



FAR EASTERN AFFAIRS SERIES NO. 10.

CHINA'S ECONOMIC PROBLEMS

By DR. FRANKLIN L. HO

*Director of Political Affairs Department of
Executive Yuan*

X:757.41

G7

X:757.41
G7
024697

Chinese League of Nations Union
48, Chen Hsien Chieh, Nanking

4105

CHINA'S ECONOMIC PROBLEMS

Mediaeval Survivals in Present Conditions.

OUTLINE OF FUTURE POLICIES.

By DR. FRANKLIN L. HO

*Director of Political Affairs Department of
Executive Yuan*

*Address delivered on May 6, 1937, before the
Nanking Rotary Club*

5 CENTS

CHINA'S ECONOMIC PROBLEMS.

By DR. FRANKLIN L. HO

The present national economy of China and its reconstruction is most interesting and important amongst the practical issues of national policy at present as well as in the near future. Economic reconstruction is the slogan of the day, but upon what foundation should economic reconstruction in China be built? What should be the guiding principles in deciding what kind of economic policy we should adopt? What can be reasonably hoped that economic reconstruction may bring to China an increase of national wealth and rise of the standard of living of the people? What are the limiting conditions, if any? Answers to all these questions are only to be found by considering, first of all, the essential character of the present Chinese national economy.

The first aspect of the present national economy of China that attracts the attention of a keen observer is the mediaeval and semi-colonial character of her economic or-

ganization. China, largely agricultural and relatively undeveloped, has hardly begun the process of economic modernization. Economic China may be divided into three main regions, namely: the ports, the hinterland served by railways and rivers, and the interior. In the first, industrial capitalism, which is historically a foreign importation, is of increasing importance; in the second, it is growing but is still in its infancy; in the third, *i. e.*, the interior which is much the largest of all, it hardly exists as a localized force, with roots in the soil and a life of its own. The six provinces of Kiangsu, Liaoning, Hopei, Kwangtung, Shantung, and Hupeh contain some 10 per cent of the area of China and about one-third of her total population, but they account for 92 per cent. of her foreign trade, over one-half of her railways, 93 per cent. of the cotton yarn spun, 92 per cent. of the silk reeled, 86 per cent. of the oil pressed, and 87 per cent. of the electric-power capacity.

A Mediaeval Economic Order

Chinese agriculture, the means of livelihood for four-fifths of her population,

is characterized by intensive utilization of labour and almost complete absence of mechanization. The strip system that still prevail is a familiar feature of mediaeval farming. In industries one can assert without fear of contradiction that two-thirds to three-fourths of production are derived from small scale industries of the handicraft type, carried on more in villages than in towns.

The present annual output of coal is about equal to that produced in England in 1820, whereas the annual consumption of iron and steel is approximately one hundredths of that of England and one hundred-eightieths of that of the United States, the relics of a mediaeval economic order, constitute the most extensive channel of distribution, whilst multiplicity of standards of weights and measures is beyond the imagination of students of mediaeval economic history.

The absence of adequate machinery for investment; the reliance on indirect taxation as the chief source of national revenue; the negligible per capita income of less than

thirty dollars; the predominance of raw materials and foodstuffs amongst Chinese exports; the fact that the source from which great fortunes are derived is still almost as often official perquisites and military plunder as profits of industry—all these tend to stress the essentially mediaeval character of the Chinese national economy.

“Modernization” not Modern

In parts of the country, however, this traditional economic order no longer stands alone. For more than one generation a new type of economic technique and industrial structure has been developing on the fringe of a society based on handicraft methods and small scale productive units. Indeed, the part played in China by machinery, power, the mass organization of production, and the financial mechanism which these phenomena imply, has greatly increased in the last quarter of a century. Here as elsewhere a point of capital importance in the movement toward economic modernization is not the modernization itself but semi-colonial character of the modernization.

It is still the case that over one quarter of the Chinese railway mileage more than two-thirds of the steam tonnage in shipping, more than one half the capital invested in cotton mills and a smaller but still important proportion of that invested in oil mills, tobacco factories and banks is in the hands of foreigners. Foreign manufacturing in China, especially the Japanese, have offered overwhelming competition to those started by Chinese without the usual assistance of protective tariff, bounties, subsidies, and other forms of governmental aids.

Power of Foreign Capital

Cotton spinning and weaving is a typical example of a foreign industry on Chinese soil which by its strong competition is making it more and more impossible for the native enterprises to continue their losing struggle. In coal mining—the only extractive industry of importance in the present day China—some sixty per cent. of the total output is raised by foreign undertakings, whilst two foreign-owned mines alone are supplying almost one half of the total production. As to iron, approximately 82

per cent. of her small deposits are the property of Japanese concerns and a large proportion of her annual output is exported to Japan. In a reasonable world or a world of ideals such conditions might not matter; with the world as it is to-day they matter a great deal.

Crux of Present Problem

The co-existence of both the mediaeval and semi-colonial features in the national economy of China accounts for many of the serious economic problems of to-day. Amongst these may be mentioned the paradoxical phenomenon that whilst our technique and organization for production remain essentially mediaeval, our habits of consumption have become ultramodern. Hence, we have the persistence of excess of imports over exports and an uninterrupted decline of the rural China ever since her open contact with the industrial powers of the West.

Rural China went through a process of decline after the Opium War of 1841-2, no less than the Rural England or France did a century ago; the main difference is that

whilst with the decline of the countryside in England or France there arose *pari passu* an urban industrial order through the country, in China such development has failed to take place, because, as a semi-colony in the race for economic modernization, she has been given no opportunity for a free, unhampered and independent growth. Furthermore, economic modernization in China has been hitherto localized because it is semi-colonial; it is confined largely to the eastern coast, and rarely ventures into the precarious world that lies beyond the hinterland of the ports and rivers. A posture so unnatural cramps and distorts the economic and political growth of the country which suffers it. It is as though the blood which should circulate through the body were confined by a bandage within a single limb.

