinese agriculture, however, has remained underdeveloped. In contrast to the limited extent to which China's farming acreage could be increased, the country's pasture land could be greatly expanded, especially in southwestern and northwestern China. Increased emphasis on animal husbandry in traditional Chinese agriculture would also be an important factor in the development of a more balanced and productive farm program.

Fishing has been of minor importance to China's economy as a whole although it plays a significant part in the economy of the coastal areas. The development of processing facilities might well produce a lucrative export industry.

Forestry activities, except in Manchuria, are also relatively inconsequential, as the result of the deforestation of large areas by centuries of ruthless and indiscriminate cutting. Less than 9% of China's total area consists of forest land.

(2) *Production Trends.*

In general, agricultural output as estimated for 1947 shows some recovery from the 1946 level, but in most categories is still below the prewar average:

AGRICULTURAL PRODUCTION IN CHINA PROPER
(In millions of metric tons, unless otherwise noted)

	PREWAR AVERAGE (1931-37)	1946	1947
Cereals—Rice (rough)	50.6	47.4	48.1
Wheat	21.6	23.4	24.6
Other	29.4	29.4	28.0
Sweet Potatoes	18.0	25.0	25.5
Pulses (peas, soy beans, etc.)	12.2	10.6	11.1
Cotton (millions of 500 lb. bales)	2.9	1.8	2.0
Tung Oil (thousand metric tons)	120.0	60.0	80.0
Silk (million pounds)	38.5	6.8	11.3

In Manchuria, where most of the agricultural areas are under Chinese Communist control, output is not far below prewar levels and continues to provide substantial surpluses of grain and soy beans above local needs. The Communists are reportedly exporting large quantities of food to the USSR. Taiwan has typically exported foodstuffs, particularly rice, sugar, and fruits. Agricultural production on Taiwan has fallen off significantly, however, from prewar levels, largely as a consequence of mismanagement by the Nationalist Government.

(3) *Basic Deficiencies.*

The 1947 improvement in agricultural production has been described as "the only bright spot in an otherwise black economic picture." Actually, the agricultural outlook is far from bright. In the first place, food stocks are low throughout the country so that the improved 1947 crop still left many food shortage areas. Secondly, even if agricultural production were fully restored to prewar levels, China would still be far from self-sufficient in food unless the food surpluses of Manchuria were made available. Prewar imports of food, averaging about 1,000,000 tons a year for China proper, admittedly were small in comparison with domestic food production, and represented not more than 1% or 2% of total food requirements. However, the prewar level of food consumption in China was submarginal, even according to the low standards prevailing throughout most of the Far East, and each year millions of Chinese died of starvation, or of epidemics to which food deficiencies were a major contributing factor. The chronically heavy loss of life resulting from flood, famine, disease, and war in China has come to be regarded as a necessary evil relieving the pressure of population, and largely explains why the average life span in that country has been only 30 years.

(a) *Evils Attending Land Distribution.* Although the larger portion of China's farmers are owner-operators and part-owners, and only about one-fifth are tenants, it is estimated that approximately 50% of the cultivated area in China is in the hands of 5% of the population. The proportion of tenancy and absentee ownership tends to be greater in the southern areas of China. In itself, this disproportionate distribution of land need not constitute an evil, and it is questionable whether a more balanced redistribution of land alone would materially improve the agricultural situation. It is certain that such a redistribution would not greatly increase the average acreage tilled by the peasant family. For example, statistics from an 11-province survey of 1934 show that, while fully 22% of the available acreage was then owned by 0.2% of the farming families, an equal distribution of all acreage would increase the size of the average family's farm from 2.6 to only 3.3 acres.

The heavy emphasis on landlordism and absentee ownership, however, has provided the means for large-scale and widespread exploitation of the peasant and tenant farmer. This exploitation has traditionally taken the form of heavy land rents in cash or in kind, and the extension of credit to the farmer by landlords or moneylenders at what may be the world's most usurious interest rates. The small farmer has thus been kept in a chronic state of impoverishment, near-bankruptcy, and general hopelessness.

Chinese farms are not only small, but are generally split up into separate parcels, largely through continued subdivision of inherited land. The average farm contains an estimated 5.6 scattered parcels. Such fragmentation has contributed to the traditional inefficiency of Chinese agricultural activities.

(b) *Land Impoverishment and Floods.* The strong Chinese need for chemical fertilizers has by no means been fulfilled in past years, partly because of prohibitive prices, partly because the average farmer has not been taught the value of their use. Most commercial fertilizers, in the absence of domestic industrial facilities, have been imported. The major rivers running through China's farming areas also pose serious problems; the devastating floods that recur every year not only destroy crops and farming facilities, but also result in serious soil erosion.

(c) *Taxation.* Taxes on farm land, which have been a major source of national and provincial revenue in China, are levied in a highly unbalanced and inequitable manner. In addition to the usual maladministration and corruption, much land has escaped taxation because land registration is far from complete. The resulting unfair distribution of the tax burden has forced some land out of cultivation because returns therefrom have been insufficient to cover both production costs and excessive taxes.

(d) *Transportation.* The lack of a well developed system of transportation has disrupted the orderly flow of agricultural products. Occurrences of devastating famine in areas close to highly productive farming zones have been common.

(e) *Marketing.* The large number of middlemen in the channels of agricultural marketing, and the general backwardness of marketing methods, have resulted in pitifully low returns to the farmer and excessively high costs to the consumer. Profits as high as 1,000% by middlemen have been reported.

(4) *Effects of War and Civil Conflict.*

The many years of war and civil conflict within China, accompanied by inflation, heavy taxes, disruption of transportation, large-scale governmental requisitions of food, and increased speculation, corruption, and hoarding, have compounded the basic deficiencies in China's agricultural system. Even the increased production in 1947 failed to improve general conditions materially.

(5) *Government Reforms and Improvements.*

Many creditable reform measures, bearing on all major deficiencies in Chinese agricultural production and distribution, have been proposed over a period of years by the Chinese National Government. Proposed reforms include a more equitable distribution of land, the reduction of land rents, education in and promotion of more modern farming methods, additional irrigation, soil conservation and flood control, more equitable taxation, a national system of agricultural credit, and the improvement of transportation.

Implementation of proposed reforms, however, has thus far not been effected on any large scale. These reforms, rendered more difficult by the government's preoccupation with civil war, tend to challenge the political basis of the government's and Kuomintang's authority. Many local government and party officials, as well as

influential private citizens, are in the landlord class and make a practice of transferring the burden of taxes to the peasant in the form of rents and interest payments. The government is obviously sensitive to the interests and demands of these local political elements who are at the same time landowners.

(6) *Population—A Basic Problem.*

One of the recommendations made in November 1946 by the China-US Agricultural Mission was for the Chinese Government to take "action to guard against a rapid increase in the growth of population." Such action, which challenges the traditional social structure in that country and which is exceedingly difficult to enforce, is not likely to be carried out in the foreseeable future. Failing population-control measures, however, it is probable that the benefits of all other improvements in agricultural activity will be largely nullified (in terms of an improved per capita standard of living) by substantial increases in China's population as a result of declining death and infant mortality rates. Because an increase in population will "tend to make the poorhouse larger," China will continue to face a food problem of formidable proportions, which in turn will continue to undermine stability and promote the very agrarian unrest that now keynotes the Chinese Communist struggle for power.

b. Fuels and Power.

Coal has been the main source of power for China's relatively small industry and rail system. Oil resources are not considered large, and the country's abundant water power has yet to be harnessed. Even without Manchuria, China possesses sufficient energy resources—if not raw materials, technology and capital—for large-scale industrialization. However, the remoteness of the richest coal fields and sources of water power from the most developed industrial centers along the seaboard is a significant adverse factor.

(1) *Coal.*

China is believed to possess one of the world's largest coal reserves, although, thus far, they are mainly undeveloped. The most credible estimates place China's coal reserves at 250 to 300 billion tons. Nearly 80% of these reserves are located in the North China provinces of Shansi and Shensi. The reserves in other areas (Manchuria, Hopei, Shantung, and Szechwan) where most of China's mining activity has thus far been centered are actually not very substantial. There are also scattered reserves throughout southern and western China, and in northern Taiwan.

About 80% of China's coal is bituminous, but the country's total resources of good coking coal probably do not exceed 15 billion tons. Well over half of these reserves of coking coal is located in undeveloped and not readily accessible areas in Shansi and Shensi. While the proportion of coking coal to total reserves is not high, the coking coal output in North China is of considerable potential importance, not only to China's domestic economy, but also to the economy of Japan and other Far East areas.

The disruptive effects of war and civil conflict have cut China's coal production to a current (1947) annual rate of about 18 million tons, as against the prewar level of about 34 million and the 1944 level of nearly 50 million. Mines in operation are generally in poor condition and require machinery replacements. Moreover, most

current output is coming from installations in or near active civil war theaters, notably the Sino-British Kailan mines northeast of Tientsin, and the Chinese Government-operated mines at Fushun and Fuhsin, respectively 30 miles east and 100 miles west of Mukden. Production at the latter mines might be sharply curtailed or completely cut off in early 1948. The Chinese in Nationalist China have experienced great difficulty in moving this coal to key urban industrial centers because of the constant interruption of rail communications and to the military priorities placed on available rolling stock. As a result, the 1947 output available to the consumption areas was considerably less than total production.

Current coal requirements for that part of China under Nationalist control are estimated at the annual rate of 20 million tons. Without substantial imports of coal, urban industrial areas would be faced with serious shortages. It is believed that the essential requirements of Shanghai can be met if the supply lines from the Kailan mines are kept open, but without Kailan coal, Shanghai will have to depend almost entirely on imports. The greatest repercussion of widespread coal shortages will probably fall upon household consumers, small factories, and the iron industry; but railroads and electric power plants, despite some conversions to oil, will also suffer.

Apparently as insurance against the loss of Manchuria, which formerly produced from one-third to one-half of China's total coal output, the National Government is planning to accelerate coal production in areas farther south. In August 1947, the government reportedly ordered the diversion of mining machinery at Tientsin, originally destined for Manchuria, to mining areas south of the Yellow River. About the same time, Premier Chang Chun advocated the importation of US $20 million worth of mining machinery from the US, and the strong garrisoning of North China mines. With such measures and an improvement in the Nationalist military position in North China, it is probable that China's future coal requirements could be adequately met, even if Manchuria's mining output were completely cut off.

(2) *Oil.*

On the basis of incomplete surveys, China's total oil resources are estimated at only 500 million tons, of which 200 million consist of petroleum resources and about 300 million (crude oil equivalent) are derivable from oil shale. Future explorations may increase present estimates to some extent, but China is seriously deficient in oil resources and will undoubtedly continue to depend on oil imports to meet the major portion of domestic needs.

The inaccessibility and undeveloped state of the main petroleum fields, located in the western provinces of Sinkiang, Kansu, and Shensi, limit possibilities for commercial exploitation. Kansu has been the only producing center of any significance, attaining a peak of 500,000 barrels, or about 70,000 tons, in 1944. Taiwan's production of petroleum and natural gas yielded an average of only 50,000 barrels in oil production yearly in 1940-45. In Manchuria, the major source of shale, the Japanese extracted about 1,300,000 barrels of oil from shale in 1943, but Soviet removals of equipment from the main plant at Fushun, and the disruptive effects of the civil war have all but eliminated shale oil production prospects for the near future.

The National Government has established itself in all phases of oil operation. While it has worked out plans for development of Kansu oil fields, its current emphasis is on the restoration of the ex-Japanese Navy refinery in southern Taiwan, to be used for refining imported crudes at an annual capacity rate of 5,000,000 barrels. The government is also interested in oil storage and marketing, and already controls one-third of China's oil storage capacity.

A sizable increase in the proportion of Chinese river and coastal craft using oil, together with the substitution of fuel oil for coal in some thermal power plants, have expanded China's annual requirements of oil products from about 8,000,000 barrels before the war to an estimated 1948 level of more than 17,000,000 barrels, virtually all of which must be imported.

(3) *Electric Power.*

The total operable electric power capacity in all China is estimated at 1,200,000 kw., considerably less than the peak capacity available during the war (then largely in Japanese hands). Capacity in China proper, composed almost entirely of thermal plants, was cut 25% by war damage to 430,000 kw. In Manchuria, where the Japanese had built new hydroelectric facilities that replaced existing thermal plants as the main wartime source of supply, extensive Soviet removals in late 1945 and early 1946 reduced total operable capacity to 285,000 kw. of thermal and 140,000 kw. of hydroelectric capacity. Taiwan's electric power capacity was cut to less than one-third of the mid-war level by Allied air attacks, but much of the damage has been repaired; current capacity, largely hydroelectric, is estimated at about 200,000 kw.

China's electric power generating capacity has been generally adequate to the relatively small needs of the country's industry and cities. However, the shortage of coal, the cumulative effects of undermaintenance, and, especially in Manchuria, disruptions in the transmission network, have combined to create recurring power shortages in the major urban industrial centers.

China's untapped water power supply, located mainly in central and south China, is very great and, if other factors permitted, could provide for large-scale industrialization in areas that are relatively deficient in coal. The Chinese National Government's most ambitious hydroelectric development project, a long-range plan, that will probably not be activated for some time, centers around a 10,000,000 kw. installation in the Yangtze River's Ichang Gorge in Hupeh Province.

c. *Mineral Resources and Mining.*

Except for coal, and a few metals such as antimony, tungsten, and tin, China's known resources of mineral wealth are not significant in terms of world supply. The country has not been intensively surveyed, however, and it is possible that China's mineral wealth has been underestimated. (For location of China's mineral deposits see Tab 4, Map Supplement.)

There is little information available on the current status of China's mining industries. It is reasonably clear, however, that the mining enterprises in the regions controlled by the National Government are faced, on the one hand, with the unprofitability of export trade, and on the other, with disrupted communications and an

abnormally low level of domestic industrial activity. It would be surprising if operations in any mine approached capacity as long as these circumstances prevail.

(1) *Iron Ore, Iron, and Steel.*

China has many widely scattered iron ore deposits estimated at somewhat more than two billion tons. The greatest concentration of iron ore deposits is in Liaoning Province, Manchuria, where the Japanese developed a large-scale iron and steel industry based on the beneficiation of low-grade ores (30% to 40% iron, and high in silica) and utilizing the extensive coking coal deposits of the province. In central and southern China, the iron and steel industry has never been developed to any large extent, principally because of the lack of transportation for assembling raw materials and carrying finished products to market. Production of pig iron and foundry iron in China proper has probably never exceeded 150,000 tons per year. Total iron ore production in 1944 has been estimated at almost 12 million tons, the major part of which was in Manchuria and Japanese-occupied North China.

The iron and steel industry, built up by the Japanese in North China and Manchuria, has been almost completely paralyzed since the war. At the end of the war the Anshan works had an annual capacity of about 2 million tons of pig iron. The Pauley Reparations Commission estimated the 1946 pig iron capacity of all Manchuria at not over 396,000 tons per year. The Anshan works, which on V-J day had an annual capacity of about 2 million tons of pig iron, has been substantially dismantled by the Soviet Army and, so far as is known, production is at a virtual standstill. The resumption of iron ore mining and the rehabilitation of the iron and steel industry are dependent upon the achievement of political stability in North China and Manchuria.

(2) *Tungsten.*

In the field of ferro-alloys and metals for ferro-alloys, China is chiefly noted for the production of tungsten. China has the greatest known reserve of wolframite (tungsten ore), calculated at over 2 million metric tons in terms of concentrates containing 65% WO_3. Production comes from 18 districts in the five southern provinces of (in order of importance) Kiangsi, Hunan, Kwangtung, Kwangsi, and Yunnan. The richest and most extensive deposits are in southern Kiangsi province. Since the first World War, China has been a major supplier of tungsten concentrates to the world market. In terms of 60% to 65% WO_3 concentrates, China has exported the following amounts: in 1925, 5,963 tons; in 1930, 8,727 tons; in 1935, 7,383 tons; in 1937, 16,518 tons; in 1943, 10,320 tons; in 1944, 7,703 tons. During the last war, China concentrates were in such demand that almost 6,000 tons of concentrates were flown out of China to Assam and thence to world markets.

Present political instability in China is continuing to hamper tungsten production and export. The USSR has been buying Chinese concentrates and it is estimated that China can produce in 1948 not over 10,000 tons of concentrates, of which as much as 4,000 tons may be exported to the USSR.

(3) *Copper, Lead, and Zinc.*

China has produced only small tonnages of the major nonferrous metals

— copper, lead, and zinc — and imports of these metals have supplied a large part of the country's requirements. However, reports indicate that exploitation of deposits of these metals has never been consistent with their full possibilities because of inefficient mining methods, a lack of technical guidance, and poor transportation facilities.

(4) *Tin.*

China has been an important producer of tin for several centuries, but there is no record of output for earlier years and records for recent years are confined mostly to export with little or nothing known as to the amounts of metal involved in local consumption.

