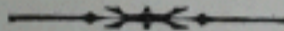


**INTERNATIONAL ECONOMIC CO-OPERATION IN CHINA**

BY

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## International Economic Co-operation in China

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### I

In all the eighteen years of our Republic the problem of China's economic development has not received thorough and comprehensive consideration and treatment. Destructive measures there have been but little of a constructive nature. As a consequence our political well-being has been seriously affected. There has been increasing turmoil and endless civil strife, with the government powerless to remedy the situation. That it has taken China these many years since the Revolution of 1912 to achieve a strong government is to be attributed to her economic impotency. To a country in this condition the most urgent problem is economic rehabilitation and development. It should take precedence over political reconstruction, important as the latter is. If our people do not early realize the significance of this fact and put the weight of the entire nation behind a plan for restoring the economic vitality of the country, then all our political schemes and ambitions will be doomed to failure and disappointment, however strenuously we work in that direction. We shall continually face the possibility of upheavals of a politico-economic nature and there will be no permanent peace in the country.

The writer, therefore, is of the firm conviction that the study and solution of our national economic problems should be taken in hand immediately and not left behind her political problems. He begs to present three important facts in the Chinese economic situation for

discussion with the hope that as a result a reasonable and practical solution may be found.

(A) *Concerning the Budget of the national government*

According to the report of the Minister of Finance, T. V. Soong, given at the Disbandment Conference held in January of this year, the Budget of the Central Government for 1929 is as follows:

Revenue	
Salt Gaballe . . . . .	\$116,570,000.00
Maritime customs . . . . .	192,330,000.00
Likin . . . . .	76,280,000.00
Tobacco and Wine tax . . . . .	47,040,000.00
Stamp tax . . . . .	12,930,000.00
Miscellaneous . . . . .	12,570,000.00
Deficit . . . . .	50,130,000.00
Total . . . . .	<u>\$507,870,000.00</u>

Disbursement	
Party expenditures . . . . .	\$4,800,000.00
Governmental expenditures . . . . .	95,420,000.00
Military expenditures . . . . .	192,000,000.00
Local governmental expenditures . . . . .	41,430,000.00

(Deducted from provincial collections of national taxes, as by Yunnan, Kweichow, Szechuan, Singkiang).

National debts and interest . . . . .	155,290,000.00
Miscellaneous . . . . .	18,430,000.00
Total . . . . .	<u>\$507,870,000.00</u>

At that time, Minister Soong explained that the item on military expenditures was based upon the decision of the National Financial Conference and the National Economic Conference, namely, \$16,000,000.00 a month. The Disbandment Conference in August of this year decided that the monthly figure should be \$18,440,000.00 or \$33,080,000.00 a year more than the budgeted sum. Thus the military expenditure would amount to \$225,080,000.00. Further, according to Minister Soong's report, the establishment of the five Yuan will require for running expenses \$1,000,000.00 a month. This sum would have to be added to the budget later after it was passed by the Budget Committee. Therefore the sum of \$12,000,000.00 should be added to the item on Governmental expenditures, thus making a total of \$107,000,000.00 a year. In short, the total deficit would be increased by \$95,210,000.00. We may then conclude that for the year 1929, according to Minister Soong's estimate, the total deficit of the Government Treasury will exceed \$95,210,000.00. This does not include extraordinary expenditures that might arise during the year. Such is the financial situation the Government is facing.

Concerning the finances of the provinces, we are unable to make a reliable study owing to the lack of published data. But the case of Hopei Province may be taken as typical. On September 11, 1929, Chairman Hsu Yung-chang stated in a public interview that the monthly income of the province was \$1,400,000.00 and the monthly expenditure, after recent reductions, \$1,750,000.00. In other words, there would be a deficit of \$350,000.00 monthly or \$4,200,000.00 annually. Though we have no similar authoritative statements from responsible heads of the other provinces, yet we know of no province where receipts and expenditures balance or where receipts exceed expenditures. The situation in Hopei Province obtains in the other provinces to a larger or smaller degree.

The above survey reveals a fundamentally precarious position the

finances of the Central and the provincial governments are in, which calls for immediate rectification. Obviously, the governments will have no energy to spare for other undertakings such as loan readjustment or new constructive projects.

