ECONOMIC AID TO CHINA

Under the

CHINA AID ACT OF 1948

Issued by the

ECONOMIC COOPERATION ADMINISTRATION

WASHINGTON, D.C.

FEBRUARY, 1949
Mr. Dave Donovan
AID/Office of Development
Information & Utilization (DS/DIU)
500-F Pomponio Plaza (SA #14)

Dear Dave:

Here is a fresh new copy of a Feb. 1949 report from the Economic Cooperation Administration, entitled "Economic Aid to China under the China Aid Act of 1948."
The nearly 32-year old original came to me from a friend who was aware of my archival interest. I spent the better part of four days making the best possible copies that I could.

Note: If you already have an original of this, or a copy from another source, please return this one, so I can use it elsewhere.

This report has some quite interesting aspects, for example:

1. The fairly candid text throughout, considering that the report was unclassified.
2. Several interesting charts and tables, with data not easily available elsewhere.
3. Note in particular the attractive chart on "How Food Rationing Functions in China," following Page 54. The seven cities in which the program operated, I guess, are an indication of what it was possible to do at that time.

4. The maps of China, in connection with the charts on production of rice, wheat, cotton, and coal, showing "approximate Communist-held areas as of Dec. 31, 1948."

****

This kind of presentation, in my view, helps to put one back in the context of 1949. I hope the material will interest any historians or researchers who may not have encountered it before.

Sincerely,

Albert A. Huntington Jr.
ECONOMIC AID TO CHINA

UNDER THE CHINA AID ACT OF 1948

ECONOMIC COOPERATION ADMINISTRATION

Washington, D. C.

February 1949
The China Aid Act of 1948 (Public Law 472, Title IV), approved on April 3, 1948, authorized for aid to China "a sum not to exceed $238 million to remain available for obligation for the period of one year following the date of enactment of this Act." Of this amount, $275 million was appropriated for use during the year ending April 2, 1949. An additional $125 million, authorized for aid to China through grants "on such terms as the President may determine and without regard to the provisions of the Economic Cooperation Act of 1948," has been outside the scope of the program for economic aid to China administered by the Economic Cooperation Administration.

Following an introductory summary, this paper presents, in condensed form: (a) the background and purposes of economic aid to China during 1948; (b) an account of recent financial and economic developments in China; and (c) a record of the Economic Aid Program for China to the end of 1948.
ECONOMIC AID TO CHINA
UNDER THE CHINA AID ACT OF 1948

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INTRODUCTION

At the time the China Aid Act was passed, China was in the grip of the longest sustained inflation in modern history. Her external resources had dwindled from approximately a billion dollars on V-J Day to less than one-quarter of that sum at the beginning of 1948. Foreign trade was at a low ebb. Continuation of deficit financing to support the civil war against the Communists kept the fires of inflation burning; the currency inflation in turn caused production and other constructive business activity to stagnate and contributed greatly to a popular loss of confidence in the National Government. While the military strength of the Communists was increasing, Nationalist strength was being sapped by military defeats, sinking morale among the troops, and a crumbling economic front in the rear of the Government's armies.

Character of the 1948 Economic Aid Program for China

The China Aid Program was not originally conceived as something that could by itself turn back or even arrest these trends. It was described as an effort to "assist in retarding the current economic deterioration and thus give the Chinese Government further opportunity to initiate the measures necessary to the establishment of more stable economic conditions."

The program of economic aid was organized and carried on against a background of continuing civil war and progressive contraction of the area and resources under the control of the National Government. It has been directed toward bringing economic assistance as directly as possible to areas and people who have needed the type of assistance which could be supplied by the use of U. S. dollars.

Food has been provided through a controlled ration system to nearly 13,000,000 inhabitants of seven major Chinese cities. Cotton financed under the program has kept the mills operating in China's largest industry, providing cloth for direct consumption, for barter to encourage the bringing of indigenous food into the cities, and for export to earn foreign exchange that can be used to pay for more imports. Petroleum has kept in operation basic utilities, transport facilities and industries, and also provided goods for which the farmers in the countryside are prepared to exchange their produce. Fertilizer imports have been planned for use in the production of spring crops in 1949. A Joint Commission on Rural Reconstruction has been established, and has formulated principles and a program for attacking some of the root causes of poverty and unrest among China's vast rural population. An industrial program of replacement
machinery and reconstruction projects has been initiated with the participation of private American engineering firms; although actual procurement and construction had to be suspended for the most part due to uncertainties connected with the civil war, much useful engineering survey work has been done. A "counterpart" fund in local currency, established by agreement with the Chinese Government and managed jointly by Chinese and Americans, has been used to maintain many hospitals, welfare programs, and dike-building projects.