According to C.C. Pai, *Geological Survey China,* Special Report 7, December 1945, tin production in China was:

1935	11,009 metric tons
1936	12,954 " "
1937	13,424 " "
1938	15,440 " "
1939	14,244 " "
1940	10,686 " "

Prior to the Japanese war, China shipped some tin to the United States and occasional shipments were made during the war. Normally the country possesses the capacity to produce about 15,000 tons of tin per year, but the high inflation in China has greatly reduced production. Until adequate food and other supplies are made available at reasonable cost, it is unlikely that China will be able to get its production of tin back to normal for some time, especially at mines that have required extensive rehabilitation. Transportation difficulties have also limited exports of tin.

The tin reserves of China have generally been estimated at 1,500,000 tons (tin content of ore), although there have been other estimates ranging from 652,000 to 1,873,000 tons.

(5) *Antimony.*

Prior to the Japanese invasion in 1937, China was by far the largest producer of antimony, mining almost two-thirds of the world's total. The deposits in China are larger and higher grade than in other countries which together with low wage rates have enabled China to dominate the world market. Production varied between 14,000 and more than 21,000 tons from 1925 to 1937. Output decreased substantially when the Japanese armies seized the ports and the Burma Road. Operations ceased entirely before the war ended, and have not been restored on a large scale, despite efforts of the government to aid in rehabilitating antimony properties.

About 95 percent of the output comes from Hunan province where the Hsi-kuan-shan mines, about 20 miles northeast of Hsin-hua, are by far the largest producers. Antimony deposits also occur in Kwangsi, Kwangtung, Kweichou, Yunnan, Anhui, Chekiang, Kiangsi, and Manchuria. The Chinese Geological Survey recently estimated total antimony reserves at 3,803,000 metric tons which is more than the combined estimated reserves of the rest of the world.

As of early 1948 the United States and European countries are suffering from a shortage of antimony. This shortage is expected to continue for at least two years and probably longer if China does not resume large-scale production.

(6) *Mercury.*

Mercury deposits occur in Kweichou, Hunan, Kwangsi, Yunnan, Szechuan, Jehol, Hopeh, Sikang, and Formosa, but only Kweichou and Hunan have produced important quantities. Production has varied from 4,931 flasks (of 76 pounds) in 1939 to 1,711 flasks in 1946. During World War II important quantities were shipped to the USSR when that country's principal deposit was captured by the Germans. Reports indicate that China can supply its own future needs and have a small surplus for export.

(7) *Salt.*

Salt has been a government monopoly and an important source of government revenue in China for centuries. About 80 percent of China's salt is produced from sea water, the remainder from rock salt deposits in the southwest and from salt lakes in the northwest. Salt is the only mineral for which 1947 production is expected to exceed prewar output; it is estimated that approximately 3 million tons will be produced with an exportable surplus of at least 500,000 tons.

d. Manufacturing Industry.

(1) *General Industrial Pattern.*

Until the late twenties, manufacturing in China was confined to a few relatively modern enterprises in the large port cities and to handicraft activities conducted in homes and small native shops throughout China. In the decade between the establishment of a centralized National Government in 1927 and the outbreak of the Sino-Japanese war in 1937, a fair amount of progress was made toward the establishment of several industries in more or less modern plants. Among these were cotton spinning, cigarette making, sugar refining, flour milling, vegetable oil processing, iron and steel production, and the manufacture of light consumer goods such as soap, candles, and glass. The more important enterprises were largely controlled by foreign interests.

Before the war the important manufacturing industries were concentrated in south Manchuria, and in the cities of Tientsin, Tsingtao, Chefoo, Shanghai, Changsha, Hankow, and Canton. During the war the Japanese expanded their industrial plants in Manchuria. On the other hand, a substantial number of Chinese plants were destroyed or removed to Japan. The Chinese moved some plants to west China, destroyed many factories which could not be moved, and developed new wartime industrial centers, the most important of which were Kunming and Chungking. In sum, China probably came out of the war with about as much industrial equipment as it had in 1937. Because of the civil war with its attendant economic chaos, postwar production has been much lower than it was in 1937.

Chinese manufacturing industries are largely under the control of the National Government either through actual ownership or through such indirect devices as state control over the sources of capital and the close relationship between indi-

vidual government policy-makers and important "private" enterprises. As of early 1948 the government had direct control over the iron and steel industry and the railroads. In addition, it had extensive holdings in the cotton textile, food processing, chemical, cement, engineering, shipping, electric power, coal, tungsten, and petroleum industries.

(2) *Important Manufacturing Industries.*

The cotton textile industry is by far the most modern and important in China from the point of view of both value and volume of production. In 1937 cotton mills in China had a total of more than 5 million spindles. The industry was centered around Shanghai, although there were large mills also in Tientsin, Hankow and Mukden. Although a great deal of cotton machinery was destroyed or moved to Japan during the war, the industry made a remarkable postwar recovery and by 1947 more than 3 million spindles had been restored to service.

Before the war China proper consumed approximately 4.3 billion square yards of cotton textiles annually of which only 50 million yards were imported. Manchurian requirements were much greater than production in that area and it had a prewar deficit of 110 million yards. It is estimated that almost 4 billion yards were produced in China proper during 1947 and 170 million square yards in Manchuria. Because of growing production and marketing problems, however, it is expected that there will be a decline in mill operations during 1948.

The iron and steel industry of China is discussed under Mineral Resources and Mining on page III-11.

Although the chemical industry in China is relatively unimportant, China has deposits of most of the minerals necessary for a chemical industry. Before 1937 progress had been made in the development of the industry. The more important plants were concentrated east of Tientsin in Hopei Province. It is estimated that 75 percent of the chemical-producing and consuming industries were destroyed shortly after the outbreak of hostilities in 1937. Production of essential chemicals was undertaken to a limited extent as the country was cut off from foreign sources of supply.

During the war the Japanese built up a large chemical industry in Manchuria which produced substantial quantities of soda ash and caustic soda, acids, and chemical fertilizers. Chemical plants in Manchuria were subjected to Soviet stripping, but the extent of the actual damage is unknown. In the course of the Japanese occupation of Taiwan, they established many plants producing camphor and chemical fertilizer.

The principal chemicals produced throughout China are alkalies (soda ash and caustic soda), sulfuric and nitric acids, nitrogenous and phosphate fertilizers, coke-oven by-products (benzol, toluol, naphthalene, creosote), various inorganic compounds, and alcohol. The alkali, acid, and fertilizer industries are largely centered in Manchuria, the Kwantung Peninsula, Shanghai, and Tientsin. Fertilizers and acids are also produced in Canton, Kwangchow, and Nanking. Prewar production of fertilizer nitrogen was about 38,000 tons annually; 10,700 tons is estimated for 1947/48.

Other branches of the chemical industries which have been established are pharmaceuticals (including quinine from native cinchona bark, camphor, and penicillin), and insecticides. Related industries which have been developed in varying degrees include pulp and paper, starch, soap and glycerine, vaccines, crude drugs, industrial gases, fuses and detonators, glass, rubber, and electrodes. Completion of a new viscose rayon mill this year is expected to make China self-sufficient in this product.

Food processing is an important manufacturing industry in China. Egg products and vegetable oils were major items in China's prewar export trade. Flour milling, sugar refining, and vegetable oil pressing are largely done in small plants and by native methods. Taiwan, especially, is a food processing area and exports large amounts of sugar and canned fruit.

Other industries of importance in China include the manufacture of cigarettes, paper, matches, soap, candles, glass and ceramics.

(3) *The Chinese Industrial Cooperatives.*

The Chinese Industrial Cooperatives ("Indusco") were established during the war and are based on traditional handicraft skills and home industry. There were several thousand cooperative societies during the war years.

The future of the industrial cooperatives remains very much in doubt. The current inflation, lack of government assistance, problems of production and marketing, and the widespread difficulties caused by the civil war, have retarded their growth and effectiveness.

e. Labor.

China's labor difficulties, both economic and political, have been mounting steadily in response to general deterioration throughout the country's urban centers. The primary contributing factor is the increasing gap between earnings and the cost of living. Labor unrest has affected foreign and Chinese businesses, government-operated plants, and the government service itself. The government's wage policy, which provides for monthly wage and adjustments based on the previous month's cost-of-living index, has proved inadequate in the face of rapidly rising commodity prices.

(1) *Government Control of Labor.*

The government's control over labor goes farther than the wage determination formula described above. Discharge and, to some extent, hiring policies are laid down in governmental regulations; arbitration of labor disputes is compulsory if either party or the government so requests; the government also has the legal power to outlaw all strikes and lockouts.

Under existing law in China, trade unions are agencies of the government. The establishment of unions and membership in them is compulsory in all but "war" industries and Civil Service. All unions come under the jurisdiction of a government body which has the authority to regulate and direct their internal affairs.

The government's wartime policy of control measures over labor still continues to play an important part in the current economic situation. The government's postwar labor policy was planned in the face of a civil war and in the light of

its effect upon the unstable political situation. Current labor controls reflect the desire of the government to restrict labor activities which are inconsistent with political and economic objectives. Strikes and lockouts have been outlawed because of their adverse effect on economic rehabilitation and because of their threat to law and order. Despite official bans, there were 1,700 strikes in 1946 as compared with 300 in 1936. The increased labor disputes have been a concomitant of steady rises in living costs with no comparable wage adjustments.

(2) *Labor Standards.*

No appreciable progress has been made in the postwar period with respect to child labor, health insurance, or working hours. At present, the legal minimum age for factory workers (13 years) is not rigidly enforced, and there is no maximum age limit. The eight-hour day is common, but workers are often persuaded to work overtime for time and a third compensation. Proposed labor legislation for 1947 includes the following: "minimum wage scale, housing, vacations with full pay, cooperatives, protection of women in industry, establishment of political consciousness among workers, standard collective bargaining procedures and rigid enforcement of existing factory and mine inspection regulations." These forms of labor legislation have not been implemented in fact, and improvement can hardly be expected until some measure of political and economical stability has been reached.

(3) *The Chinese Association of Labor.*

The government's determination to control all aspects of labor in China, and concurrently its failure or inability to achieve material improvements in labor conditions, have led to the emergence of one dominant labor union, the Chinese Association of Labor (CAL), and to the formation of an extensive underground labor movement. The government-sponsored CAL, established in 1938, has been internationally accepted as the representative of Chinese labor and has operated as a welfare organization under Kuomintang control. This organization got out of hand, however; it has cooperated with Chinese Communists and has the support of the World Federation of Trade Unions. The effect of this has been to give increased impetus to the anti-Kuomintang sentiment among organized labor.

The underground labor movement began in 1926-27 when a political split occurred in the Kuomintang and a purge was ordered by the conservative element who feared infiltration of doctrines into their party. Those who escaped the purge went underground until 1937 when they came to the surface to help in the war against the Japanese. After the war the government's attempt to organize all industrial workers into rigidly controlled unions was resented by this group. Of the half-million workers now in Shanghai's underground organization, the Shanghai Workers' Association, many were members of the earlier movement. Their members have infiltrated into every government agency and hundreds who belong to government-controlled unions are concurrently members of the Shanghai Workers' Association. Although the degree of relationship between the Chinese Communists, the Chinese Association of Labor (CAL), and underground groups in Nationalist areas cannot be fully determined, it is known

that on several occasions the Chinese Communists have seized the opportunity to encourage antigovernment labor demonstrations.

(4) *The Shanghai General Labor Union.*

The Shanghai General Labor Union, in contrast to the Chinese Association of Labor, is identified as a Kuomintang organization and has attempted to regain control over the entire labor movement in Shanghai. This union is subject to the direction of the Bureau of Social Affairs, the Ministry of Social Affairs, and the Kuomintang labor committee. Its attitude toward such matters as strikes and wages coincides with that of the government. Communist infiltration among Shanghai workers is a threat to the union.

f. Finance.

The formulation of broad economic policy for the Chinese National Government is the responsibility of the National Economic Council which was organized in late 1945 to cope with the problems of reconstruction. The Council coordinates the activities of such Executive Yuan Ministries as Interior, Economic Affairs, Communication, Food, Agriculture, and Finance. The Ministry of Finance has general responsibility over the following government activities: Chinese Maritime Customs, salt monopoly, internal revenue, taxation, public loans, currency, the national treasury, and accounting.

(1) *The Chinese Monetary Unit.*

The old Chinese monetary system was based on the *tael,* a cumbersome weight of silver. The *tael* measure was abolished in 1933 and was replaced by the *yuan,* also silver, but a more practicable circulating currency. The common symbol for the *yuan* is "CN $" (Chinese National Dollar).

In 1930 the Central Bank of China issued notes based on an accounting gold currency, the Customs Gold Unit (CGU). This currency was used for customs purposes only and was designed to protect customs revenue from fluctuations in the value of silver. Import revenues were quoted in CGU but were payable in CN $. The CGU notes were put in general circulation during and since the war and remain exchangeable for CN $ at the rate of 1:20. In addition, there have been other currencies such as local and provincial notes circulating in various sections of China.

China went off the silver standard in 1935 and recalled all silver in circulation. Paper currency in the form of Yuan and Custom Gold Units is now the sole legal tender in China proper.

(2) *The Banking System.*

The functions of central banking were entrusted to a group of four public banks in 1928 after the establishment of a centralized National Government. These banks, the Central Bank of China, the Bank of China, the Bank of Communications, and the Farmer's Bank of China, were capitalized chiefly from government funds. Although each of the banks has certain peculiar responsibilities, the operations of a central bank are divided rather indiscriminately among them: The Central Bank of China was organized in 1928 and was given the power to issue currency, mint silver, serve as the National Treasury, and direct the flotation of national loans and treasury notes; the Bank of China is a prerevolution bank which was reorganized in 1928 and

was given the responsibility of handling China's international financial affairs as well as the power to issue currency; the Bank of Communications was organized in 1928 with the responsibility for developing industry and trade and was also given currency-issuance power; the Farmer's Bank of China was established in 1933 to handle agricultural loans and a few years later was given currency-issuance privileges.

The private modern Chinese commercial banks finance a large share of China's trade and industry. This group of banks is dominated by a small number of powerful institutions, such as the Shanghai Commercial & Savings Bank, with headquarters in Shanghai where the bulk of the private banking resources are concentrated.

China has a large number of small "native" banks which operate on the basis of traditional standards. The growing influence of the modern commercial banks and their penetration into the interior during the war has led to a decline in the importance of the native banks.

(3) *China's National Debt.*

China's foreign and domestic debt amounted to approximately CN $3 billion (US $900 million at the June 1947 exchange rate) before the war with Japan. The required annual service charges for interest and amortization exceeded CN $300 million (US $90 million), or about 25 percent of the total annual government expenditures. Debt servicing was relatively small as reflected in the 1947 budget. Although the actual status of the government's current debt burden is not clear, it may be assumed that the country's domestic debt has been largely cancelled out by the inflation. It is estimated that China's foreign intergovernmental debt as of the end of 1947 has grown to between US $2 and $3 billion which is owed chiefly to the United States, Great Britain, and the USSR.

China has a history of default and readjustment of its foreign obligations. In the spring of 1939 the Chinese government suspended service payments on its foreign debt after the Japanese blockade prevented the collection of customs and salt revenues on which China's foreign obligations were principally secured. In August 1947 the government pledged itself to resume its services on prewar loans, but no specific date was announced.

(4) *China's National Budget.*

The prewar Chinese budget was relatively small; in the fiscal year ending 30 June 1937, total outlays amounted to less than CN $1.4 billion, or approximately US $450 million at the then prevailing exchange rate. Of this sum, military appropriations amounted to about 40 percent. During the war both the level and the composition of the budget were altered substantially. Thus, in terms of 1937 prices total expenditures declined while the proportion of military outlays to the total increased.*

Although total government expenditures for 1947 were originally budgeted at CN $9.3 trillion (approximately 10 percent higher than total expenditures in 1937 on the basis of 1937 prices), actual government outlays for the year approximated

* It is difficult to break down China's national budget into rigid categories according to the ultimate purpose of expenditures. Thus, it is known that a substantial proportion of the proposed outlays for "Communications" is actually, and more properly, a direct Military outlay.

CN $42 trillion. Of this total, approximately 75 percent was spent directly or indirectly for military purposes.

Principal current sources of revenue are: taxes from land, salt, business, and incomes (of which land taxes are by far the most important); revenue from state-owned enterprises; customs duties; proceeds from the sale of former enemy assets; and receipts from public borrowing. None of these sources (nor all of them together) is as important as the issuance of new currency. In June 1947, for example, approximately 18 percent of the month's receipts of the National Treasury came from taxes, 10 percent from public borrowing, 63 percent from currency issuance, and 9 percent from other sources.

It is apparent that taxes, together with profits from government-operated enterprises, currently cover only about one-third of the total national budget. The government anticipated making up the budget deficit in 1947 through the flotation of two internal loans both in the United States currency, through sale of US surplus property and former enemy assets, and through improvements in the tax system. None of these measures was conspicuously successful as evidenced by an estimated deficit of CN $29 trillion for the year which was met through printing additional paper money.

The government has announced that expenditures in the first half of 1948 will total CN $96 trillion; revenues are expected to amount to CN $58 trillion.

(5) *China's Official Gold and Dollar Assets.*

As of 1 January 1948, the total net foreign exchange assets of the Chinese National Government are estimated to be between US $230 and $240 million. This includes US $96.5 million in gold, approximately US $27.5 million equivalent in sterling currencies, with US dollar balances accounting for the remainder. In addition, China has silver holdings amounting to US $28 million.