Capital which should fertilize the resources of undeveloped areas is immobilized in few great cities, especially Shanghai. The economic methods and social conditions of the middle ages continue unchanged within a few hours of the twentieth century.

As in the Europe of the thirteenth or fourteenth century, the town fears and despises the country and the country suspects and dislikes the town. The China of the interior and the China of the eastern coast and along the Yangtze basin form almost two separate organisms, which, in economic organization and intellectual habits are more or less strangers to each other.

China's Natural Resources

Another aspect of the Chinese national economy which deserves our serious consideration is the condition of her natural resources. China is known as a country with a large area and an abundance of natural resources, but as a matter of fact whilst our area is large our natural resources are by no means abundant. For industrial development, the most important natural resources are coal, iron, oil and water works. According to the research of the Chinese Geological Survey, the known coal resources of China are 250,000,000,000 tons, occupying the fourth position of coal reserves amongst the nations of the world. At the present

scale of production, the coal reserves of China would last for about one thousand years, though with steeply rising costs before the end of the period. Much of the coal resources, it must be remembered, is inconveniently situated, and only part of it is fit for coking. The iron supplies of China are much more scanty.

Manchuria again

The estimate of the Chinese Geological Survey shows that her iron deposits amount to 1,133,000,000 tons, or possibly something over two tons per head of populations as compared with 38 tons per head in the United States of America. As the present rate of consumption prevailing in the United States, China's reserve of iron ore would be exhausted in but a few years. Three-fourths of the limited iron resources of China, it should be remembered, is situated in Liaoning, whilst over one half of the remaining one-fourths is located in North China. So far as it is known, China has no important oil resources. The possibilities of hydro-electric energy have yet to be explored. It may be possible that water-

power might be used on a considerable scale in parts of the South, but whilst the materials for any decided judgement do not exist, scientists seem at present to speak with greater hesitation than politicians of the part that it is likely to play in the future economic development of the country.

Human Labour as a Resource

On the other hand, however, China possesses a large reserve of human labour which is to an exceptional degree industrious and in many cases, with the necessary training, fitted for work requiring great accuracy and skill. Its most serious economic defect is that owing to its abundance it is cheap with the result that the introduction of machinery has been much discouraged. She also has very valuable raw materials for important industries such as cotton and silk, produces many agricultural products which passes through an industrial process before consumption, and possesses a large home market which at present due to the absence of communication and low standard of living of the rural population, has a small effective

demand, but which, given the improvement of transport and agriculture, will be four times as large as that of the United States. As to the extent of available capital, of course, the amount forthcoming, whether from Chinese or foreign sources, will necessarily be limited in relation to be the scale of China's need for development.

Guide to the Future

With a clear recognition of the essential character of China's present national economy both in respect to organization and natural resources, we have a reasonable basis to plan for its reconstruction. Tentatively, a few guiding principles may be suggested. First, economic reconstruction of China should aim at modernization—modernization that must be free and independent with the object of achieving substantial benefit to the entire country and not within any special region, to the general public and not for any privileged class.

Second, toward this end, the first and most important programme should be an immediate and continuous improvement of communication combined with the simul-

taneous development of agriculture both in respect to the technique and organization. Transport is the condition of the progress of agriculture, and the prosperity of agriculture will swell the effective demand for the products of industry. It is the only way of breaking the vicious circle which binds economic stagnation to political disorder, and political disorder to economic stagnation. Given an adequate system of transport, disorder will be diminished; and with the diminution of disorder, economic enterprises, instead of being tied to the coast, will spread into the interior, and, as it spreads will create barriers against the return of disorder. Consequently, the farmer will find new and more profitable markets within his reach.

Thirdly, because of the natural limitations in resources, the field in which the greatest developments of industry, are to be expected in China is not of the heavy industry. She will, of course, create heavy industry on a scale sufficient to meet her most urgent needs; and, in view of her deficiency of iron resources it will be prudent

for her to reserve them for those needs alone.

Future of Chinese Industry

Fourthly, the industrial future of China lies largely, if not exclusively, in the development of manufactures based on cheap power, manual skill, home market, and such imports of machinery as are needed to supply requirements that can not be met at home. Industries requiring a relatively small capital investment are preferable to those which require expensive capital plant in order to compete successfully; and, they should be built for the most part upon China's agricultural production and mineral resources, *i e.* original production being followed by the industrial process it requires. Most of them should be based, first of all, on the needs and purchasing capacity of the rural population; and, then, stage by stage and gradually, upon the requirement of industry itself as it develops and on the industrial and mercantile community that grows slowly around it. Export industries must be limited to those in which China has special

advantages in resources as well as in traditional skill. It would be unwise indeed to establish export industries which depend upon the advantages of large scale production and of a highly-developed industrial and financial organization.

II. FAR EASTERN AFFAIRS SERIES

- No. 1 Our Union
by Dr. Chu Chia-Hua
- No. 2 China and Geneva
by Dr. Mack Eastman
- No. 3 Suiyuan Invasion and "A Certain Country"
by Mr. Y. C. Hsu
- No. 4 A New Spirit in China By the Shanghai
Correspondent of *Manchester Guardian*
- No. 5 日本の朝野よ支那を見直せ!
- No. 6 Deutschlands Stellung in Chinas Auszen-
handel
von E. Helfferich
- No. 7 La Population des Grandes Villes de Chine
par H. O. Hung
- No. 8 Le Commerce Extérieur de la Chine
pendant l'Année 1936
- No. 9 The Crowning Unity
by Professor B. Ifor Evans