In spite of the growing chaos around them, these activities, by and large, have been managed with care and have been carried out successfully within their own limited terms of reference. In the case of the commodity program particularly, the supplies provided have been an important and at times crucial factor in keeping unrest to a minimum in the main cities of the coastal areas controlled by the Nationalist Government. In this narrow but significant sense, therefore, the efforts of ECA in China have been constructive and useful. Supplies financed by the U. S. have been and are being effectively distributed to the people intended to receive them.

Economic Aid in a Setting of General Deterioration

But the atmosphere surrounding these efforts has been one of continuing discouragement and defeat for those who had hoped the Chinese National Government, after a decade of upheaval and in face of all difficulties, could and would do the things that needed to be done if it were to provide an adequate counter-force to the Communists in China. The incapacity of the Government to put into effect the reforms which it had in January announced as its intention of initiating; the inability of the Nationalist commanders to lead and inspire an effective military effort against the growing Communist threat; a series of ill-conceived economic and financial measures which made the situation behind the lines even worse than it needed to be; the widening breach between the people and their Government—all these were factors so demoralizing in their effect that it became only a matter of time until the Government would reach the brink of disaster.

Chinese economic problems cannot be separated from problems which are ordinarily termed political and military. The inflation itself, dramatic as it has been, is only a symptom of broader and deeper problems. The prodigious increase in the issue of currency has been a devastating economic fact, but the reason for it is to be sought in the military fact that more than two-thirds of all currency issued has been used directly to support the Government's military efforts. Sudden increases in the velocity of circulation can be related directly to sudden drops in public confidence due to military defeats.
On August 19, 1948, the Chinese Government published a series of apparently sweeping financial reforms, in an attempt to arrest the runaway inflation of the Chinese National Currency (CN), and draw in for public use the large private holdings of foreign exchange. The drastic and dramatic reforms, including the introduction of a new Gold Yuan (GY) currency, seemed to hold the inflation in suspense for more than a month. But they did nothing to increase revenues or to reduce expenditures; thus they failed to attack the basic cause of the inflation, which is the gross imbalance of the Government’s budget. Internal contradictions in the new regulations soon appeared. A new commodity tax was not put into effect because it would have meant breaking the price ceilings set forth in the same regulations. Although the Government reported collection of more than US$150 million worth of foreign exchange, it had to pay out in return so large an amount of the new Gold Yuan currency, without any compensating increase in supplies or production, that the new currency rapidly depreciated further both in real value and in the esteem of the Chinese people.

With these economic influences at work, the resumption of the inflationary spiral and a breakdown of the attempt to maintain August 19 ceiling prices was inevitable. Attempts to enforce arbitrary price ceilings in Shanghai, and to a less extent in other cities, brought about an almost complete stagnation of economic activity. The more strictly the regulations were enforced, the less food came into the cities, and the worse the situation became. Finally, in November, the regulations became so ineffective and disruptive of economic activity that they were officially revoked in the face of a downward slide of the Gold Yuan which has continued thereafter.

Internal financial deterioration and the maintenance of artificial exchange rates have held down official receipts by the Chinese Government from exports and inward remittances. Although China has had to draw down also some $100 million from her contracted dollar assets, official holdings of foreign exchange may have exceeded slightly, at the end of 1948, the balance existing when the China Aid Act was passed. This has been due in part to the existence of the China Aid Program itself, which has paid for most of China’s basic commodity imports since June 1948. But it has been due also to two factors unfavorable to China: first, the fact that imports outside the ECA program were held to a level so low as to impair seriously production and trade; and second, the fact that private exchange holdings were called in under the August 19 regulations in such a way as to heighten the inflation and at the same time to wipe out extensively, middle class savings. Thus the balancing for a time of China’s official international payments accounts was achieved at a prohibitive internal cost.
China's drawings upon restricted foreign exchange resources were largely for current requirements, not for importations of capital equipment. The Government even sold valuable productive properties in order to meet current outlays.