China experienced a rapid dwindling in official foreign exchange assets during 1947. If this drain remained unchecked, it would lead to a financial crisis which might bring on a collapse of the present financial structure.

(6) *The Current Financial Situation.*

Primarily because of the Civil War, China is in a state of hyperinflation. That the inflationary pressures have been gaining momentum is indicated by the fact that currency in circulation increased from CN $13.7 trillion to more than CN $34 trillion between September and December 1947. In this same period the value of the Chinese dollar on the Shanghai black market in terms of US $1 depreciated from CN $45,000 to CN $152,000. The wholesale price level, which in September 1947 was 43,000 times the level prevailing during the first six months of 1937, more than doubled by December 1947.

The loosely integrated nature of the Chinese economy and its broad agricultural base have acted to keep the country from an economic collapse which may well have been the fate of more highly organized economies. In the large commercial centers such as Shanghai, Tientsin, Hankow, and Canton, however, recent acceleration in the rising trend of prices indicates that conditions are approaching the final stage of inflation when the national currency ceases to be used as a medium of exchange.

The following table giving the amount of currency in circulation and the general wholesale price level in Shanghai by months from January 1946 through December 1947, shows clearly the acceleration in both currency outstanding and prices in the last half of 1947.

ON LAST DAY OF MONTH	NOTES OUTSTANDING CN $ BILLION	PERCENTAGE INCREASE OVER PREVIOUS MONTH	WHOLESALE PRICE INDEX, SHANGHAI (JAN. TO JUNE 1937=1)	PERCENTAGE INCREASE OVER PREVIOUS MONTH
1946				
January	1,100	12.8%	920	3.9%
February	1,230	11.8	1,750	90.2
March	1,359	10.5	2,560	46.3
April	1,528	12.4	2,580	0.8
May	1,674	9.6	3,800	47.3
June	2,113	26.2	3,720	2.1 (decrease)
July	2,167	2.5	4,070	9.4
August	2,376	9.6	4,280	5.2
September	2,677	12.6	5,092	19.0
October	2,900	8.3	5,360	5.3
November	3,296	13.6	5,317	0.8 (decrease)
December	3,726	13.0	5,713	7.4
1947				
January	4,526	21.5	6,868	20.1
February	4,875	7.7	10,664	55.2
March	5,698	16.9	11,208	5.1
April	6,900	21.1	14,252	27.1
May	8,381	21.4	24,313	70.6
June	9,900	18.1	29,931	23.1
July	11,684	18.0	31,160	4.1
August	13,700	17.2	32,980	5.8
September	16,948	23.7	43,253	31.1
October	21,032	24.1	59,879	38.4
November	26,879	27.8	66,587	11.2
December	34,400 (est.)	28.0	95,900	44.0

g. Foreign Trade and Balance of Payments.

China's foreign trade has never been highly developed. In 1936, for example, China, with one-fifth of the world's population accounted for less than one-fiftieth of the world's foreign trade.

(1) *Imports and Exports.*

In the prewar period 1930-1937, imports by China proper averaged approximately US $418 million annually. About half of China's merchandise imports

were in the form of manufactured goods (industrial and railway equipment, metal manufactures, vehicles, petroleum products, chemicals), about a quarter in the form of semimanufactured goods (iron and steel products), and the remainder in foodstuffs (cereals, flour, sugar, fish) and raw materials (raw cotton, wool, coal, lumber). Estimated commercial imports for 1947 amount to US $470 million.* In addition, UNRRA or Government imports for 1947 are estimated at US $200 million.

Exports from China proper during the period 1930-37 averaged US $257 million. About a third of these exports were raw materials (tung oil, tungsten, wool, tin, antimony), with foodstuffs (egg products, peanuts, vegetable oils, fruits, nuts, beans, tea) and semimanufactured goods (hides and skins, cotton yarn, bristles), accounting for about a quarter each, and the remainder, manufactured goods (embroideries, textiles, carpets). In 1947 commercial exports, principally foodstuffs and raw materials, are estimated at US $225 million.*

In 1936 approximately 20 percent of China's imports came from the United States and were largely in the form of petroleum products, iron and steel products, industrial and railroad equipment, and metal manufactures. Japan, Germany, and Great Britain were other important prewar sources of supply for China proper. In 1946 (the latest year for which complete data are available) almost 60 percent of China's imports (excluding UNRRA materials) came from the United States.

About 25 percent of China's total 1936 exports—principally tung oil, egg products, hides, bristles, embroideries, and vegetable oils—went to the United States. Japan, Hong Kong, and Great Britain were also important prewar markets. In 1946 almost 40 percent of China's exports went to the United States. Table on page III-23 shows the source and destination of China's imports and exports in 1936 and 1946.

China's import-export statistics do not represent the actual condition with respect to China's foreign trade. In the first place, there is large-scale smuggling of goods (in 1936, for example, smuggling was estimated at US $50 million entering and US $25 million leaving China). In the second place, data on the direction of trade tends to be distorted because the exchange of goods with Hong Kong and Macao which is recorded as originating from or destined to these colonies, even though a substantial proportion of this exchange is merely in transit to and from China. Finally, the artificial official "open market" rate of exchange puts inaccurate values on export and import trade.

(2) *Balance of Payments.*

China proper has had a chronic trade deficit. In the prewar period, 1930 to 1937, this deficit was not very serious, averaging approximately US $161 million annually. The difference between the value of China's imports and exports of merchandise was covered to a large extent by remittances from overseas Chinese. Receipts from

* The conversion of China's foreign trade figures into US Dollars is complicated by the existence of widely varying official and black-market rates and by the fact that each of these rates change markedly from month to month. The conversion factor used in these data was the average official open market exchange rate that prevailed during 1947. A comparison of US Dollar imports and exports in 1947 with the prewar period is also complicated by the decreasing value of the US Dollar during the period.

SOURCE AND DESTINATION OF CHINA IMPORTS AND EXPORTS

(In Millions US Dollars)

	1936				1946			
	IMPORTS		EXPORTS		IMPORTS		EXPORTS	
	Value	%	Value	%	Value[1]	%	Value	%
USA	55.8	19.6	55.8	26.4	395.0	57.2	73.4	38.7
Japan	47.1	16.6	32.1	15.2	2.8	.4	5.9	3.1
Germany	45.0	15.9	11.7	5.5	2.6	.4	nil	nil
Great Britain	33.0	11.7	19.5	9.2	31.7	4.6	8.3	4.4
Netherlands East Indies	22.2	7.8	1.5	.7	2.3	.4	.1	.1
Belgium	7.8	2.8	1.8	.9	7.3	1.0	2.3	1.2
British India and Burma	7.5	2.6	5.7	2.7	60.4	8.8	10.0	5.3
Canada	6.0	2.1	1.5	.8	12.5	1.8	1.2	.6
France	5.7	2.0	12.0	4.3	1.4	.2	3.3	1.8
Hong Kong	5.4	1.9	32.1	15.1	30.9	4.5	53.6	28.3
Straits Settlements	3.3	1.2	4.8	2.2	14.0	2.0	4.5	2.4
USSR	.3	.1	1.2	.6	4.5	.7	9.5	5.0
Other Countries	46.8	15.7	35.4	16.4	125.6	18.0	17.6	9.1
TOTAL	285.9	100.0	215.1	100.0	691.0	100.0	189.7	100.0

[1] Converted from CN$ at average official open market rate for the year.

foreign expenditures in China usually exceeded China's out-payments on account of foreign loans. China's net debit in current account was settled through in-payments from the capital account.

Since VJ-Day China's trade deficit has assumed serious proportions. This deficit is a symptom of, and has contributed substantially to, China's present economic plight. A major portion of the deficit can be attributed to the shortage of domestic raw cotton (which has necessitated large imports to meet the raw materials requirements of Chinese mills) and other raw material shortages, which have retarded the production of exportable goods.

Based on dollar values in 1946, total in-payments for that year (including recorded exports, UNRRA receipts, overseas remittances, and foreign expenditures within China) amounted to an estimated US $715 million; total out-payments (including recorded commercial, UNRRA, and government imports; debt servicing; and other services) amounted to US $1,105 million. There was thus a deficit in China's international balance of payments for 1946 of US $390 million. Because of a decrease in the commercial import balance in 1947, the over-all international payments showed some improvement, although the deficit was still substantial in light of China's depleted

exchange resources. The 1947 trade deficit itself is estimated between US $235 and $255 million, or almost half that of 1946.

China's net gold and foreign currency assets (estimated between US $230 and $240 million as of 1 January 1948 (see page III-20) has reached a critically low level. The necessity for increased government imports of coal, cotton, and other critical items during 1948 places China's official external assets in jeopardy.

(3) *Government Controls over Foreign Trade.*

The critical nature of China's unfavorable balance of payments has moved the government to establish rigid controls over imports. Quotas have been set up limiting imports to the volume and type of goods the government considers most essential to the prosecution of the civil war and to the alleviation of the economic crisis. Controls have been exercised over foreign exchange and importers have been licensed. Early in 1947 a policy of export "subsidy" was adopted, but was withdrawn shortly after it became effective.

In August of 1947 China abandoned its policy of maintaining an official rate of exchange for the CN$. The official rate of CN $12,000 to US $1, which was established in February 1947, was retained until early 1948 for a limited list of commodities, among them wheat, raw cotton, rice, and coal. Foreign exchange for other approved imports, however, was to be furnished by appointed banks at an officially recognized rate of exchange which, in the middle of April 1948 was CN $328,000 to US $1 (selling rate), while the Shanghai black-market rate was about twice this figure.

(4) *The Strategic Importance of the China Trade.*

Although China is dependent on the outside world (almost exclusively on the United States at the moment) for many of the goods it needs to sustain its economy, there are several items produced in China which are even now of considerable importance to other countries. China's output of tungsten and antimony are most important to the world's economy. Bristles, tung oil, egg products, hides and skins are other products which a peaceful China could contribute in large quantities to world markets.

High on the program of the government's economic objectives on VJ-Day was the hope that China could replace Japan as the leading trading country of the Far East. Indeed, if the Civil War could have been avoided, China's textile industry may well have been developed to a point where it could have supplied the needs of many Asiatic countries. With Japan's economy in a state of disorganization, it might have been possible for a peaceful and United China to have developed such other light manufacturing industries as food processing, glass and ceramic manufacture, and appliances to a point where it could have captured at least some of Japan's prewar markets. That all these hopes have been dashed for many years to come if not permanently is not the least of China's current frustrations. To an appreciable degree this frustration explains the intransigent attitude that the Chinese Government has been taking toward any encouragement of Japanese industry by the occupying powers.

3. STABILITY OF THE CHINESE ECONOMY.

a. *Long-term Stability.*

From a long-term point of view, the chief source of stability in the economy of

China is its tremendous inertia. This inertia is largely a product of the country's broad agricultural base and the unintegrated character of the country's economy and geography. In view of the overwhelming predominance of agricultural activity, the economy of the country is relatively insulated from the sharp cyclical fluctuations that have traditionally affected the industrialized nations of the West.

Barring political upheavals or natural disasters, the Chinese agricultural village typically supplies the greatest part of its own food requirements. Moreover, the agricultural areas can attain a considerable degree of self-sufficiency, although at a low level, in other consumer goods, building materials, fuel, and tools. The result is a system in which the rate of economic activity changes only slowly and which tends to perpetuate itself irrespective of external developments. This is illustrated by the fact that the basic agricultural economy of China has changed little since the period of the Manchu Dynasty.

China's basic inertia is also a source of fundamental weakness: it is difficult to achieve changes for the better as well as changes for the worse. Thus, per capita productivity in the vast agricultural segment of the economy has remained at a perilously low level for centuries. This has resulted in grinding poverty for the mass of China's population and a rigid limitation to the country's savings (and thus expansion) potential.

b. Short-term Stability.

In the short-term economic picture there is little strength and great weakness: internal communications, which at best are insufficient to serve the needs of China's normal peacetime economy, are now hopelessly inadequate; the inflation, which has already suffocated Chinese industry and productive commercial endeavor, is literally getting worse every day; the National Government budget is almost exclusively devoted to the financing of the Civil War, and the gap between government revenue and expenditure is met by vast issues of additional currency; the trade deficit has been too great to be covered by any means other than drawing heavily upon already seriously depleted foreign exchange reserves.

In brief, the Civil War and the inflation have pushed Nationalist China close to the brink of financial collapse. While the breakdown of China's financial structure would have less serious implications from the narrow economic point of view than a similar catastrophe in more highly industrialized countries, it would seriously jeopardize China's military and political position in the Civil War. Opinion is divided as to how long the economy of Nationalist China would be able to withstand the tremendous inflationary pressures currently being exerted on it. That the life expectancy of the present Chinese financial system is short without (and possibly despite) substantial external aid is, however, generally recognized.

c. US Aid.

A considerable amount of assistance has already been extended the Chinese Government by the United States. Thus, of the total foreign aid received or contracted for by the Nationalist Government of China since VJ-Day, more than 80 percent was contributed by the United States. US aid has been in the form of credits or direct

grants, designed specifically to meet the most urgent relief and economic rehabilitation needs. In addition, the United States has given a substantial amount of indirect military aid. The fulfillment of US commitments was accomplished chiefly through services and supplies to facilitate reoccupation of liberated areas by the National Government, by distribution of food and other consumer goods, and by the shipment of equipment and materials to further the recovery of China's industry and agriculture. This assistance is summarized as follows:

(In Millions US Dollars)

Lend-lease:		
Supplies and services, mainly of a military nature, for reoccupation of Japanese liberated areas (as of 30 June 1947)	$728.0	
Civilian goods, credit	49.6	
		777.6
Surplus Property Credit:		
US Foreign Liquidation Commission—West China sale	20.0	
OFLC Dockyard sale (delivered)	4.0	
US Maritime Commission, war-built ship sales	16.5	
		40.5
Export-Import Bank:		
Rehabilitation credits for cargo vessels; equipment and services for reconstruction of railways, coal mines, electric power and chemical plants	49.8	
Credit for raw cotton	33.0	
		82.8
UNRRA:		
Over-all US contribution (72%) applied to authorized China program (including about 25% for shipping and insurance)		470.5
US 1947 Foreign Relief Program (Public Law #84)		45.7
Naval aid, mainly ordnance and communication equipment		17.7
UN International Children's Emergency Fund		2.1
China Aid Act, authorized 3 April 1948 for 1 year:		
For Economic Recovery Program	338.0	
Optional grant, including military equipment	125.0	
		463.0
Total		1,899.9

In addition to these grants and credits, a surplus property agreement was concluded on 31 August 1946 between the US and China covering civilian-type fixed and movable property in China and Pacific islands orignally valued at US $824 million, with the US to realize US $175 million on the sale. In addition, China is entitled to

draw on US $30 million set up to finance transfer costs. Progress made on deliveries as of the end of 1947 has been reported as follows:

(In Millions US dollars, original value)

Turned over to China prior to conclusion of this agreement	$240.
Made available to 30 June 1947 ($128 million disposal value)	489.
Yet to be made available	95.
	$824.

It is recognized that the latest aid grant of US $463 million will accomplish little more than "buying time" for the National Government. Indeed, there is a real question as to whether any aid program which does not include active military participation will have more than temporary salutary effect in China at this time.

4. THE ECONOMIC SITUATION IN COMMUNIST CHINA.

The Communist economy is almost wholly agrarian. There is some native industry producing household needs, clothing, matches, cigarettes, soap, and lamp oil. Small coal mines are exploited for the electric power plants still in operation and iron deposits support the manufacture of small metal products. Little, if any, significant postwar industrial reconstruction is known to have been undertaken. The Communists may well have sufficient food, clothing, and small arms to permit them to wage an extended war against the Nationalist Government.

The economic strategy of the Chinese Communists is two-fold; to promote policies such as land and tax reform and to accelerate the economic deterioration of Nationalist China. Doubts have been raised as to the effectiveness of their reforms, but the success of their economic war is all too evident.

a. Agriculture.

Land is the basic asset of the Chinese Communists. At least half of the North China Plain, including the predominant part of the cotton acreage, and more than three-fourths of the fertile Manchurian Plain are under control of the Communists. Since the Communists control few urban areas, and since world markets are cut off, any agricultural surplus from these areas will probably be available to the USSR in exchange for petroleum and manufactured goods.

The evolution of Communist policies with respect to agrarian reform has had very significant political implications that have been described in Section II, Political Situation in Communist China (p. II-4). In addition to land reforms, the Chinese Communists have encouraged the development of rural cooperatives, adopted a program of increased agricultural production through land reclamation and agricultural education, organized farm labor brigades, and instituted a program of tax reform. The actual effect of these reforms is hard to determine. There have been conflicting reports on crop production, but visitors to Communist areas state that regions which typically produce agricultural surpluses still do, while poor areas have in no way

improved. On the whole, crop production is probably similar to the pattern existing in adjacent Nationalist-held areas and it is still an open question as to whether agricultural productivity has been raised or lowered by Communist agrarian reforms.

b. Industry and Mining.