(B) *Concerning Reserve fund for national debts*

Some of China's national debts are secured on adequate funds to meet the payment of principal and interest as they come due. (See the provision for debt payment in the 1929 Budget given under "A"). The debts for which no such provisions have been made amount to a huge sum (Payment for these debts are not included in the national budget as given by Minister Soong in January). The following statistics is taken from the annual report of the Finance Reorganization Commission for 1927:

(1) Ministry of Finance Loans (Figures for year ending Dec. 1925)

Foreign loans \$486,646,003.38 (calculated at the rate of \$12 Chinese currency for 1 sterling and \$2.40 for \$1 U.S. currency)

Domestic loans 266,150,800.38

Total \$752,796,803.76

(2) Ministry of Railways and Ministry of Communications Loans (Figures for year ending Dec. 1925)

\*Foreign loans \$561,967,765.37 (calculated at the rate of \$10 for 1 sterling and \$2 for \$1 U.S. currency)

Domestic loans 87,358,621.93

Total \$649,327,286.30

\* Note: About 20 to 30 percent of the foreign loans have payment for principal and interest provided out of receipts of the railways.

The grand total for the two groups of loans above given is \$1,402,12,3 191.06, as the principals and interest due at the end of 1925. For the present year, (1929) adding the interest accrued in the four intervening years and excluding the portion of interest whose payment is covered by the income from the railways, the total indebtedness should be above \$1,600,000,000.00.\*

How is the Central Government to meet this huge indebtedness? From the account given under (A), we know that it is not covered in the national Budget. Once upon a time the hope was entertained that a portion of the maritime customs revenue might be ear-marked for this purpose. This possibility has to be excluded now, for since 1927 the National Government has at different times pledged all available revenue for the issuing of Government Bonds and Treasury Bonds. The amounts thus designated once reached the figure of \$364,000,000.00., and now deducting sums already redeemed, still remain around \$300,000,000.00. Therefore, in the next few years, it will not be possible to look to the customs surplus for meeting obligations on domestic and foreign loans. For this reason, it has not been possible for the Government to realize the long contemplated appointment of a Reorganization Commission on Domestic and Foreign Loans.

(C) *Capital Funds for National Constructive Undertakings*

Being economically backward, China's need for capital funds for economic reconstruction is very great. But before contemplating new undertakings we should consider the necessity of rehabilitating existing enterprises that have been adversely and critically affected by internal wars:

\*Footnote: There are no published reports on loans made by provincial and local governments but as far as the writer could ascertain such loans are of comparatively small amounts only.

- (1) Restoration of the government railways to their normal working efficiency;
- (2) Restoration of certain large industrial and commercial organizations, such as the China Steamship Navigation Co., Hang-yehping Co., Chung Hsing Coal Mining Co., Luhokou Coal Mining Co., Lung-yen Iron Mfg Co., and others.

The cost for the first item alone will, according to the estimate of Sun Fo, Minister of Railways, given at a press interview on August 22 of this year at Nanking, amount to \$60,000,000.00. As to the second group, it is true the industrial enterprises mentioned above are not nationally owned, but the cost of rehabilitation will be so great that unless the Government comes to their help these individual enterprises have no hope of getting on their feet again. As to how much help will actually be needed, we have no way of finding out on account the lack of published data.

So far the Government has not made public any concrete or comprehensive plan for the economic development of the country, but we have on record the programme proposed by Dr. Sun Yat-sen, as stated in his book, "The International Development of China":

#### I. The Development of a Communications System.

- (a) 100,000 miles of Railways.
- (b) 1,000,000 miles of Macadam Roads.
- (c) Improvement of Existing Canals.
  - (1) Hongchow-Tientsin Canals.
  - (2) Sikiang-Yangtze Canals.
- (d) Construction of New Canals.
  - (1) Liaoho-Sunghwakiang Canal.
  - (2) Others to be projected.

#### (e) River Conservancy.

- (1) To regulate the Embankments and Channel of the Yangtze River from Hankow to the Sea thus facilitating Ocean-going Ships to reach that port at all seasons.
- (2) To regulate the Hoangho Embankments and Channel to prevent Floods.
- (3) To regulate the Sikiang.
- (4) To regulate the Hwaiho.
- (5) To regulate various other rivers.
- (f) The Construction of more Telegraph Lines and Telephone and Wireless Systems all over the Country.

#### II. The Development of Commercial Harbors.

- (a) Three largest Ocean Ports with future capacity equalling New York Harbor to be constructed in North, Central and South China.
- (b) Various small Commercial and Fishing Harbors to be constructed along the Coast.
- (c) Commercial Docks to be constructed along all navigable rivers.