A further debilitating effect of the civil war was to be found in the phenomenon of "disinvestment" within China, which contrasted with the process of expanding investment in the ECA-aided countries of Europe. In a setting of spiraling inflation and universal uncertainty as to the future, private capital was almost wholly directed into non-productive channels of financial speculation and hoarding of goods for sale at higher prices; banks demonstrated an increasing reluctance to extend long-term credit for industrial investment. As a result, not only did China's productive plant fail to expand, but existing productive facilities deteriorated. The lack of repairs and rehabilitation of productive capacity has lowered output.

These facts, taken together, point to a steady decline in the overall productive capacity of the Chinese economy during 1948.

The relationship between military defeat and economic deterioration has been further demonstrated in the case of coal and food supplies.

Coal production in China during 1948 was at about the same level as 1947. Supplies reaching consuming areas, however, were sharply reduced, particularly during the latter half of the year, as mining centers were cut off or fell into Communist hands. An especially serious loss, toward the end of the year was that of the output from the Kailan Mines north of Tientsin, which were supplying more than half of the coal produced in the whole of Nationalist China.

The output of foodstuffs in 1948 reached a postwar peak at a level roughly equal to that of prewar years. In spite of this recovery in the agricultural regions, China's urban centers were able to meet their food requirements only with the continuing assistance afforded by substantial shipments from abroad. Factors contributing to this situation were Communist occupations of producing areas in Manchuria and much of north China and the consequent disruption of distribution patterns; and, in accessible areas—particularly, during the autumn months—an increasing unwillingness on the part of farmers to market their crops in view of rigid price controls and continuing currency depreciation.

Similar trends could be noted in every other sector of the economy. Mill output of cotton textiles held up during the first half of the year at 1947 levels and then began to drop sharply. Operable rail
mileage in Nationalist hands was reduced by 2,500 kilometers despite the rehabilitation of lines in the south. Shipping capacity was maintained but the pressure of military needs reduced the amount available for commercial requirements. Costly air traffic increased under the necessity of supplying cities besieged by Communist armies. During the last few months of the year, important cities in north and central China were virtually cut off from major supply sources and economic activity became thoroughly demoralized. ECA imports, in the latter part of the year, played an increasingly large role in supplying urban areas with essential food and raw materials.

Preliminary Review of the ECA China Aid Program

Within a few weeks after the Economic Cooperation Administration came into being, economic aid to China was an operating reality. Initial funds from the Reconstruction Finance Corporation were advanced to ECA, a "Program No. 1" for using these funds was approved by the Administrator, and the first procurement authorization was issued. An exchange of notes between the Secretary of State and the Chinese Ambassador in Washington set up interim arrangements for providing assistance pending conclusion of a formal bilateral agreement. Mr. Roger D. Lapham was appointed Chief of the ECA Mission to China, arriving at his post in Shanghai the first week of June. The Chinese Government created a Council for U. S. Aid, a cabinet level committee to deal with the ECA Program. To "backstop" the Mission, a China Program Division was created in the ECA Headquarters office. And on July 3, three months after the Foreign Assistance Act was approved, the formal Economic Aid Agreement between China and the United States was signed by the Chinese Foreign Minister and the U. S. Ambassador to China.

The ECA Mission to China was faced with the problem of getting itself organized quickly for the job ahead. To speed up the process, it took over and adapted to the new purpose the China Relief Mission which had been responsible in China for the U. S. Foreign Relief Program under Public Law 84 (Eightieth Congress). ECA also inherited some continuing functions of a relief character, including the distribution of P.L. 84 supplies which had not reached end-users by the time that law expired, on June 30, 1948. ECA likewise continued support to a number of special projects started by the China Relief Mission and financed from a local currency "Special Account."