Available information indicates that there is no large-scale production of minerals or manufactured goods in Communist territory. Except for a few large factories and arsenals operated by the Communists to supply the army, the majority of the industrial establishments are small workshops run by groups of workers or private individuals who are required to turn in a certain percentage of their profits to the Communist Party. In those cities occupied by the Communists, such as Harbin, where modern industry once existed, production is reported at a virtual standstill. This is partly a result of the removal of industrial equipment by the Russians and partly of the lack of capital, technical and administrative knowledge, skilled workers, raw material, and marketing facilities.

Although many of the largest coal mines in North China and Manchuria are in Communist areas, output is low since much of the mining equipment has been removed by the Russians or was destroyed during the Japanese or Civil War. The equipment still remaining has deteriorated. Almost all the coal that is mined is used for the railroads in Manchuria, for the few arsenals and forges, and for the power plants still in operation.

Although the Communists now control areas containing substantial mineral resources, they will be in no position to exploit them unless they acquire more investment capital, the necessary technical knowledge together with a large number of skilled workers, and the ability to organize a well balanced economy. It is unlikely that this can be done without substantial assistance from abroad.

c. Finance.

Although the Chinese Communists issue their own currency in the areas under their control, there is no general circulating medium primarily because these areas are not contiguous. Each regional government has its own central bank.

The rate of exchange between Communist currencies and the Chinese National Currency is difficult to determine since neither side recognizes the currency of the other. Nevertheless, exchange transactions as well as trade are carried on continuously in the border areas. Gold purchase by private individuals is forbidden in Communist areas, but it is believed that the Communist Government has carried on transactions in Nationalist cities to obtain gold needed for the purchase of urgently required commodities. Although no official foreign exchange rate exists, brisk black market activity takes place in Harbin, where there is a demand for US dollars and Russian gold rubles.

Prices have been rising steadily in the Communist-controlled areas, although the inflation is by no means as extreme as in Nationalist China. The essentially agrarian nature of the economy, and the fact that workers are often paid in kind, reduce the impact of the inflation on a large segment of the population.

The tax policy is characterized by a rate which theoretically varies with the amount of property or with the income of the taxpayer. To some extent, at least,

according to reports from these areas, whatever benefits have accrued to the peasants from tax as well as land reforms are often negated as a result of heavy requisitions of grain and other produce for military purposes.

d. Trade.

There is substantial smuggling between Communist and Nationalist China, particularly in the border regions. It has been reported that businessmen in Nationalist cities of Shantung send gold bars into Communist territory in exchange for cotton badly needed for the mills of Tsingtao and Tientsin. There have also been reports of lively trade in foodstuffs between Communist-held rural areas and the Nationalist cities in North China. Urgently needed commodities such as paper and chemicals are purchased in Tientsin and Shanghai by the Communists with gold originally acquired from Nationalist sources.

Recent reports indicate significant trade between the Chinese Communists and the USSR. It is believed that a barter agreement may have been reached in which foodstuffs are exchanged for manufactured goods. The principal channels of Chinese Communist-Soviet trade are the Manchouli-Suifenho Railroad and shipping between Vladivostok, Dairen, and ports in North Korea. There is also some trade reported by road between Manchuria and Siberia.

It is believed that Soviet objectives in Manchuria include the orientation of trade in that area to the Soviet Far East. Since the industrial areas of Far Eastern USSR must import foodstuffs, trade ties with agricultural Manchuria would be very advantageous.

e. Economic Potential of Communist China.

Despite the fact that the Chinese Communists now control areas with substantial mineral and industrial resources and may eventually gain control over all Manchuria, it is highly unlikely that they can exploit the economic advantages inherent in these areas for many years and perhaps decades. To a considerable extent the mining and industrial plant which the Japanese developed in these areas has been removed, destroyed, or is now so deteriorated as to be all but useless. In addition, the Communists lack the technical and administrative skills, the skilled labor force and the investment capital necessary to establish an industrial system. Obviously, however, the advantages and resources could be exploited by the Communists upon receiving a substantial amount of assistance from abroad. To the extent that such aid is not available, the Chinese Communists may have to rely on the technical and administrative abilities of persons who would ordinarily not be attracted to the Communist philosophy.

SECTION IV
FOREIGN AFFAIRS

As one of the Big Five, China enjoys the status of a Great Power in international relations, but this is more a matter of form than of fact. The claim of China to such a position has some basis in its large area and population, its importance in history, and its participation in the victory of World War II. On the other hand, its military and industrial strength is merely potential with little prospect of realization in the near future. Because of internal instability and civil war, the Chinese National Government is preoccupied with the question of its survival and therefore can play only a relatively weak role in foreign affairs.

The present international position of China, nevertheless, represents a marked advance as compared with its position in the decades preceding World War II. Helped by US policy and support during the war with Japan, China rose from the rank of a third-rate power to membership in the Big Five of the United Nations. Moreover, during the past five years China has concluded a series of new "equal" treaties, which have erased nearly all vestiges of the 100-year era of concessions and extraterritoriality. The growth of Chinese nationalism was greatly stimulated during the war with Japan and has since led to increased emphasis on national interests in relations with foreign countries. China also has a great asset in its juridical position; in the United Nations Security Council it is one of the five permanent members with the right of veto; in the Far East, it is represented on the Allied Council in Japan and is recognized as one of the Big Four for Far East-Pacific affairs. A less tangible factor in support of China's prominence in international affairs is the rather widely held conviction that China, no matter how dismal its immediate prospects, will eventually become in fact one of the Great Powers of the world.

1. Genesis of Present Foreign Policies.

In modern times, China's foreign policies have been shaped by the impact of Western civilization upon its political, economic, social, and religious life. Encroachment on Chinese territory by the Western powers began to take positive form in the early nineteenth century, and the opening years of the twentieth century disclosed China weak, militarily discredited, and internationally humiliated. Great Britain, France, Germany, Russia, Japan, and Portugal all made incursions on Chinese territorial sovereignty.

During this long period of exploitation, antiforeignism in China grew into an almost universal sentiment. More recently, the organized resistance offered by China to Japan, commencing in 1931 and continuing to the close of World War II, added to the nationalistic feeling of patriotic Chinese. As a consequence, China's foreign policy now is in general aimed principally at resumption and retention of sovereignty over all Chinese soil. China is anxious to establish the inviolability of its frontiers

and to eliminate any foreign control from its land not only because national security requires it, but also because a sensitive national pride insists upon it. The agitation for the return to Chinese control of Hong Kong and Macao, for example, springs not solely from the belief that acquisition of these areas will materially bolster Chinese economy, but from a conviction that Chinese land ought to be under Chinese administration and control.

At present, the most important questions in China's foreign affairs hinge upon its relations with the two major powers, the US and the USSR. The Soviet Union represents the chief threat to China's security interests, because of the long common frontier between China and Soviet-controlled territory, the historic Russian strategic and economic interests in Manchuria, and Soviet sympathy with the Chinese Communists. The Nanking Government is striving to achieve friendly normal relations with the USSR, and, as a weaker state endeavoring to establish a *modus vivendi* with a stronger neighboring power, has tried to settle outstanding issues by treaty. In so doing it has made some concessions to the USSR, but in return has gained Soviet assurance that it will continue to recognize the National Government's sovereignty over all of China.

At the same time China wants to maintain its long-standing friendship with the US, traditionally a natural ally of China because of its historic policy in support of China's administrative and territorial integrity. The US is the most likely source for that foreign aid which is essential both for China's economic recovery and successful prosecution of the war against the Chinese Communists; therefore, the great bulk of the relations of the National Government with the US are now directed at eliciting US aid.

Of comparable significance in its foreign relations China fears that Japan will once again rise to dominate the Far East. As the chief sufferer from Japanese imperialism, China is anxious that safeguards be established against the military and industrial resurgence of Japan, and wants these safeguards to be guaranteed by both the USSR and the US in a future peace treaty with Japan. China is apprehensive over US policy in Japan, because of its fear that the US will concentrate on establishing a strong Japan as the bulwark for stability in the Far East, while leaving China relatively unsupported.

In the conduct of its foreign relations, China will be guided by expediency and opportunism, since its internal weakness does not allow it to follow a firm and consistent line. As in former years, it will continue its practice of playing one power against another in an endeavor to preserve its territorial integrity and to further the attainment of its chief objectives in foreign affairs.

2. RELATIONS WITH THE USSR.

The defeat of Japan upset power relationships in the Far East, with the USSR emerging as by far the strongest and also the only great power territorially speaking in that part of the world. Chinese security interests, consequently, are affected more immediately by Soviet policies and activities than by any other external factor.

The long common frontier between China and Soviet-controlled territory and the pressures along that frontier have been the basic factors determining the course of Sino-Soviet relations through the years. Certain outstanding and recurring issues have made it difficult for the two governments to maintain amicable relations; notably independence of Outer Mongolia, the problem of Sinkiang, the Soviet interests in Manchuria, and more recently, the presence within China of an armed Chinese Communist party. The Sino-Soviet Treaty and Agreements of 14 August 1945 were designed to provide a satisfactory settlement of these issues. In view of the uneven power relationship between the two governments, China was forced to give ground on many of the points over which there has been disagreement with the USSR. However, China managed to achieve, in a formal treaty, recognition of its National Government, a clear definition of the Soviet position, and a statement of limitations beyond which the USSR has pledged it will not go. As recently stated by the Chinese Premier, it is the consistent policy of the Chinese Government to abide by the Treaty and to give the USSR no ground whatever for such deviation from it as might seriously endanger the security of China and the Far East.

The Agreements provide for a 30-year "alliance of good neighborliness" between the USSR and China, joint ownership and management of the major railways of Manchuria, a free port at Dairen under Chinese administration but with a Soviet port director and with Soviet control over half the port facilities, and a joint naval base, to be defended by the USSR, in the Port Arthur area comprising the southern extremity of the Liaotung peninsula. All these concessions, according to the agreements, are to revert to China after thirty years. The agreements also included assurances by the USSR that Soviet assistance to China in "moral support and aid in military equipment and other material resources" was to be limited to the National Government; that the USSR recognized China's "full sovereignty over the Manchurian Provinces and their territorial and administrative integrity"; and that the Soviet pledge of non-interference in China's internal affairs specifically included the province of Sinkiang. In return, China agreed to recognize the independence of Outer Mongolia if a plebiscite confirmed the desire of the people for such a status.

The treaty was significant because it indicated quite clearly that the concerns of the USSR, especially in such matters as transportation and defense in Manchuria, were substantially the same interests as those of Tsarist Russia. Nevertheless, it was not regarded unfavorably in Nationalist China at the time because, among other guarantees, it constituted a pledge that the USSR would not lend material aid to the Chinese Communists.

Not until six months later was it revealed that all the significant provisions of the Sino-Soviet treaty, except the pledge of non-interference in Chinese affairs, had been foreshadowed in the secret agreement of 11 February 1945 signed by President Roosevelt, Prime Minister Churchill, and Marshall Stalin at Yalta. From the Chinese point of view, the disclosure of the Yalta agreement altered the significance of the Sino-Soviet treaty, which had been presented to the Chinese as a freely negotiated pact. Particularly, the obvious incompatibility of the Soviet recognition of China's "full

sovereignty over the Manchurian provinces and their territorial and administrative integrity" with the concessions for joint control of facilities and fortifications in that area, assumed a sinister significance, only too soon to be confirmed by the Soviet's intransigent conduct in Manchuria, Korea, and other border regions. These concessions were clearly in derogation of China's sovereignty, against which it had fought so long and stubbornly. Thus Yalta came to be regarded as a humiliation to China, its revelation coming as it did after the war's end, at a time when China hoped to achieve its major aims, resumption of national sovereignty and independence in international affairs.

Almost from the date of the treaty, Sino-Soviet relations have been unsatisfactory, and Chinese fears over the intentions of the USSR have grown accordingly. More than any other single factor, the increase of the influence of the Chinese Communists has spurred these fears. The Communists, echoing the Soviet stand on almost every issue, international or domestic, constitute a militant threat to the survival of the present Nationalist regime. Further, the National Government is constantly plagued by the possibility that the USSR may at some time lend considerable support to the Chinese Communist cause, and has in fact accused the USSR of so doing. There has been some basis for these complaints because the USSR, in withdrawing its troops from Manchuria at a time when only the Chinese Communists could fill the vacuum, made it possible not only for the Communist forces to take possession of the major part of Manchuria but also for them to acquire large quantities of surrendered Japanese matériel. The National Government has been hampered in its efforts to recover Manchuria because the USSR has steadfastly prevented the use of Dairen as a port of entry for Nationalist troops.

Other Soviet actions in Manchuria also caused concern in National Government circles. The Soviet troops postponed their evacuation of Manchuria beyond the "three month maximum" provided in the minutes of the treaty, and when they finally withdrew, much of Manchurian heavy industrial equipment had been confiscated as "war booty." One effect of the looting of Manchurian industry was to destroy, for an indefinite period, an industrial war base which might be used against the USSR. The USSR also appears to have the objective of making Manchuria again a producer of raw materials feeding into Soviet factories and a consumer of Soviet-manufactured goods. Thus it would gradually build up the mutual indebtedness of Manchuria and Siberia, making it progressively more difficult for the former area to break away except through a major violent upheaval. The Chinese were doubly bitter over this stripping, as it not only barred immediate resuscitation of Chinese industry, but also deprived China of what it regarded as its rightful share of Japanese reparations. Maintaining the legal fiction of war against Japan, the USSR closed the key port of Dairen to foreign shipping; as long as Dairen remains closed, such trade as exists must flow eastward out of Vladivostok and northward into Siberia. Unless and until the National Government armies occupy all of Manchuria and forcibly reorient the economy of the area, nothing seems likely to change the trend initiated in August 1945.

In areas other than Manchuria, relations between China and the USSR have been uneasy. China recognized the independence of Outer Mongolia early in 1946, and the new Mongolian People's Republic is effectively aligned with the USSR. The consensus of available evidence suggests that the Outer Mongolians are being used as an instrument for Soviet policy of furthering separatist tendencies among the Mongols of Inner Mongolia and northwest Manchuria. Such separatist tendencies are promoted by appeals to ties of blood, religion, and community of interest among all Mongols, coupled with a gross ineptitude of the Chinese in dealing with minority peoples.

To the West, parts of the province of Sinkiang are economically allied with the USSR. Chinese bungling throughout the province, Chinese inability to conciliate native Turki groups, as well as Chinese preoccupation with more urgent problems elsewhere, may ultimately permit the northwest portion of the province to drift under Soviet control. The Chinese may protest developments in Sinkiang, but under present circumstances can do little more than put their views on the record. To date, however, the National Government has been unable to provide any convincing evidence that the USSR has violated its 1945 pledge of non-intervention in Sinkiang affairs.

Another irritant in Sino-Soviet relations has been the presence in China of tens of thousands of White Russian refugees. While the older members of this group are bitterly anti-Soviet, many of the younger generation, born and brought up in China, are willing to forget the past. This change has been effectively exploited, and thousands of these individuals now possess Soviet citizenship. The recent announcement that some 15,000 of them would be repatriated may have been motivated by the desire of the USSR to extricate those citizens who may be useful at a later date. (It appears from reliable reports that several thousands of these White Russians have been already repatriated.)

Lacking any weapon against Soviet expansion into the peripheral areas of China, and worried over the expansion of the Chinese Communist domains, the Chinese National Government has often expressed its fears of the USSR to the US. However, the National Government has shown reluctance to take action overtly which would strain its relations with the USSR.

On its part, the USSR, at least for the time being, seems content to rest on the concessions it won in the Sino-Soviet treaty, and at present maintains outwardly correct relations with the National Government.

3. Relations with the US.

The single dominant aim of the National Government in its relations with the US seems to be to obtain US financial and military assistance. Statements by government officials on China's problems are almost invariably aimed at evoking US assistance, and in some instances these statements have gone so far as to indicate that if no US action materializes, China would be forced to a new accommodation with the USSR. This veiled threat has been offered in spite of the traditional distrust and suspicion China feels toward the USSR and in spite of the fact that the war being waged

by the National Government against the Chinese Communists makes such a rapprochement almost inconceivable at this time, except as a desperation of compromise.

Evidence of China's anxiety to obtain aid from the US has found several expressions. Surface changes have been made in the Chinese Government (at least partly) in order to encourage favorable US opinion. The "reorganization" of the Chinese Government in April 1947 was doubtless directed toward that goal, but this reorganization failed to bring about any alteration in the domination of the Kuomintang over the National Government, and maladministration and corruption, as well as a flourishing secret police, have continued as important characteristics of that government. Elections have been held on a national scale for the first time in Chinese history, but the somewhat questionable results can only strengthen the rule of the Kuomintang. The promulgation of the new Chinese constitution on 25 December 1947 was not accompanied by any operational changes because at the same time regulations were issued prolonging the status of the present government until the National Assembly, which convened on March 29, 1948, elects a new President of the Republic.

Further evidence of Chinese anxiety to obtain US help is a series of *démarches* made by Chinese officials to the US Embassy in Nanking. The urgency of the situation has been repeatedly impressed upon US Ambassador Stuart, and Chinese officials have expressed willingness to accept US control over the administration of any aid rendered. They have admitted the need for reform and promised its accomplishment, although continuing to reiterate that immediate assistance is essential to China's survival. Pessimism and despondency have characterized their attitude. Indeed, any action designed by the Chinese Government to combat or ameliorate China's increasingly grave problems appears to have been submerged in the insistent cries for help from the US.