#### III. Modern Cities with public utilities to be constructed in All Railway Centers, Termini and alongside Harbors.

#### IV. Water Power Development.

#### V. Iron and Steel Works and Cement Works on the largest scale in order to supply the above needs.

#### VI. Mineral Development.

#### VII. Agricultural Development.

#### VIII. Irrigational Work on the largest scale in Mongolia and Sinkiang.

#### IX. Reforestation in Central and North China.

X. Colonization in Manchuria, Mongolia, Sinkiang, Kokonor, and Thibet.

We have already seen under (A) that the Government revenues can yield no surplus over expenditures, and under (B) that the Government has not been able to meet its existing obligation. This being so, it will not be easy to raise new loans of any appreciable size. For instance, a comparatively small sum of \$60,000,000.00 is required to rehabilitate our government railways, and yet the National Government has not been able so far to secure the amount.

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II

Summarizing the review of existing conditions the writer wishes to call attention to three important points:

(1) The lack of adequate government revenue bears directly upon the strength and stability of the Government. Aside from the necessity of reorganizing the Budget, attention should be centred upon the economic development of the country and the increasing of the per capita wealth of the people so as to multiply the sources of government revenue. A reckless increase of taxes or promiscuous issuing of government bonds will be suicidal.

(2) Unless we can adequately meet our existing indebtedness, our credit will undoubtedly suffer and there will be difficulty in attempting to raise funds for new enterprises. At the same time the only way to increase our ability to meet our indebtedness is to develop our economic resources. Therefore these two matters—economic development and loan redemption—should be considered and taken in hand simultaneously.

(3) To be successful in attracting capital for the new economic development of the country, two prior conditions should be fulfilled,

namely, stability of the Government and the rebuilding of its credit. The stability of the Government will depend upon its ability to keep itself financially solvent, and the credit of the Government will depend upon its willingness and ability to meet its existing indebtedness. These matters are involved in one another and should be considered together.

In view of three points, the writer holds the opinion that the way for China to deal with the situation she finds herself now in, is to take all the important facts as reviewed under (A), (B) and (C) to heart, formulate a comprehensive but practical programme of economic reconstruction that will meet the situation, then proceed to secure the necessary funds and carry out the plan with absolute sincerity and good faith. In this way we may overcome our economic difficulties and hope for the establishment of a strong government and a sound political life in the near future.

Our next question is, who should be entrusted with the creation of this comprehensive economic plan for China? In order to answer this question, we need to ask a prior one: From where do we expect to raise the required funds? Do our own Chinese people have the financial resources sufficient to support the economic programme? The writer's own judgment is that if in addition to the enormous agricultural resources that China has in the 1,570,000,000 *mou* of developed farm land (as reported by the Ministry of Agriculture and Commerce 1914), she had a good currency that circulates freely and effectively throughout the land and a banking organization that could command and centralize the fiscal resources of the whole country, we might reasonably concede to China the ability single-handed to undertake the financing of her economic rehabilitation. But with her present imperfect currency and banking organization, this is out of the question. As an illustration of the present situation the following case may be given. The Government Bonds, as

calculated on the basis of current prices, actually bear a monthly interest of 10%, and in most industrial investments, the annual rate of interest is also around 10%. In a money market where such high rates of interest obtain, the possibility of raising funds of sufficient amount to finance the economic rehabilitation programme of China is practically nil, leaving aside the question of the profitability of the investment. The writer believes, therefore, that international co-operation in this undertaking is indispensable. Dr. Sun in his "The International Development of China" advocated such international co-operation. This does not mean that China could not do anything alone, but if we consider our present and pressing needs, the earlier international co-operation is secured, the better it will be for the country, and for all concerned.

A further question is, "How such international co-operation may be secured?" Historically considered, nations that are not economically and politically strong often have to grant certain political and economic concessions in exchange for the help of foreign capital. This has been so in the case of most of our own foreign loans. But present-day national sentiment will not tolerate international assistance of this type. For this reason a deep-seated suspicion lingers in the minds of the Chinese people toward any proposal for international co-operation in China.

Fortunately since the World War, a new form of international co-operation has been created in place of the old. This is for a country in need of assistance to invite an international group of economists to make an impartial and thorough study of her condition and on the basis of the study, to draw up a plan of rehabilitation in which foreign capital can participate as a purely business proposition. Germany, Austria and Greece have already made use of this method and have been profited by it. Special conditions may necessitate modification of this method when applied to China, but it is one that deserves our careful study.

The writer believes that both foreign and Chinese capital should be welcomed in the economic development of China, but to do this, the economic policy to be adopted should be acceptable to investors at home and abroad, the safe and profitable nature of the investment should be insured, and the proper and faithful carrying out of the programme guaranteed. Since we have to rely upon international co-operation, any plan that we adopt should be the result of careful study and deliberation by an internationally organized and competent body of experts. (Of course, Chinese participation in such a body will be necessary and desirable.) This will win the confidence of prospective investors. Thus Dr. Sun in his "The International Development of China" wrote:

"In order to carry out this project successfully I suggest that three necessary steps must be taken: First, that the various Governments of the Capital-supplying Powers must agree to join action and a unified policy to form an International Organization with their war work organizers, administrators, and experts of various lines to formulate plans and to standardize materials in order to prevent waste and to facilitate work. Second, the confidence of the Chinese people must be secured in order to gain their co-operation and enthusiastic support. If the above two steps are accomplished, then the third step is to open formal negotiation for the final contract of the project with the Chinese Government."