Operating under a strict limitation on dollar administrative expenses, the Mission has made a maximum use of alien staff, paid in local currency. ECA has arranged for a part of the work of supervising and controlling portions of the program to be done by private firms and voluntary relief agencies.
The program itself has consisted of three parts: the provision of a limited number of basic commodities (food, fuel, cotton, fertilizer, and coal); the initiation of an industrial replacement and reconstruction program; the formation and support of a Joint Commission on Rural Reconstruction in China. In addition, ECA has participated in the management and use of a Special Account, or "counterpart" fund, in Chinese currency provided by the Chinese Government. Of the total $275 million appropriation for the ECA China Program, $203.8 million was earmarked for commodities, $67.5 million for the industrial program, $2.5 million for dollar expenditures on the rural reconstruction program, and $1.2 million for administration.

The commodity program called for average ECA imports into China of supplies costing roughly $20 million a month. As of December 31, $194 million of the commodity funds had been authorized for procurement, and about $112 million worth of these supplies had arrived in China. The commodity program was, therefore, well up to schedule. But obligations against the industrial program had been limited to allotments of money for "preproject" engineering survey work. Toward the end of the year, some of the projects were about ready to start actual procurement and construction work; but in December, it was necessary to suspend allocations for such work pending clarification of the political and military situation in China. Similarly, the Rural Reconstruction Commission was only emerging from the planning stage at the end of 1948, and had tapped only a small part of the $2.5 million set aside for its U.S. dollar expenses.

In all phases of the program, as much emphasis as practicable has been placed on the use of commercial channels of supply and distribution. The food program is the sole exception as regards supply; rice from southeast Asia and wheat and flour from the U.S. have been bought and shipped by the Commodity Credit Corporation, an agency of the U.S. Department of Agriculture. The major portion of the petroleum products, most of which originate in the Persian Gulf, have been procured and shipped by private oil companies. American cotton has been shipped by American firms and received in China by American cotton importers. Fertilizer, coming from a variety of sources under allocations by the International Emergency Food Committee, has likewise been supplied through private commercial channels.

After each commodity shipment arrives in China, the ECA Mission keeps track of its receipt, processing, distribution, and end use. Food is distributed through the first general civilian rationing system ever developed in China's urban areas, with the Chinese Government and ECA each providing a part of the total ration requirements. Cotton becomes yarn, yarn becomes cloth, and the
end-products are used for export, for barter and for domestic sale—
all under the watchful observation of a Joint Management Board in
which ECA participates. Petroleum products are distributed by the
importing companies, who themselves assist in end-use control and
reporting, and provide detailed sales records for each product to
the ECA Mission. As of December 31, 1948, fertilizer had not been
distributed since it was for use in 1949 spring production; a part,
it was planned, would be handled in direct exchange with farmers for
rice, a part sold through commercial channels and a part used by the
Rural Reconstruction Commission. The small amount of coal imported
before the end of the year went directly to utilities and other users
under the supervision of the ECA China Mission. Medical supplies
imported by ECA's predecessor in China, the U. S. China Relief Mission,
are distributed by a special group set up by agreement between the
Ministry of Health and voluntary agencies. Pesticides, also inherited
from the China Relief Mission, have been distributed largely through
commercial channels, the remainder being earmarked for agricultural
demonstration purposes.

The industrial program started with an intensive investigation
of proposed replacement and reconstruction projects conducted by a
special Reconstruction Survey Group. This group faced a double
problem—an extensive need for replacement and reconstruction equip­
ment, and a serious lack of the engineering and management skills
needed in China to make certain that such equipment would be effec­
tively absorbed into the economy. The group prepared tentative
recommendations for allocation among approved projects from the
$67.5 million set aside for this purpose. The projects thus
recommended were largely limited to the field of basic industry
and transportation—the largest provisional allotments proposed
being for power plants, coal mines, the rehabilitation of railroads,
and the manufacture of fertilizer. The Survey Group also developed
procedures for making maximum use of private American engineering
firms as "project engineers" to help individual projects in drawing
up plans, procuring the right equipment, and making sure that equip­
ment is correctly installed and effectively operated. To manage the
whole scheme, ECA and the Chinese Government agreed to retain a high­
grade American firm of management engineers.