The present endeavors on the part of the Chinese National Government to secure aid from the US are closely related to past events in China. The US had made several amicable gestures toward China in recent years: in January 1943, for example, the US relinquished all extraterritorial rights in China. At the same time, the US removed another source of irritation to the Chinese when it ended the absolute prohibition on Chinese immigration and substituted a quota calculated on the same basis as those of other countries. In December 1943 the Cairo Declaration, issued after a conference attended by the US, China, and the UK, stated that "all territories Japan has stolen from the Chinese, such as Manchuria, Formosa, and the Pescadores, shall be restored to the Republic of China." Finally the US took the lead in according to China one of the five permanent seats in the UN Security Council, marking a great advance for China over her position at the Paris Conference in 1919.

However, the Chinese Government wants more from the US than periodic payments given with the view to sustaining China as a buffer against Communism. The Chinese feel that such a policy could make China into a battleground of World War III, an eventuality which they fear acutely. The hope of the National Government is not merely that it will be granted sufficient aid to strengthen its present precarious domestic situation — although it does hope for that — but also that the US and the USSR will arrive at a solution of their basic disagreements which will permit China to establish

normal relations with them and with the rest of the world. China does not want to have its problems considered as part of the over-all conflict between the US and the USSR, and fears that if the US takes this view China may be left on the firing line against Communism, while the US takes up its stand in Japan, bolstering that nation and leaving China to fight the threat as best it can.

The close association of the US with events in China at the end of the war with Japan has also led the Chinese Government to the hope of US assistance at the present time. After VJ-Day, when Nationalist and Communist troops rushed to reclaim the areas which the Japanese were evacuating, US ships and planes transported Nationalist armies — many of which were US-trained and equipped — to various key areas of China to accept the Japanese surrenders locally. Some Nationalist forces were taken to strategic places in North China, from which they advanced into central Manchuria. Large numbers of US troops were maintained in China to repatriate a million and a half Japanese soldiers, plus about the same number of Japanese civilians who were scattered through hundreds of important cities and towns.

In December 1945, when the conflict being fought over the areas evacuated by Japan threatened to spread to full-scale civil war, General Marshall was sent by the US as special envoy to China to attempt to find a solution to China's internal problems. This mission was undertaken, in the words of President Truman, to aid in the establishment of a "strong, united, and democratic China." This mediation effort, in which he was assisted by J. Leighton Stuart, who was appointed Ambassador on 12 July 1946, met with failure. When leaving China in January 1947, General Marshall declared that:

> "the greatest obstacle to peace has been the complete, almost overwhelming suspicion with which the Chinese Communist Party and the Kuomintang regard each other . . . . On the side of the National Government, there is a dominant group of reactionaries who have been opposed, in my opinion, to almost every effort I have made to influence the formation of a genuine coalition government. . . . The dyed-in-the-wool Communists do not hesitate at the most drastic measure to gain their ends."

The Government and Communist rivalry reflected the difference between US and Soviet policies in China. Soviet troops remained in Manchuria after 1 February 1946, the agreed date for their withdrawal. On 26 February 1946, Secretary of State Byrnes denied any knowledge of a Big Three agreement authorizing removal by the Soviets of machinery in Manchuria, the direct loss of which was estimated at $858 million. This removal in effect amounted to complete stripping of Manchurian heavy industry by the USSR. When the Soviet troops withdrew from Manchuria, their movements were timed so that the Chinese Communists would most benefit by them, and a considerable amount of captured Japanese equipment was allowed to fall into Communist hands.

Soon after General Marshall left China, all US troops except an Advisory Group in Nanking and a Naval Training Station in Tsingtao, were withdrawn. In January 1947, also, the US gave up its efforts at mediation in China's internal affairs. In

December 1946 the US signed a "Treaty of Friendship, Commerce and Navigation" with China, a treaty described as the "first postwar comprehensive commercial treaty to be signed by either government . . . including articles relating to establishment, land-holding and industrial property, commercial articles similar in principle to the general provisions of recent trade agreements, and more detailed coverage of exchange control, the activities of government monopolies, and other matters." The treaty based on principles of reciprocity and most-favored nation treatment, has not yet been ratified.

Some months after General Marshall's mediation effort, General A. C. Wedemeyer headed a mission which toured China and reported on conditions there. Wedemeyer issued a statement on 24 August 1947, which was very critical of the National Government, and urged the Chinese to "seek solutions to the problems presented" themselves rather than looking to outside nations for help. As a stop-gap measure, the US Congress voted on 19 December 1947 $18 million in interim aid to China. The implementation of that sum, however, as well as the formulation of a long-range plan to assist China, had not been determined at the close of the year 1947.

In general, trends in 1947 placed Sino-US relations in a new light. In Europe and the Middle East, the US took a firm stand against Soviet expansion, and this stand has had reverberations on the China situation. The Chinese Communists had a successful year, improving their military positions and expanding their holdings in Manchuria, and in North and Central China at the expense of the National Government. These two developments clearly pose the present problem central to US-Chinese relations: would the US take strong anti-Communist measures in China? If so, granting the peculiar nature of the Chinese scene, what form would such measures take? The intensely nationalistic Chinese resent foreign supervision (some evidence of this was given in widespread anti-US feeling in China in late 1945 and 1946) and already suspect the US of building up a strong Japan as a bulwark against the USSR, leaving China unaided. These problems, and efforts made toward their solution, may be expected to characterize US-China relations in the future.

4. RELATIONS WITH JAPAN.

China's policy toward Japan is motivated by the basic and deep-seated fear that Japan will rise again to carry to China an aggressive war with all its concomitant evils. This basic fear is inherent in China's covert apprehension of Japanese capacity for discipline, unity, and progressive urgings, from which derive, in large measure, their spectacular accomplishments during the modern era. At the same time China is acutely conscious of its own failings in these essentials. This Chinese fear has found two main expressions. The first of these is China's growing apprehension that the US will turn from China to Japan as an alternative in the search for a friendly, strong, stabilizing influence in Asia. China believes it sees a growing tendency in US official circles toward this alternative, and intends if possible to dissuade the US from this course in the hope that China may yet become heir to Japan's past position of dominance in the Far East.

The second motivating force behind China's policy toward Japan, closely related to the first, is China's concern over the possibility that its once powerful neighbor will again assert industrial preeminence in Asia. In this event, China feels it will be relegated to a position of secondary economic importance in Asia. Fear of such a consequence will probably lead China to use its influence, as far as possible, to prevent Japan's recovery as a strong industrial power. Nevertheless, China well knows that some trading with Japan, especially in the importation of cheap Japanese-made consumer and industrial goods as they become progressively available, would operate toward an amelioration of China's present desperate economic situation.

China is also aware that Japan's geographic position, dominating the exits and entrances to the Sea of Japan and Yellow Sea, constitutes a threat to China's security. The possibility of the establishment of a hostile government in Japan, either (a) because of a resurgence of military power or (b) because of eventual Communist domination of that country, continues to be a cause of concern to China. Press opinion in China is overwhelmingly concerned with fear of renewed Japanese aggression, and has recently warned that the power of the Zaibatsu remains unbroken, war criminals remain unpunished, and Japan remains ambitious to regain her former status.

With regard to the question of a peace treaty for Japan, China is now caught between the conflicting interests of the US and the USSR. The USSR proposed a Foreign Ministers' Conference to initiate discussions with any of the four powers present having the right to veto. The US, on the other hand, proposed an eleven-nation conference, with a two-thirds majority sufficient to carry a motion and no veto power. China, in an endeavor to find a common ground between the two positions, has suggested an eleven-power conference, with the USSR, the US, China, and the UK maintaining the right to veto, an organization similar in structure to the Far Eastern Commission. The UK, however, has rejected the Chinese suggestion, and at present the situation is deadlocked, with China maintaining its insistence on the right to veto. The present stalemate on the treaty issue may continue for some time.

China will doubtless continue to seek US aid in the future, and as long as the possibility of obtaining such aid exists, China will be reluctant to oppose the US position on any major issue such as the Japan treaty. On the other hand, China is very conscious of the strong Soviet position in Korea and Manchuria, and will exert its efforts to bring about Soviet participation in the peace conference, in order to have the treaty guaranteed by all the great powers. Chinese officials have stated that the USSR has exercised "unremitting pressure" on the Chinese Government in respect to the treaty negotiations.

Whether or not China will remain aloof from a conference not attended by the Soviets appears to be in some measure contingent upon the prospects of long-range US guarantees to China. However, China doubtless is aware that the nature of the peace made with Japan is of deep concern to her well-being, involving as it does long-range Chinese national security; consequently, China will proceed with caution.

Regarding Japan's future geographic limitations, China believes that Japan should be reduced to the four main islands, as advocated by the Cairo Declaration. Without

special interest in the Kuriles, China, for the sake of consistency, will probably oppose the return of the Southern Kuriles to Japan. China has already voiced her claim to the Ryukyus and undoubtedly will press this claim at the Peace Conference. Other Chinese contentions adduced in support of this claim are (a) that the Ryukyus are essential to China for strategic purposes; and (b) that China has an historical and ethnological claim to the islands. China, however, does not now have the capacity to assume administrative nor protective responsibilities abroad, and the weight of historical and ethnological evidence is more in favor of a Japanese claim for control of the islands. The Chinese claims, therefore, may be ascribed to (a) motives of prestige, and thus a desire to vindicate its status as a "Great Power"; (b) the desire to distract Chinese popular attention from the domestic maladministration and corruption; and (c) use as a bargaining point in the Japanese Peace Conference.

China probably will also endeavor (a) to have its occupation of Taiwan (Formosa) legalized by treaty; (b) to obtain specific renunciation of Japan's extraterritorial rights, privileges, and concessions in China; and (c) to secure its present claims for 40 percent of reparations chiefly out of current Japanese production.

China has been apprehensive of Russian and Japanese designs on Korea since the closing decades of the last century when all three were imperial powers, knowing that a potentially hostile control of the peninsula constituted a threat to Manchuria and North China. Today, with the elimination of Japanese rule over Korea, China has even greater misgivings regarding the designs of Soviet Russia in that territory because of the greater ambition and potency of the USSR as compared with its imperial predecessor and its use of native Communists to further its schemes.

The Cairo Conference, Potsdam Declaration, and Foreign Ministers Agreement at Moscow in December 1945, all predicated an independent Korea which would allay China's fears. However, with the establishment of a Soviet-dominated North Korea regime, and its ultimate recognition by the USSR, it is natural for China to be making frantic efforts to keep at least southern Korea from being absorbed into the Soviet sphere through insisting on elections in that area and requesting the retention of US armed forces there to protect the duly elected government. China regards any action by the UN as without practical value and as leading to indefinite delay which would give the USSR time to improve its position in Korea. At the same time China wishes to force the US to take a positive stand designed to check Soviet aims in Korea and Manchuria.

5. RELATIONS WITH UK.

The single outstanding issue in the relations between China and the UK is the question of the return of Hong Kong to Chinese rule, as part of an over-all campaign for the resumption of sovereign rights over all of Chinese territory. While no formal request has been made to the UK by China for Hong Kong's return, occasional agitation in the press and speeches by officials keep the issue alive, and often serve to distract public attention from domestic troubles.

At present Hong Kong is of considerable commercial importance to the UK, especially in view of its postwar hunger for foreign exchange, and the facilities which the

open market at Hong Kong offers in these transactions and also because of the altered pattern of the British Far Eastern empire. Moreover, Hong Kong has some value as a naval base; it is a first-class shipping port, entrepôt, and distributing center; and, under British administration, it has been a veritable oasis of security and stability in the desert of Chinese ineptitude and misrule. Because of its economic prosperity, Hong Kong may be of more value to China under British control than if it reverted to the Chinese, who certainly could not continue the present honest and efficient administration. This fact is recognized by Chinese interests to which Hong Kong presents an opportunity, rarely found in the rest of China, to conduct normal business on a profitable basis. The influence of those interests in the Chinese Government may account, in part, for the failure of China to send a formal note to the UK urging the restitution of Hong Kong.

There is, however, a considerable volume of smuggling from Hong Kong (which is a free port, except for certain excises) into Chinese territory. Moreover, a very large black market and illicit trading in exchange exists at Hong Kong beyond the reach of the Chinese Government. Hence that government has been endeavoring to negotiate remedial and preventive measures with the Hong Kong authorities. In passing, it may be safely predicted that if a free and secret ballot could be conducted among the Chinese residents of Hong Kong (who constitute an overwhelming majority of its inhabitants) the result would be an almost unanimous vote in favor of the retention of British governance.

The role of the UK in China has become increasingly less influential since the war years, until at present the UK has no longer the power nor resources necessary to pursue a strong and independent policy in that part of the world. In general, the UK proposes to keep in step with the China policy of the US. In 1943, at the same time as the US, the UK relinquished extraterritorial rights in China. In 1945, the UK, with the USSR and the US, signed the Moscow Declaration, recognizing the need for a unified China under a National Government broadened to include democratic elements, and pledging noninterference in Chinese internal affairs.

However, at present the UK fears involvement with the USSR, and this fear, along with its commitments and anxieties elsewhere, coupled with straitened economic circumstances at home, would probably preclude the UK's active intervention in the China scene. The UK desires a return to a normal trade relationship with China, and is evidently restive over China's economic plight. Nevertheless, the UK is not in a position to grant extensive credits to China at this time.

Notwithstanding the decline of British power in China, British business will continue to be a formidable competitor in that country. In a century of British trade in China, its subjects have been pioneers, and were for long preeminent in the main branches of business; in banking, shipping and shipbuilding, in the importation of machinery and other capital goods, in textiles, insurance, and in the export of China products. British firms thus have acquired a unique knowledge of the widely ramified Chinese markets with their peculiarities and subtleties, and by honesty, accommodation, and versatility have won the respect and confidence of their Chinese customers. As

previously indicated, Hong Kong has been a valuable asset in promoting British economic developments in China.

Another feature in Britain's favor is the fact that her factories are geared to the production of limited quantities of goods of great variety in quality and pattern, rather than to the mass production so common in the US. Hence Britain is able to supply, at competitive prices, restricted quantities of commodities of wide diversity to meet a demand which has been much in vogue in the China markets.

In the future, the Hong Kong issue and commercial problems will probably continue to dominate Sino-UK relations. Chinese agitation for the return of Hong Kong may continue to break out periodically at inspired moments. However, whether or not China will make a formal overture to the UK for the surrender of the Crown Colony will depend, in large degree, on the broader question of China's internal stability, and on the ability of the National Government to exercise an effective writ of authority throughout the land. In any event, there is little possibility that the UK will give up Hong Kong in the foreseeable future.

The first steps in the establishment of the UK's extensive prewar commercial relations in China have already been taken. A commercial treaty, along the same lines as that recently concluded between China and the US, is at present under discussion between China and the UK. Problems such as inland navigational rights, coastal shipping, restitution of UK property, and the extralegal activities at Hong Kong previously mentioned, will probably be the major issues between the two nations for some time. The UK has possessed very extensive economic interests in China, and the refusal of the Chinese to allow any foreign vessels to conduct coastal and river trade, as well as the restrictive measures on the operations of these interests, have been very costly to British enterprises and investments. The UK may be expected to continue its endeavors toward the resumption of regular coastal and riverine traffic.

6. RELATIONS WITH INDIA AND PAKISTAN.

China, as a so-called "Great Power", and the dominions of India and Pakistan with their newly acquired independence, are alike conscious of the importance of promoting international prestige. The first two are exponents of the kind of Pan-Asianism which will assign them leading roles in the movement to keep Western nations from resuming or maintaining domination in the Orient or of pursuing policies savoring of racial prejudice. Pakistan undoubtedly is sympathetic to this doctrine but in a passive way, believing that its cardinal interests demand a close working integration with the policies of the Occidental Powers.

However, the prevailing and progressive weakening of China, and the internecine strife between India and Pakistan, coupled with considerations of political, economic, sociological, and military factors, will continue to impel the governments of all these countries to orient themselves toward the Western Powers, especially toward the policies of the US, even if it means at times the subordination of their own predilections, and the adoption of different attitudes on questions of common interest.

Thus no marked development in the political and economic relations between China and the Dominions of India and Pakistan can be expected in the foreseeable

future. Embassies have been established in Nanking and New Delhi, and a Sino-Indian Commercial Treaty is now under negotiation.

There is a report that in the Sinkiang Province of China, certain Moslem elements favor a closer relationship with the bordering Moslem States of Afghanistan and Pakistan, but these elements are believed to be tenuous and of no great political power.

7. RELATIONS WITH STATES OF SOUTHEAST ASIA.

A source of international friction in the Far East, which has gained new prominence since VJ-Day, is the long-standing Chinese minority issue in Southeast Asia. This issue centers about 4,500,000 Chinese, and millions more of part-Chinese strain, who for many years have occupied an unusually strong economic position in Southeast Asia countries, built largely about their domination of the entrepreneur trades. The Chinese maintained this strong position even through the long Japanese occupation.