This book was written in December 1918. At that time the League of Nations and the new form of international economic co-operation had not yet made their appearance in the world, but Dr. Sun foresaw the necessity of some such new formula in international dealings and advocated it on behalf of China. He was right in proposing, first, the formation of an international organization, and secondly, winning the confidence of the Chinese people, as necessary steps. Unfortunately, in all the eleven years, our people have not paid serious attention to Dr. Sun's proposal or studied the new formula in international economic co-operation.

### III

In order to clarify our thinking, the writer begs to lay before the public the following proposition for the purpose of promoting the early realization of international economic co-operation in China and of winning the confidence and support of all nations:

The Government of China will request the League of Nations to appoint an international group of outstanding economists and financiers to form an International Commission on the Economic Development of China. This Commission will make its own investigation of conditions within a definite period of time and draw up a plan acceptable to the people of China and will have charge of the raising of funds from Chinese and foreign investors for the carrying out of the plan at an early date.

Such a Commission will have as initial members Chinese experts and will also include nationals of countries not now in the League of Nations. We naturally expect American experts to be among them.

A few explanations are called for. Should only Chinese experts be appointed to draw up the new plan for our economic development, or should the Government of China herself appoint an international group of experts, the writer fears that under both conditions it will be difficult to win the full confidence of the investors. The League is an international organization for the promotion of peace and goodwill among nations and China herself is one of the constituent members. A Commission appointed by such a body will not be open to misunderstanding and because of its impartial and independent position, it will enjoy public trust more fully than one appointed by one government or a combination of governments.

However, the writer does not wish to leave the impression that the League alone will be competent to undertake the task. It is possible

that another international organization might arise in the future that would have the influence and competence that the League now enjoys, or the experience and record of successful achievements in the field of international economic co-operation that it possesses. But at present outside of the League, no such international agency exists. Hence the proposal to make use of the League.

The experts who will be entrusted with this gigantic task should, of course, be internationally well-known men and outstanding figures in the public minds, at the same time enjoying the full confidence of the financial and banking world. With such a Commission working on a comprehensive, scientifically formulated, progressive and practical plan of economic development, public support and ultimate success are assured. In proposing this the writer is doing little more than echoing the views years before voiced by our late leader, Dr. Sun. However, whether or not such a proposal could be actually carried into effect will depend upon whether or not the people of China and the peoples of other lands are agreed on certain points which I will proceed to mention:

(1) The Chinese people should understand that international economic co-operation is fundamentally different from international economic exploitation.

(2) The Chinese people should understand that the League of Nations, of which China herself is a member, is an organization for the promotion of international peace and goodwill and not a combination of governments for selfish aggression. International co-operation through the agency of the League, therefore, is not the same as international control of national economics or finances. Precedents have already been established in the case of Austria and Greece.

(3) The Chinese people should realize that our chaotic financial condition is fast approaching the stage of bankruptcy. Financial rehabi-



litation is an immediate necessity that cannot be any longer put off. We have to rely upon international assistance. Therefore it is up to us to show a broad-minded attitude toward international co-operation and whole-heartedly to consider practical plans for such co-operation. No empty words will attract international support.

(4) The Chinese people should with confidence accept the plan of the experts and see that the Government faithfully carries out the plan. For this purpose an organ of public supervision should be created at the time when the plan is put into effect.

(5) Foreign nations should understand that while the Chinese people are opposed to foreign capital of a political nature, they welcome purely financial investments from abroad.

(6) Foreign nations should understand that the Chinese people do not approve of government investments the safety and redemption of which are not properly guaranteed. Such investments injure both the investors and the country involved.

(7) Foreign nations should understand that China's political unrest in recent years is a temporary phenomenon and not a permanent condition. Our unbroken history of 5,000 years bears testimony to this. With a sound economic policy and progressive application, China will in time create a stable and strong government.

(8) Foreign nations should understand that international co-operation for China's economic development will greatly contribute to the peace of the world, particularly peace in the Pacific area. This in itself should constitute a strong appeal to all lovers of world peace for their united support.

The writer has presented this discussion of a difficult subject with the utmost sincerity and frankness and hopes that it will be received by the readers in a sympathetic and friendly spirit.