The uncertainties in the China situation had in December caused
the suspension of all but survey work under this program, leaving open
the possibility of selected projects being carried forward as circum­
stances permit. The technique adopted for administering this program
may prove to be of significance in relation to future programs involving
industrial projects in underdeveloped countries.
The Joint Commission on Rural Reconstruction in China was established in accordance with Section 407 of the China Aid Act to formulate and carry out a program for reconstruction in rural areas of China. Initiated on August 5 by an exchange of notes between the Chinese and U. S. Governments, the Joint Commission consisted of three Chinese and two American members, appointed in September by the Presidents of China and of the United States.

Intensive planning and survey work were undertaken by the Commission after the members had agreed on the general statement of objectives and principles. In general, the Commission has been moving in the direction of: assisting people in rural areas to improve their living conditions, increase food production, and develop local self-government; strengthening and improving the operations of government agencies concerned with rural problems; stimulating local movements and private agencies in efforts on behalf of the rural people; and affording to progressive elements in the population real opportunities to participate in the program. The Joint Commission operates under the supervision of the Administrator, who has delegated his authority in this field to the Chief of the ECA Mission to China. The American members and staff of the Commission are ECA staff members engaged in full-time work with the Commission.

A special concern of the ECA in connection with the China Program has been the development of sources of strategic materials required by the U. S. Although China is a major producer of three such materials—tin, tungsten, and antimony—the limitations upon funds for stockpiling purposes have made it impracticable to pick up antimony and tungsten which are available for purchase in China. Extensive investigations on the development and supply of tin concentrates and tin metal, however, had resulted before the end of December 1948, in a tentative arrangement for tin purchasing as part of a general scheme for rationalizing the supply of metal and the development of processing facilities in Yunnan Province.

The special local currency account, or counterpart fund, provided for in the Economic Aid Agreement with China, differed from corresponding accounts in Europe, two of its features being unique. The first is an arrangement for deposits of local currency, which leaves the timing of deposits in the discretion of the U. S. Government; this discretion is used to relate deposits to actual needs for local currency, without large surpluses which would rapidly shrink in value. The second unique feature is a "maintenance of value" clause which provides that for certain important uses the Chinese Government would protect appropriations made from the special account against currency depreciation, by expressing the appropriation in terms of some more stable unit, such as U. S. dollars or a basic commodity like rice or cotton yarn.
Since it was clear from the outset that the sterilization of the entire special account would not by itself be an important influence toward control of the inflation, the Chinese Government and the ECA, after consultation with the National Advisory Council in Washington, followed a policy of making expenditures from the account for important public purposes which might not otherwise be provided for, if such expenditures were of demonstrated urgency.

The main categories of expenditure have been for administrative costs, the expenses of delivering relief packages and supplies in China, local currency costs of projects sponsored by the Joint Commission on Rural Reconstruction, expenditures on special projects in the field of water conservancy, health and welfare, and the internal costs to date of the replacement and reconstruction program, in cases where money could not be raised from other sources. It was estimated, according to the plans envisaged during 1948, that the total of these expenditures would amount to less than half of the total potential account.

By the end of December 1948, notifications of U.S. grant aid had been given to the Chinese Government to the amount of $94,470,926. According to preliminary and tentative estimates, pending final determination upon a formula for computing exchange rates, Gold Yuan equivalent to approximately $9,543,000 had been requested for deposit, and the equivalent of approximately $5,839,000 had been spent.

STATISTICAL SUMMARY

The accompanying table shows the status of the economic aid program for China as of December 31, 1948.
STATUT OF ECA CHINA AID PROGRAM
December 31, 1948

(Value in Thousands of Dollars; Quantity in Long Tons)

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<tbody>
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<td>(1)</td>
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<tr>
<td>Administration</td>
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Total excl.