The successful economic activities of overseas Chinese, as well as their disposition to live in isolated political and cultural groups and retain strong ties with China, have been a recurrent source of irritation to the natives of Southeast Asia and have on many occasions led to the imposition of restrictive measures by the local governments. Since VJ-Day, the upsurge of nationalism throughout this region has been accompanied by revived resentment against the alien Chinese, who continue to cling to their own nationality, customs, and language, stubbornly resisting assimilation. Anti-Chinese riots and demonstrations have taken place in the Netherlands East Indies, Malaya, and Siam; in the Philippines, there has been an increasingly spirited press campaign against the Chinese since Independence Day. In all Southeast Asia countries, public opinion has been demanding official restrictions on Chinese immigration, dual citizenship rights, and economic and political activities.

Both in the prewar period and since VJ-Day, the Chinese Government has attempted—by diplomatic representations, propaganda campaigns, and other *ad hoc* measures—to defend its nationals abroad against discrimination and ill-treatment. Its efforts, however, have been seriously undermined by its preoccupation with the adverse political and military situation in China itself, and its failure, for this reason, to formulate and execute a well defined policy on behalf of Chinese minorities abroad. Moreover, these minorities themselves, vitally interested in affairs at home, have split into much the same political factions as exist in China. The existence of strong rival Kuomintang and Chinese Communist organizations in Southeast Asia not only has aggravated native resentment there but also has prevented the overseas Chinese from forming a united front against local pressures. The local governments' resentment against the Chinese has lately been aggravated by a Chinese Government plan, based on the "dual nationality" concept, to enable its nationals overseas to participate in China's first national election, held in November 1947. The native governments in Southeast Asia protested against any plan for Chinese to cast votes in this election as a violation of national sovereignty in the country of residence.

Notwithstanding China's unfavorable internal situation, the National Government can be expected to make greater efforts in the future on behalf of overseas minorities,

who represent both a valuable economic asset and a potential tool for the extension of China's influence in Southeast Asia. Undoubtedly, these efforts will be vigorously opposed by nationalist groups in Southeast Asia and hindered by China's internal conflict and its overseas counterpart. Another complication is the basic dichotomy which confronts the Chinese National Government: the desire on the one hand to lead the countries of Southeast Asia to independence and freedom from colonial domination, and the realization, on the other hand, that the Chinese nationals in these areas need the protection of the homeland to carry on their business activities. This problem will continue in the future to present the National Government with a dilemma of which there can be no easy solution.

The foregoing premises are basically applicable to the Chinese communities through Southeast Asia, but there are additional specific factors which add to the minority problem, and are peculiar to the respective countries.

a. Indo-China.

Following the Japanese surrender, Chinese policy was directed toward the establishment of a regime predominantly under Chinese influence, or even under some form of direct Chinese control. One of the principal objectives of this move was to block the expansion of Communist influence and the possible establishment of a Communist-dominated regime under Ho Chi Minh, whose Viet Minh (League for the Independence of Vietnam) had seized power following the Japanese surrender and who, reportedly, had Communist affiliations.

However, subsequent to the withdrawal in mid-1946 of Chinese armed forces which had been occupying the northern portion of the country and the development of China's internal difficulties, the Chinese Government was not able to exercise the requisite pressure for the promotion of this policy, and at present it cannot exert much influence in support of any of the rival claimants for power in the country. Probably, the Chinese Government would prefer Ho Chi Minh if he would declare himself openly against the Communists and in favor of special economic privileges for China.

b. Siam.

Chinese policy toward Siam is predicated primarily on the presence in Siam of a large number of relatively unassimilated Chinese who are mainly concentrated in and around Bangkok. Their strong hold on the Siamese economy enables China to bring heavy unofficial pressure to bear on the Siamese Government to promote the social and economic well-being of Siam's Chinese and places China in an advantageous bargaining position in the negotiation of Sino-Siamese agreements.

Until January 1946, when the Sino-Siamese Treaty of Amity was signed, Siam consistently avoided the establishment of formal diplomatic relations with China for fear that a duly accredited Chinese representative might be successful in uniting the various Chinese factions into a body capable of creating serious trouble for the Siamese Government. Siam's Chinese now have acquired an official spokesman and mentor in the person of the Chinese Ambassador. Apart from exchanging Ambassadors and establishing an immigration quota for China at 10,000 per year, however, neither country has attempted seriously to implement the Amity Agreement.

The present Siamese regime, installed by the November 1947 *coup d'état,* led by Marshal Phibul, has confronted the Chinese Foreign Office with a most serious problem because of Phibul's past record. His former regime (1938-44) was noted for anti-Chinese legislation and open discrimination against Chinese business.

c. Indonesia.

Pending the settlement of Dutch Republican differences in Indonesia, the official attitude of the Chinese Government has been chiefly one of concern over the fate of at least a half million Chinese, and their vested interests, in Java and Sumatra. During the course of the Dutch "police action" and the application of the Republican scorched-earth policy in the summer of 1947, Chinese appear to have borne the brunt of the damage, both in loss of life and destruction of property. The Chinese Foreign Office instructed its nationals in affected areas to observe a strict neutrality, while it lodged formal protests with both Netherlands and Republican officials.

d. Philippines.

Postwar relations between China and the Philippines have been strained by a series of nationalistic acts and proposals of the Philippine Congress and rulings of the Philippine Supreme Court directed primarily against Chinese. One of the most drastic has resulted in the termination of the licenses of about 1,000 Chinese stallholders in the Manila markets. The Chinese Government formally protested the execution of this law, which was considered the first of a series leading toward nationalization of the retail trade and exclusion of the Chinese who are estimated to control 80 percent of all commerce in the islands. Another proposed law, later vetoed by the President, would have forced Chinese-owned enterprises to pay 60 percent of their pay rolls to Filipino personnel.

The Philippine Congress also has threatened to make further reduction in Chinese immigration, now limited to 500 annually, and the government has refused to readmit several thousand former permanent Chinese residents who were detained in China during the war in spite of appeals from UNRRA and the United Nations Refugee Organization.

The effects of this legislative trend have been further aggravated by a recent Philippine Supreme Court ruling that aliens are prohibited by the Philippine Constitution from acquiring residential lands. Despite this trend, China has extended recognition to the new Republic, has exchanged diplomatic missions and consular officers, has ratified a Treaty of Friendship and Amity, and is continuing negotiations on bilateral trade and economic agreements.

e. Malaya.

The Chinese form the largest single racial group in Malaya and also are the most politically conscious population element therein, with correspondingly large economic interests. At present the Chinese of all political factions are opposing the newly established Malayan Federation on the grounds of its restrictive citizenship laws, its failure to accord to the Chinese a representation in the government commensurate with their numbers and vested interests, and because Singapore, with its large number of Chinese inhabitants, has not been included in the Federation.

f. Burma.

China and Burma have a long-standing border dispute, and in recent months China has been active in preparing for surveys within the disputed territory, in installing landmarks, and in establishing new customs posts therein. However, despite somewhat chauvinistic statements on both sides regarding the dispute, the ultimate result probably will be a compromise slightly favoring the Chinese.

Chinese conciliation in this controversy probably will determine the Burmese attitude on such other issues as (1) Burmese cooperation in preventing the smuggling of contraband by Chinese in Burma across the northern borders; (2) Burmese reconsideration of measures to regulate and restrict the Chinese economic stake in Burma. The recent establishment of diplomatic missions in Nanking and Rangoon should facilitate amicable settlement of all these and any other issues.

8. CHINA'S PARTICIPATION IN INTERNATIONAL ORGANIZATION.

China has been an active participant in recent attempts at international organization, seeking through international cooperation a more influential world role than its own internal strength can sustain. It participated in the Dumbarton Oaks Conference of 1944, and became an original member of the United Nations in 1945. Under the terms of the United Nations Charter, China has permanent membership in the Security Council, and, therefore, in the Trusteeship Council and the Military Staff Committee. It also has important positions on the Atomic Energy Commission, the Economic and Social Council, the Secretariat, the Specialized Agencies, and the International Court of Justice.

As a member of the United Nations, China has favored revision of the veto power, creation of an effective international police force, and extensive application of the trusteeship program. In the Second Annual Session of the General Assembly in the autumn of 1947, China attempted to break the veto deadlock in the Security Council by proposing to enlarge the scope of procedural matters, which are not subject to veto, and to prevent the use of the veto to block a Security Council request for a special General Assembly session. The "Little Assembly" also received active Chinese support. Chinese international responsibilities were increased when Chinese representatives were named to the six-nation working group for Jerusalem, to the Special Balkan Committee, and to the Korean Independence Commission. In this session, China, for the most part, voted with the US but took an independent stand on some controversial issues, including the partitioning of Palestine, where the Chinese abstained from voting, and the resolution condemning the treatment of Indians in South Africa, which China supported.

China has also been participating in the international conferences of the various UN Specialized Agencies. Both 1947 ECAFE meetings were presided over by a Chinese chairman who worked for unity and harmony within the conference. However, China has tended to take more of a passive role in these conferences rather than assume initiative.

China's position as a member of the Big Five and a permanent member of the Security Council is out of proportion to its internal strength and effective power in inter-

national affairs, and was obtained to a great extent through the good offices of the United States. Its position and aspirations in relation to its allies and the world in general is one of prestige rather than of true power. It cannot expect to enjoy the full benefits of its newly won international position until it has solved the pressing internal problems that have been brought about not only by Japanese aggression, but also by its own failure to solve its internal political disputes, and to evolve honest and efficient government.

China's alignment with the US in the UN is based on the hope that the US will once more underwrite, and back with force, China's sovereignty and territorial integrity. China was the only great power to accept without reserve the US plans that the UN Atomic Energy Commission should retain complete jurisdiction over all weapons of mass destruction. It also has acquiesced in the US request for a trusteeship over the former Japanese island possessions in the Central Pacific.

APPENDIX A

TOPOGRAPHY AND CLIMATE

China occupies 3,700,000 square miles in eastern Asia, an area about one-fourth larger than that of the continental US. To the north lie Siberia and the Mongolian People's Republic (formerly Outer Mongolia); to the west is Russian Turkestan; and to the southwest and south the well-nigh impassable barrier of the Himalayas forms the boundary between Tibet and India. Burma and French Indochina border it on the south and the China and Yellow Seas on the east. China extends for 1,860 miles from north to south and for more than 2,500 miles from east to west. Its coast line, including indentations, is more than 5,000 miles long.

China has a wide latitude range. If the country were superimposed on North America, it would reach from Puerto Rico to central Quebec. The island of Hainan is about as far south as Puerto Rico, and Northern Manchuria is but 13° south of the Arctic Circle. Canton and Hong Kong are within the tropics, in the latitude of Havana. Shanghai is on the parallel of Savannah; and Chungking, farther west, is on that of San Antonio. Tientsin and Peiping are in the latitude of Washington; Mukden in that of Albany; and Harbin in that of Montreal. The most important areas of China are somewhat farther south than the most populous parts of the US.

China is composed of 34 provinces (which include the nine that were formed from the three provinces of Manchuria) and the special territory of Tibet. In addition, Taiwan (Formosa) is in effect a province of China, but *de jure* sovereignty over this island is to be established by the Japanese Peace Treaty. Nanking is the seat of the National Government.

In 1936 China's estimated population was 456,985,475, or more than three times that of the US. Kiangsu Province, in which Shanghai is situated, is more densely populated than any comparable political unit in the world, having a population density of 872 to the square mile. China is essentially agricultural; but it is also potentially one of the foremost coal countries in the world, with reserves estimated at 250 to 300 billion tons.

a. Topography.

China may be divided into three primary geographic areas: (1) North of the Yangtze River, (2) South of the Yangtze, and (3) West China. These comprise seven great topographic regions that are discussed below under the primary area in which they are contained.

(1) *China North of the Yangtze River.*

Region 1. The Manchurian Plain and Bordering Uplands.

The Manchurian Plain occupies central Manchuria and is 138,000 square miles in area, with its greatest length from north to south measuring 600 miles and from east to west 400 miles. It is an erosional plain with rolling topography, quite different from the very flat Yellow River Plain of alluvial origin. Except for three narrow gaps

the Manchurian Plain is everywhere surrounded by mountains. On the east are the Long White Mountains, to the north is the Little Khingan Range, to the west is the Great Khingan Range, and to the southwest are the mountains of Jehol Province. The eastern Manchuria uplands, about 200 miles in width, extend northeast from the Liaotung Peninsula for 850 miles, almost to the confluence of the Amur and Ussuri Rivers. The highest elevations are along the Korean frontier, where the volcanic peak of Paitou Shan rises to 8,990 feet. The uplands bordering the Manchurian Plain on the north and west cover 168,000 square miles. The elevations are commonly about a mile high, but the local relief is less than 1,000 feet. The Great Khingan Range area extends along a north-south axis. Toward the south this is largely the upturned edge of the Mongolian Plateau; farther north the region widens and is less perfectly known.

Region 2. The North China Plain includes Hopeh and Shantung Provinces, most of Anhwei and Kiangsu, and part of Honan and Hupeh. This great plain stretches south from Linyu on the east coast of Hopeh to the Yangtze River Delta. Inland it is bordered on the northwest and west by the Great Wall and by Shansi Province as far south as the Yellow River, then southward by the eastern slopes of the Funiushan and the Tapashan. The Yangtze River and its lake region constitute the southern limit. With the exception of the Shantung Peninsula and central Shantung, the entire area is low-lying and flat, bare of trees, highly cultivated, and densely populated. In northern Anhwei and eastern Honan the land is hilly. The southern and eastern sections contain numerous waterways and lakes. The only mountains in the North China Plain are in central and eastern Shantung. These form more or less isolated blocks and have no connection with the Chin-ling and other ranges to the west.

Region 3. The Gobi-Ordos Plateau includes the Provinces of Ningsia, Suiyuan, Chahar, Shansi, and part of Shensi. It is an elevated arid region characterized by desert conditions and by the presence of *loess,* or "yellow earth." It is bounded by the Mongolian Republic on the north, by Kansu on the west, by the Wei Valley and a small section of the Yellow River on the south, and by the Great Wall and Hopeh Province on the east. The eastern strip of this great area is hilly, with mountains that reach 8,200 feet in height flanking the Fen River. Because of frequent dust storms, *loess* has been carried by the wind from the desert and deposited in deep pockets and thin coverings all the way from Taiyuan down the Fen River to the Wei River Valley in Shensi and to the east as far as Hopeh. The fertile *loess*-covered uplands as a whole form a broad semicircular belt from Jehol in the east to Kansu in the west, occupying nearly one-third of the total area of Inner Mongolia.

Region 4. The Central China Basin includes most of the province of Szechwan and parts of Shensi and Hunan. It comprises some of the most fertile country in China, and the whole region is densely populated and self-contained. It includes the Red Basin of Szechwan, which is a depression surrounded on all sides by the high mountains of western China. Its main rivers are four left-bank tributaries of the Yangtze, which give Szechwan its name, meaning Four Rivers. It is a vast basin of red sandstone (whence its name, Red Basin) divided by river action into uplands

and broad fertile valleys. The region is difficult of access; its only natural connection with the eastern part of the country is by the Yangtze Valley.

(2) *China South of the Yangtze River.*

Region 5. The South China coastal region includes Chekiang, Fukien, Kwangtung, and Kiangsi Provinces and parts of Hunan, Anhwei, Kiangsu, and eastern Kwangsi. With the exception of the Canton Delta, the country is higher and hillier than that north of the Yangtze, ranging in elevation from 1,600 to 3,300 feet. Extending diagonally across the coastal region southwest from Ningpo on the Chekiang coast to southern Kiangsi and Hunan, is a series of ridges that, after crossing Chekiang and Kiangsi, follow the Kiangsi-Kwangtung border until they meet the highlands of southwestern Hunan. From this point westward they continue their upward trend until they reach the heights of the lofty Himalayas of northern India. The Yangtze and the Hsi (West) are the two great rivers of this southern region, which, because of its abundant water and good soil, is highly cultivated.

Region 6. The broken highlands of Southwest China include Kweichow and Yunnan Provinces, western Kwangsi, and the southwestern tip of Szechwan. The term "broken highlands" both describes the abrupt character of the land and emphasizes the average high level maintained. The over-all land level in southern Yunnan slopes upward toward the north, from 6,500 feet to 8,200 feet. The many valleys in the southern section are those of the headwaters of the Fuling (Red) and Hsi (West) Rivers. Here, the general trend of the main blocks is southeast to northwest. Kweichow is also very mountainous, with a great semicircular range extending from the western limit of the province to the northeast corner around the broad curve of the Wu River on its sweep to the Yangtze. Along the Yangtze in northeastern Yunnan the country is low and damp and, in general, sparsely inhabited. On the high plateau along the shores of the lakes, the climate is healthful and the country more thickly populated. Forests and shrubbery cover most of the slopes.

(3) *West China.*

Region 7. The high mountain region of West China, which includes Sikang, Tsinghai, Kansu, and Sinkiang Provinces, and Farther Tibet, occupies by far the greater part of West China. It comprises the vast expanse of high plateau and mountains north of the Yunnan border and west of the Central China Basin as far north as Ningsia. Some of the highest mountains in the world—rugged, bare, and with many peaks perpetually snow-covered—form part of this sparsely populated mountain system. The central plateau of Tsinghai is occupied in its southern half by the great Tsaidam marshes, the source of the Yellow River. The great lake of Koko Nor lies east of the marshes. In Farther Tibet, to the west of Tsinghai and Sikang, lies a series of rugged mountains and basins. The vast province of Sinkiang, in the northern part of the region, consists of the broad desert plateau of Takla Makan, which is surrounded on all sides by mountains—the western Kunlunshan on the south, the Altaishan on the north, and the Pamirs and the Tienshan (9,800-16,400 feet) on the west. The latter penetrate inward from the western border at its middle point and extend all the way across the province.

b. Climatology.

Inasmuch as China is situated on the eastern side of the Asiatic continent and the prevailing air currents in winter are from the west, the climate in this season is not greatly affected by the ocean. In summer the heating of the central land mass gives rise to a low pressure area, which causes, to some extent, a reversal of the circulation. This is known as a monsoon.

The average number of typhoons striking the coast of China is one every other year in June; two a year in each of the months of July, August, and September; and one a year in October. They are infrequent in May, November, and December. There is reason to believe that typhoons are not destructive farther than about 200 miles inland.

Thunderstorms occur mainly from April through September, on an average of 20 days in the south and of 5 in the north. Maximum frequency is in the warmer months.

(1) *Temperature.*

In general, temperatures decrease from south to north and from the coast inland. In winter, average temperatures decrease from 65° F. in the south to about 20° F. in the extreme north. The lowest temperatures on record are about 32° F. in the south and about —45° F. in the north. In summer, average temperatures decrease from about 85° F. in the south to 65° F. in the north. The highest recorded temperatures are from 90° to 115° F.

(2) *Precipitation.*

In general, annual precipitation amounts decrease from southeast to northwest, from about 80 inches to 7 or 8 inches. In winter, precipitation ranges from about 10 inches in the southeast to an insignificant amount in the northwest; in summer, from about 50 inches in the southeast to less than 5 inches in the northwest. Most areas have a maximum rainfall in June or July and minimum precipitation in December or January.

(3) *Winds.*

Surface winds are mainly from northerly directions in winter, when air from the Asiatic High flows over China and out over the Pacific (winter monsoon). In summer a southerly flow prevails, with air flowing from the Pacific into the continental *low* (summer monsoon).

Winds at 10,000 feet are westerly in winter, with average speeds of about 17 knots. In summer they are from the northwest over north and central China and from the southeast over southern China, with speeds of about 9 knots.

APPENDIX B
COMMUNICATIONS FACILITIES

1. ROADS.

a. China Exclusive of Manchuria.

Although China is traversed in all directions by numerous roads, they are generally of poor construction. National trunk lines and other main highways are surfaced and suitable for all-weather traffic, but a majority of these would break down under military traffic. Earth-surfaced roads comprise about three-fourths of the total road mileage, which in 1943 was approximately 78,580 miles. Much overland traffic is still confined to cart roads and flagstone trails.

The construction of roads has gained considerable impetus in recent years. The shifting of the political and economical center of gravity of China to the west, as a result of the Japanese invasion, necessitated the development of an overland road net for transporting military supplies. Thus, Szechwan became the center of a new road system linked with the Yellow River and Yangtze Valleys and extending to the borders of the Soviet Union, Burma, and Indochina. Among the principal roads is the 700-mile long Burma Road, which runs from Kunming in Yunnan to Lashio in Burma. A motor road to the northwest is under construction. It is to connect Szechwan with Sinkiang and extend through that province to the Turkestan-Siberian Railway.

The Chinese road net is densest in the fertile lowlands of the northeast, in the Yangtze Delta, and in southern Kwangtung. Roads throughout China are gradually being improved, and new ones are under construction; but no progress is being made in the area where civil strife is under way.

b. Manchuria.

In this part of China the roads are generally of poor construction and are used mainly as an adjunct to the railroads. Most of the highways and roads are rendered impassable by winter snows and spring and summer rains. The highway system is weblike, radiating from important railway centers and major cities and in most instances paralleling railroads. Outlying areas are reached by secondary roads. At the end of 1937 there were 31,300 miles of roads, but only 6,560 miles were all-weather.

2. RAILWAYS.

China's inadequate transportation system has been largely responsible for the undeveloped state of most of her natural resources and general backward condition of her interior provinces. Prior to the war the total mileage of China's railways was approximately 10,000 and that of Manchuria 6,700. After two years of war the total operating network was reduced to 13,600 miles, of which nearly half was in Manchuria. The inadequacy of China's railroads is illustrated by the fact that before the war China had approximately 35 miles of track per million population compared to 1,780 in the United States and 218 in Japan.

As of January 1948, the operable railway mileage was as follows:

China	4,640 miles
Manchuria	4,174 miles
TOTAL	8,814 miles

	Under Nationalist control:	Communist Control:
In China	4,295 (92%)	345 (8%)
In Manchuria	125 (4%)	4,050 (96%)

Chinese railroads are mostly standard gauge and single track with the exception of the Peiping-Mukden and the Dairen-Changchun lines which are double track.

The railroads of China were almost all built by foreign companies and with foreign capital, but they were normally under the direction of the Chinese Government, except in Manchuria where after 1931 the South Manchurian Railway operated the lines for the Japanese Government. The efficiency of Chinese railways has always been very low. The equipment is old, schedules are irregular, service is poor, and accommodations dirty and overcrowded in most cases, the exception being the South Manchurian Railway which, under the Japanese, had a very high rate of efficiency. One of the primary objectives in the Chinese Communist war of economic attrition against the Nationalists has been the destruction of railroads. Consequently, most railroads around the operating war areas are either destroyed or rendered inoperable.

As shown in the Map Supplement, Tab 2, the best developed railway system in China proper is in the northern part of the country where the three main north-south lines of the basic railway net are connected by east-west lines. The heaviest concentration of railroads is laid north of the Yangtze River serving most generally the provinces to the east of Shensi Province. South of the Yangtze and roughly paralleling the river, railroads serviced the provinces between Chekiang and Kweichow but have been inoperable to through traffic since the war. Another line runs south from Hankow on the Yangtze River to Canton on the southern coast of Kwangtung. The western provinces and Tibet are without railways.

Of the North China lines, those of most importance are the (1) Tientsin-Pukou line which connects by ferry with the Shanghai-Nanking railroad; (2) the Peiping-Hankow line; and (3) the railway from Tatung in northern Shansi to Fenglingtu in southwest Shansi. The three main east-west railroads in the north are: (1) the Peiping-Suiyuan which runs from Peiping westward through Kalgan and Tatung to Paotou in Suiyuan; (2) the Shantung railroad which is the link between Tsinan on the Tientsin-Pukou line and the seaport of Tsingtao; and (3) the Lunghai railroad which is China's longest east-west line and which, under normal conditions, provides through rail service between Laoyao on the Kiangsu coast to Paochi in Shensi Province. Communist damage to these rail lines has been extensive, and the only railroads in China Proper which have consistently remained open to through traffic since the Japanese surrender are those from Shanghai to Nanking and from Canton to Hankow.

The railroad system of Manchuria is based on two main lines: (1) the South Manchuria Railroad which extends from Dairen on the southern tip of Kwangtung Peninsula

north to Changchun via Mukden; and (2) the former Chinese Eastern Railway extending from Harbin west to Manchuli south to Changchun and eastward to Suifenho, where a connection is made with the Soviet line running to Vladivostok. The old Chinese Eastern Railroad with various transverse lines, has remained open from Manchouli to Suifenho.

The lack of railway communications has contributed considerably to the slow strangulation of the economy of Nationalist China. Coal cannot reach power plants and industries of cities; the flow of exportable goods to the ports has been choked off to a serious degree; imported goods, including relief supplies, have piled up on the wharves of port cities. The long-term effect of the civil war on China's railway system, in general, is incalculable.

3. PORTS.

From the border of French Indochina to Ningpo, the coast of China is highly indented with many sheltered bays, rocky promontories, and offshore islands. From Ningpo northward to Manchuria the coast, in general, is the low border of the Yangtze and Yellow River Deltas, with mud flats, negligible harbor facilities, and little of the maritime activity that characterizes the southern coast.

The principal ports, proceeding from north to south are as follows: Dairen, Chin-Wantao, Tientsin, Taku and Tangku, Chefoo, Tsingtao, Shanghai, Ningpo, Foochow, Amoy, Swatow, Canton, and Hong Kong. There are many secondary ports, predominantly in the south, that are used by fishing boats, coastwise launch service, and trading junks.

Dairen is by far the largest port in Manchuria. Well sheltered and practically ice-free, it provides the finest general cargo shipping facilities on the north mainland, as well as the largest coal loading and fastest bunkering installations north of Hongay in Indochina. It is the principal terminus of the south Manchurian transshipment center for inbound and outbound cargo. Tsingtao has the best harbor in North China and meets all the requirements for a fleet and supply base. Shanghai, the principal port of Central China, is the natural outlet for the Yangtze Basin and so has become one of the world's largest ports. Hong Kong, a British Crown colony, is the best port in South China.

4. WATERWAYS.

a. China Exclusive of Manchuria.

Waterways, which in total mileage exceed the highway system, constitute the principal means of communication in this part of China. Their great advantage is that they extend far into the interior of the country where all other means of communication are often inadequate. From north to south, the main river systems of China are the Pei (Hai), the Huang (Yellow), the Huai, the Yangtze, and the Hsi (West), respectively. There are also numerous secondary waterways and coastal rivers. All five principal rivers traverse the country in a general west-east direction from the highlands of the interior to the sea, generally paralleling each other and forming adjoining drainage

basis. The Yangtze, 3,100 miles in length, is by far the most important. Steamers of 2,000 tons can reach Hankow 600 miles up the river throughout the year; and Ichang, 965 miles west of Shanghai, can be reached most of the year by vessels drawing not more than 10 feet of water. The Grand Canal is the only north-south waterway of importance. It connects the northern four of the five principal river systems.

b. Manchuria.

The internal waterways here serve only as an adjunct to the railroad net. The large navigable rivers freeze over in the winter months; but during their navigable periods (April to October) most of the rivers serve as arteries for small-boat shipments. During the winter some over-the-ice vehicular traffic is carried on. The three principal river systems are the Hei Lung (Amur), which is deep and navigable by steamers; the Liao, which is shallow and used principally by junks; and the Yalu, on which navigation is confined to the lower sections.

5. CIVIL AVIATION.

a. Aviation Conventions.

China is a member of the International Civil Aviation Organization.

b. Bilateral Civil Aviation Agreements.

US—Signed at Nanking 20 December 1946. Fifth Freedom granted—no restriction on number of trips or rates.

US airlines are given three stops: Shanghai, Tientsin, and Canton. The following routes are specified:

US (1) US to Tientsin and Shanghai to the Philippines as well as beyond Shanghai via route 3.

(2) Over a Pacific route to Shanghai and Canton and beyond.

(3) Over an Atlantic route via intermediate points in Europe, Africa, Near East, India, Burma, and Indochina to Canton and Shanghai and beyond. Chinese air lines are given three stops in the US; San Francisco, New York, and Honolulu and the following three routes:

China (1) over a Pacific route via Tokyo, Kurile Islands, Aleutian Islands, and Alaska to San Francisco and beyond.

(2) Over a Pacific route via Guam, Wake to Honolulu, San Francisco, and beyond.

(3) An Atlantic route via Indochina, Burma, India, Near East, Africa, and Europe to New York and beyond.

The Chinese are seeking to amend the Sino-US bilateral agreement on the basis that Hong Kong-Shanghai traffic is cabotage. The US will not give up the right to Fifth Freedom traffic which it considers essential to US world routes. The Chinese say that the fact that they allow Hong Kong-Shanghai traffic to US lines means that they will have to grant the same privileges to Siamese and Dutch, and competition for Chinese lines would be ruinous. In addition, China has bilateral agreements with France, the Netherlands, UK, and Siam.

c. *Air Lines (Domestic).*

(1) *China National Aviation Corporation (CNAC).*

Established in 1929, in 1930 the company was reorganized with the Chinese Ministry of Communications owning 45% and the US-owned China Airways Federal Inc., 55%. In 1931, China Airways sold its interest to Pan American Airways. From February 1943 to October 1945, CNAC flew lend-lease supplies for the Chinese Government under contract to the US ATC. At the end of the war, American capital in CNAC was reduced to 20%. However, American pilots and technicians still constitute an important part of CNAC personnel.

(2) *Central Air Transport Corporation (CATC).*

The Eurasia Aviation Corporation, predecessor of CATC, was a Sino-German organization, 66 2/3 % of the stock of which was owned by the Chinese Government and the remainder, 33 1/3 % by *Deutsche Lufthansa Gesellschaft.* This corporation was established in 1931 and on 1 March 1943, the Chinese Government officially took over the German interest and renamed the Corporation the Central Air Transport Corporation.

(3) *CNRRA Air Transport or Civil Air Transport.*

CNRRA Air Transport or Civil Air Transport (CAT) does not operate on a scheduled basis in China but is dependent upon the requirements of UNRRA, CNRRA, or the National or Provincial Governments in determining the points in China which the air line will serve.

Service initiated 3 February 1947. The line was set up by General Chennault.

(4) *Sino-Soviet Aviation Corporation.*

Inaugurated in 1939 by a contract signed by the Chinese Ministry of Communications and the Soviet Central Civil Aviation Administrator. The agreement gave the Corporation a civil aviation monopoly in Sinkiang west of Hami for a 10-year period and was to be extended to 1954 unless either party within 90 days prior to expiration desired to terminate the agreement. The Board of Directors had not convened since 1941. At the end of the war with Japan, the Chinese Government informed the Soviet Government that it desired to share in the management of the "joint company" but since the Board has failed to meet, nothing has been accomplished. China then proposed that the Soviet monopoly in Sinkiang be relaxed, but the USSR countered with the proposal that the joint company be permitted to operate South as far as Lanchow. CATC on 21 April 1947, however, inaugurated a Shanghai-Sinkiang service.

d. *Air Policy.*

China, feeling her position in civil aviation is weak, is forced to protect her commercial air lines from competition and will seek to impose regional restrictions wherever possible. There has been a tendency to press for rate controls and limitation of frequencies and capacity. This attitude was evidenced in the negotiation of agreements with France, Siam, the Netherlands, and the UK.

The Chinese Government policy on nonscheduled carriers is to recommend approval of contract flights only when there is no regularly scheduled carrier available

and only when the flights are contracted for by the Chinese Government. China wishes to confine US commercial air rights to those granted under the bilateral air agreement.

The Chinese Government is not in agreement with principles established at the Bermuda Conference on 11 February 1946, and will probably not be satisfied with a multilateral agreement incorporating Bermuda principles. The government also opposes the article of the multilateral draft permitting foreign carriers to import duty-free equipment required for maintenance of operations. China is not a producer of such equipment and cannot benefit reciprocally from such an agreement.

APPENDIX I

TAIWAN (FORMOSA)

1. INTRODUCTION.

Taiwan (Formosa), under Japanese rule for fifty years, reverted to *de facto* Chinese control in October 1945, two months after the surrender of Japan. In the two succeeding years, the Chinese administration, because of its inefficiency and corruption, dissipated the economic resources of the island, and abused the industrial plant built up by the Japanese, so that the very valuable contribution which the island could have made to the Chinese economy has been unrealized. Consequently, discontent and unrest have spread widely among the Taiwanese, and the strong sentiment against the National Government of China has taken the form of a popular movement for local independence. This movement can be expected to continue, and further uprisings and violence may be anticipated.

2. THE BACKGROUND.

a. Geography.

Taiwan, a long oval-shaped island lying 70 to 100 miles off the Chinese coastal province of Fukien, has an area of nearly 14,000 square miles, with two-thirds of that area constituting a mountain barrier extending from the northern to the southern tip throughout the eastern half of the island. The climate is tropical, with high rainfall well distributed throughout the year. Between Taiwan and the Chinese coast lie the Pescadores Islands, some 64 small islands administered as part of Taiwan proper. The Pescadores have little economic importance, but were of some strategic significance to Japan during the war.

b. Population.

The population of Taiwan is about six and a half million, made up mostly of Taiwanese Chinese, who number about six million. Eighty percent of the Taiwanese-Chinese came originally from Fukien, with the majority of the remainder coming from Kwangtung Province. Smaller elements of the population are Taiwanese aborigines and Japanese. The aborigines, totaling about 225,000, live in the island's mountains and maintain their own various tribal organizations and social systems. The present Chinese administration has announced no policy toward these aborigines, but there is no reason to believe that the administration will deal with the situation so wisely that the traditional animosity of the aborigines toward the Chinese will be overcome. Japanese civilians numbered about 400,000 at the time of surrender, and have now all been repatriated except for a handful of technicians.

c. Agriculture.

Taiwan has largely an agricultural economy. Ninety percent of the arable land, which lies chiefly along the west coast, is under cultivation, with most of the farm-

pendence be established by the Japanese peace treaty, which must formally determine the disposition of the island.

There is as yet little indication that the discontent of the Taiwanese has led any considerable numbers of them to the Communist camp. There were no Communists on Taiwan when the Japanese surrendered, and at the close of 1947 there were still no considerable numbers of them, and no Communist military strength, on the island. However, the opportunity for the spread of Communist influence, here as elsewhere in China, has been created by Nationalist incompetence and greed, and the island is at present a fertile field for Communist propaganda.

The US maintains part of its Army Advisory Group on Taiwan. The Chinese Communists have launched a propaganda attack against the presence of US troops on the island, alleging that the US has already "seized control of the economic life of Taiwan . . . with American capital having penetrated all important industries." Accusations of a similar nature emanate from the Right also, apparently inspired by certain groups within the National Government. This Nationalist propaganda effort is evidently following a definite pattern and is systematically reflected in the organs of the Government-controlled press.

This propaganda reflects one side of the dilemma now facing the National Government in Taiwan: the desire that all Chinese territory be placed under immediate Chinese control, with no foreign participation. The Chinese Government secured a pledge in the form of the 1943 Cairo Declaration (reiterated in 1945 at Potsdam and in the Japanese surrender terms) that Taiwan would be returned to the Chinese, and national sensitivity to issues of this kind demands that this pledge be carried out. The National Government's fear—however baseless—that the US will encourage Taiwanese opposition groups or has "imperialist" intentions toward Taiwan, has doubtless motivated the propaganda effort to arouse popular opinion against the US in that area.

The other side of the dilemma is presented by the patent incompetence of the Chinese regime and the need for US economic aid to prevent the island from eventually drifting toward Communism or becoming the scene of a series of costly rebellions, especially dangerous because, with the precarious military situation on the mainland, the government cannot afford to spare troops elsewhere. Realization of these possibilities has led Chiang Kai-shek to hearty endorsement "in principle" of some form of joint US-Chinese administration over Taiwan, with emphasis on economic rehabilitation. US Ambassador Stuart has expressed the opinion that Chiang would be willing to act in favor of such a plan because of his awareness of the growing Taiwanese autonomy movement under capable leadership. However, although Chiang would welcome concrete proposals of US economic assistance in rebuilding Taiwan, he would also probably balk at any far-reaching US controls over that assistance or at US insistence upon political reforms.

4. FUTURE TRENDS.

With the rapidly weakening position of the National Government, there is little possibility that the character of the administration of Taiwan will materially improve.

Consequently, it is likely that the island will continue to be the scene of unrest and occasional uprising. Discontent is at present reported to have led to the formation of a sizable underground movement in Taiwan, although the extent of the organization of this underground, and its military strength, cannot be determined. The discontent of the Taiwanese will probably lead to future agitation for independence. Final decision regarding the status of Taiwan will not be made until a peace treaty with Japan is concluded. There seems at present little chance, however, that independence will be attained inasmuch as the declarations of Cairo and Potsdam, as well as the terms of the Japanese surrender, militate against it. There is a possibility that the islanders may turn, for want of other alternatives, to the Chinese Communists, but in view of the lack of the Communist strength on Taiwan at present, and the physical isolation of the island from the mainland, Communist penetration of the island is not an immediate threat. The most likely eventuality is that Taiwan's present uneasy status will continue unrelieved in the near future, with the island's final fate depending on the outcome of the struggle on the mainland.

NOTICE TO HOLDERS OF CIA REPORT ON CHINA (SR-8)

Appendix J: Tibet, is forwarded herewith for insertion in the CIA Report on China (SR-8). Recipients are requested to make appropriate changes in the Table of Contents of SR-8.

Published: December 1948

APPENDIX J

TIBET

1. INTRODUCTION.

Tibet, situated in the far western part of China and nominally part of the Chinese Republic, is in fact a virtually independent and economically self-sufficient region. The Chinese officially define Tibet as a "special territory"; it remains the only part of China not organized as a province. Tibet Proper, or Outer Tibet, lies to the west of the Chinese provinces of Sikang and Tsinghai, sometimes called Inner Tibet. For purposes of this discussion, "Tibet" is used to denote Outer Tibet.

Owing to its extremely mountainous terrain and geographic inaccessibility, Tibet would have little strategic value in war, though control of Tibet by a foreign power could facilitate subversive activities in western China and northern India. With regard to the security interests of the US, Tibet is relatively unimportant.

2. THE BACKGROUND.

a. Geography.

Tibet, with an area of about 350,000 square miles, is bordered by Bhutan, India, Nepal, the disputed area of Kashmir, and the Chinese provinces of Sinkiang, Tsinghai, and Sikang. The entire region is a mass of folding mountains with a height generally over 13,000 feet. The Kunlun and Himalaya ranges rise along the northern and southern boundaries, respectively. Lhasa, in the upper Brahmaputra River valley, is the capital.

b. History.

The religious bond of Lamaism was the original tie between Tibet and China, beginning in the 13th century when the Mongol Emperor Kublai Khan adopted Lamaism as the state religion, and established the Tibetan Grand Lama as temporal ruler of Tibet. From the 13th to the 17th centuries the Mongol emperors of China and the Mongol Khans of Central Asia supported the Grand Lamas of Tibet in much the same way as the kings of Europe supported the Popes of Rome. Thus the Dalai Lama of Tibet, as the final authority on Lamaism, achieved a mysterious hold over followers of the Lamaist form of Buddhism in Mongolia and west and northwest China. The succeeding Manchu emperors of China could not afford to ignore the personal stabilizing influence of the Dalai Lama over the inhabitants of so large a portion of their domain. Hence during the 18th and 19th centuries there was maintained a politico-religious partnership between the Manchu emperors of China and the Dalai Lama of Tibet: the

Note: The intelligence organizations of the Departments of State, Navy, and the Air Force have concurred in this report; the Intelligence Division, Department of the Army had no comment. The information herein is as of 1 November 1948.

Manchus helped the Dalai Lama consolidate his political and religious influence, and exercised the prerogatives of guardianship over Tibet, though Tibetans did not consider themselves as subjects of the Chinese emperor.

British influence, exerted from India, became strong in Tibet in the early 1900's, when it became evident that the tottering Manchu dynasty could no longer discharge the role of guardian. Since 1904 the British policy toward Tibet—based on concern for the security of India vis-à-vis Russia—has been to strengthen Tibetan autonomy, in order that it might serve as a buffer state.

The Lhasa Convention of 1904 established a precedent for direct negotiations between England and Tibet and set forth British claims to "special interests" in Tibet. After the fall of the Manchus the Chinese Republic, whose exact position in Tibet was unclear, tried to secure for itself the prerogatives of the Manchus and thus clashed with British policy and with Tibetan separatism. In 1914 a conference was held under British auspices at Simla in an attempt to settle Sino-Tibetan differences. This resulted in a tentative agreement (1) to divide Tibet into Outer Tibet (the part nearer India) and Inner Tibet, and (2) for Chinese recognition of the *de jure* autonomy of Outer Tibet. Though China refused to permit full signature of this agreement, Inner Tibet was subsequently organized as the Chinese provinces of Tsinghai and Sikang, and Outer Tibet has since 1914 enjoyed *de facto* autonomy.

c. Population.

The population of Tibet is estimated to be about 1,000,000, almost entirely of Tibetan stock, which modern anthropologists classify as Mongoloid. The Chinese within this area constitute only a small fraction of the inhabitants. The average density is about three persons per square mile. The greatest concentration is found in the south, along the headwaters of the Brahmaputra.

d. Economy and Trade.

Generally speaking, Tibet, in its primitive mode of living, might be called self-sufficient. A long static social organization has helped stifle economic growth. The region is undeveloped and completely lacking in any modern means of exploitation. Tibetan economy is based on agriculture (barley and wheat) and animal husbandry (sheep and yak). The chief manufactures, woolen goods and pottery, are produced by cottage industry.

The extent of mineral resources is undetermined, as no surveys have ever been undertaken. A considerable quantity of gold is produced, as well as small quantities of silver, mica, borax, and salt. Oil deposits have been reported.

The geographic isolation of Tibet accounts in large part for its economic backwardness. The main center of population in the upper Brahmaputra valley of Tibet is about twenty days' journey from the railhead at Darjeeling, and about sixty days' journey from the nearest Chinese center in eastern Sikang. These routes are almost impassable during a good part of the year. Railroads and automotive transportation are non-existent. All transportation is by pack animal or manpower. There is telegraphic communication with India.

The trade of Tibet may be divided into two classes, that with India and that with China; the Indian trade is the more extensive.

With India: Tibet imports sugar, rice, cotton goods, hardware, tea, coral, precious stones, tobacco, dried fruits, needles, soap, and matches. Tibet exports wool, hides, live animals, yak tails, salt, musk, borax, and medicinal herbs.

With China: Tibet imports a great deal of tea, and some silk. Tibet exports musk, wool and woolen handicrafts, furs, medicinal herbs, mica, gold, silver, borax, amber, and Buddhist ritual articles.

e. Government.

Although China claims full sovereignty over Tibet, the *de facto* relationship of Tibet to China is to all practical purposes one of independence. Although the Chinese National Government maintains in Lhasa an office entitled "Tibet Office of the Commission of Mongolian and Tibetan Affairs of the Executive Yuan," Tibetans hold the function of this office to be the fostering of friendly relations between the two countries. The status of the Chinese Government's envoy in Lhasa is hardly distinguishable from that of the Indian Government's (formerly the British Government's) envoy.

Tibet has its own currency and customs, its own telegraph and postal services. It also has its own civil service which is organized along a different line from that of any part of China and of which the personnel is appointed and dismissed by Tibetans without any supervision from the Chinese National Government. Tibet even keeps its own army, numbering less than 20,000; there are no Chinese forces in Tibet.

The Dalai Lama of Tibet is the supreme ruler both in civil and religious affairs. He is not only the temporal ruler of Tibet but also the spiritual leader of all Buddhists who practice the Lamaist form of that religion in China, Mongolia, Nepal, Bhutan, and northern India. When a Dalai Lama dies he is succeeded by an infant chosen as the reincarnation of the deceased ruler. Such a child Dalai Lama is represented by a regent chosen from one of the Tibetan monasteries.

Under the Dalai Lama is pyramided the hierarchy of ecclesiastical and lay officials, headed by the Grand Council and the Monks' Cabinet. Power is largely in the hands of the ecclesiastical officials and the aristocratic families, and Tibet may properly be termed a feudal theocracy. More than 4,000 monasteries own a large proportion of the best land.

3. CURRENT SITUATION.

For the past thirty-five years relations between China and Tibet have been tantamount to relations between two sovereign states, though China officially claims sovereignty over Tibet. British influence has risen, and Chinese influence has correspondingly declined.

Tibetan political alignments reflect current attitudes toward Great Britain and China. Because of the feudal social structure of the country, only the very small group of aristocrats and ecclesiastical hierarchs can be politically active. Among these, however, it is possible to distinguish two main groups, generally described as the "New Faction" and the "Old Faction."

The New Faction, which is now in power at Lhasa, is strongly anti-Chinese and stands for the strengthening of Tibetan autonomy. A tacit understanding has existed between this group and the British for Tibetan-British "special relations," i.e., the direct negotiation of trade agreements between Tibet and British India, by-passing the Chinese National Government.

The Old Faction stands for a closer relationship with China, and a revival in some form of the old politico-religious partnership which existed before the formation of the Chinese Republic. In the spring of 1947 the leader of the Old Faction was put to death by members of the New Faction for allegedly plotting against the life of the regent. Pro-Chinese sentiment thus suffered a setback, and the movement for autonomy and even independence has been intensified in Tibet.

4. FUTURE TRENDS.

British influence in Tibet remains predominant, and the British withdrawal from India has not affected British strategic interest in Tibetan autonomy, based on concern for the security of India and Pakistan vis-à-vis the USSR. India and Pakistan, in turn, have no reasons for not maintaining "special relations" with Tibet (i.e., the direct negotiation of trade agreements with Tibet).

Tibet, however, is no longer disposed to rely entirely on British support, after the British withdrawal from India and the subsequent Indian-Pakistan turmoil. Lhasa would very much like to secure even a quasi-political recognition from the US, and perhaps UN membership, in order to offset Chinese claims and the Soviet threat. An illustration of this trend was the despatch in 1948 of a Tibetan "Trade Mission" to the US. The Mission's request for a two-million-dollar loan to buy gold for currency stabilization was turned down by the US at the insistence of the Chinese.

The Tibetan hierarchy distrusts the USSR as a country opposed to religion; this feeling has been fostered by the manner in which the Soviets suppressed Lamaism in Outer Mongolia. During the past year, however, a number of Soviet agents, posing as lamas from the Mongolian Peoples Republic, have reportedly visited Tibetan monasteries. If the Soviets could succeed in gaining influence over the Tibetan hierarchy, it might be exploited to facilitate the expansion of Soviet influence among those peoples of western China and northern India who look to the Dalai Lama as their spiritual head. Aside from using Tibet as a point from which to penetrate adjacent regions, the USSR appears to have no objectives in Tibet itself, and Soviet action in that country will depend upon the Kremlin's policy toward China, and, to a lesser extent, India.

SECRET

CENTRAL INTELLIGENCE AGENCY
2430 E Street, N. W.
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APR 14 1948

MEMORANDUM FOR RECIPIENTS OF SR-8

SUBJECT: Addenda to Section V, SR-8, China

1. Attached herewith is Map No. 10896 (China: Communist Controlled Areas 1 January 1948) which is to be inserted in the copy of subject report sent you under separate cover.

2. Attached chart should be inserted in Section V - "Military Situation", facing page V-2.

FOR THE ASSISTANT DIRECTOR FOR COLLECTION AND DISSEMINATION:

STAT

Chief, Dissemination Branch

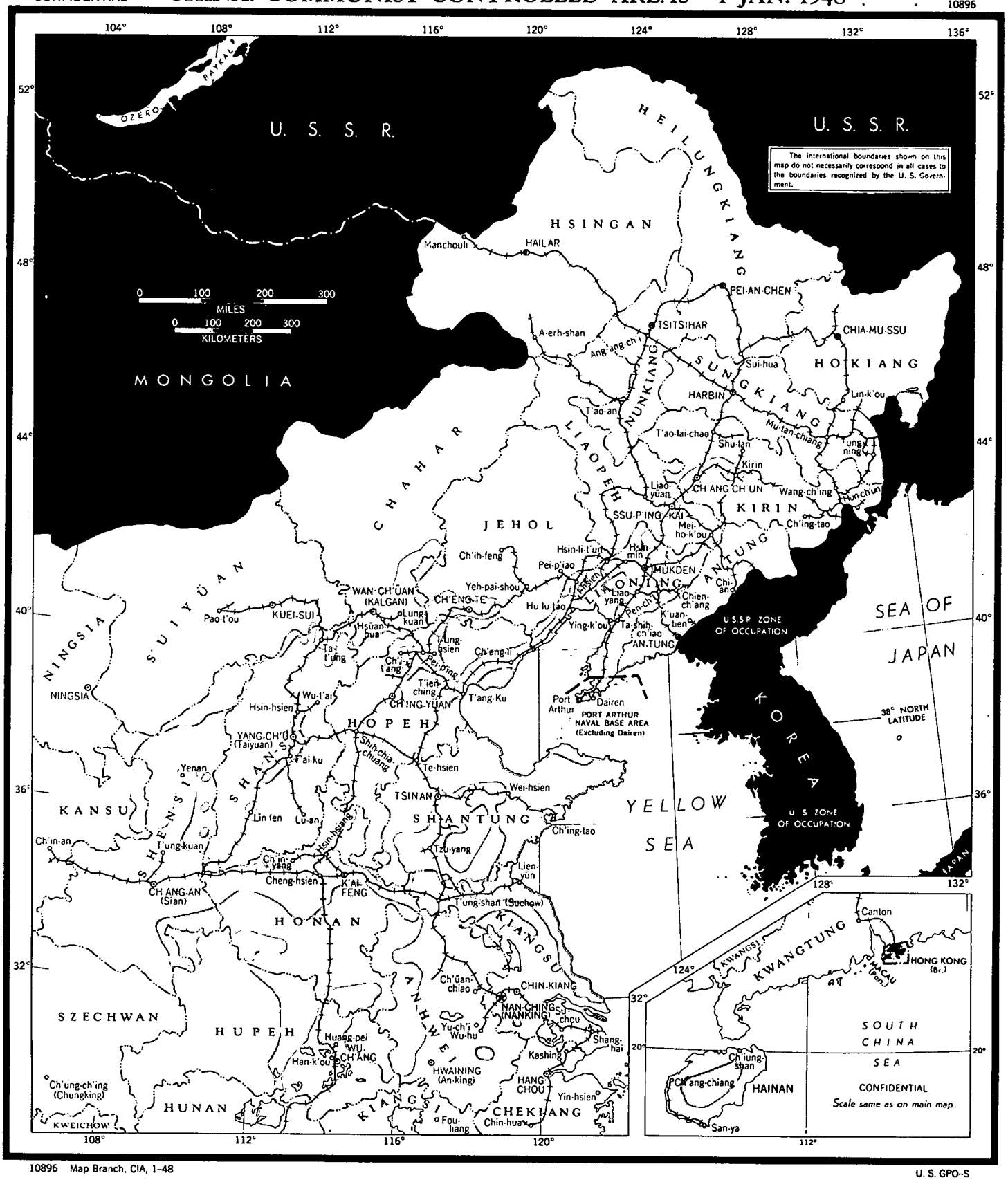
Inclosure - Map No. 10896

SECRET

CONFIDENTIAL

CHINA: COMMUNIST CONTROLLED AREAS 1 JAN. 1948

10896



10896 Map Branch, CIA, 1-48

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