<table>
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<tr>
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<td>Total Commodities</td>
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<th>236,314</th>
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<td>Coal</td>
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<td>Emergency Procurement (Mission)</td>
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<td>Freight and Parcel Post on Voluntary Aid Shipments</td>
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<td>-</td>
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<tr>
<td>Freight on PL 84 Medical Supplies</td>
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<td>Unallocated</td>
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<td>Rural Reconstruction</td>
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<th>Value</th>
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<td>(10)</td>
<td>(11)</td>
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<td>284,256</td>
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<td>74,780</td>
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<tr>
<td>106,517</td>
<td>13,534</td>
<td>54,941</td>
<td>6,775</td>
<td>32,415</td>
<td>3,983</td>
<td>22,526</td>
<td>2,792</td>
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<td>68,090²/</td>
<td>53,904</td>
<td>66,744²/</td>
<td>52,732</td>
<td>32,005</td>
<td>25,236</td>
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<tr>
<td>(305,041 bales)</td>
<td>(299,038 bales)</td>
<td>(143,385 bales)</td>
<td>(155,633 bales)</td>
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<tr>
<td>n.a.</td>
<td>15,000</td>
<td>28,553</td>
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<tr>
<td>14,800</td>
<td>286</td>
<td>14,800</td>
<td>286</td>
<td>14,800</td>
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</table>

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- 0 - - - -
- 0 - - - -
- 0 - - - -
- 62 8/
- 0 - - - -

11
FOOTNOTES FOR PRECEDING TABLE

General Note: Value data on commodities include freight.


2/ Based on reports from the China Mission. Values estimated. Includes approximately 25,000 tons of rice and flour transferred from China Relief Mission. Rice data include 9,002 tons of loaned rice from Hongkong to be repaid from future shipments. In addition to data shown, ECA has had responsibility for supervising distribution of corn seeds, medical supplies, and pesticides, (valued at approximately $5 million), transferred after 6/30/48 from the China Relief Mission, of which there remained on hand at 12/31/48 $5,000 worth of corn seeds, $3,700,000 of medical supplies, and $87,000 of pesticides.

3/ Total omitted because of non-receipt of data on petroleum.

4/ All cotton shipped to date has arrived. Differences reported will be reconciled after final weighing and adjustment of claims.

5/ Anticipated cancellations.

6/ Payment in advance, pending receipt of documentation.

7/ Not covered by procurement authorization. $40,000 has been allotted to U. S. Post Office Dept.

8/ Consists only of preproject engineering services. Balance of program in suspense except for additional preproject engineering expense estimated at less than $1 million.

9/ Reserved for Joint Commission on Rural Reconstruction in China. Approximately $14,000 has been charged for salaries and dollar expenses of American members and staff.
GENERAL NOTE: Value dates on commodities include freight. Excluded from the above totals are cost of administration, special emergency procurement fund, freight and parcel post on voluntary aid shipments, freight on medical supplies and unallocated funds, totaling $40 million.

Program suspended due to unsettled conditions in China

Entire amount allocated to joint Sino-American commission for program of rural reconstruction. Bulk of expenditures for this operation in local currency.
CHINA PROGRAM

PROGRESS TOWARD PROGRAM 3

THRU DECEMBER 31

MILLIONS OF DOLLARS

250

200

150

100

50

0

ANNUAL PROGRAM

PROCUREMENT AUTHORIZED

REPORTED SHIPPED

COMMODITIES

203.8

194.2

119.7

70.0

ANNUAL PROGRAM

PROCUREMENT AUTHORIZED

REPORTED SHIPPED

CAPITAL EQUIPMENT and TECHNICAL SERVICES

1.2

0.1

Program figures exclude $1.2 million for administration.

Suspended due to unsettled conditions except for certain engineering surveys.

AUTHORIZATIONS BY MONTH

MILLIONS OF DOLLARS

0

5

10

15

50

100

150

200

250

JANUARY 19, 1949
CHINA PROGRAM

ORIGIN OF COMMODITIES

AUTHORIZATIONS AND REPORTED SHIPMENTS THRU DECEMBER 31

<table>
<thead>
<tr>
<th>ORIGIN</th>
<th>AUTHORIZED</th>
<th>REPORTED SHIPPED</th>
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<tr>
<td>UNITED STATES</td>
<td>92.9</td>
<td></td>
</tr>
<tr>
<td>SAUDI ARABIA</td>
<td>47.5</td>
<td></td>
</tr>
<tr>
<td>SIAM and BURMA</td>
<td>41.2</td>
<td></td>
</tr>
<tr>
<td>EUROPEAN PARTICIPATING COUNTRIES</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>CANADA and NEWFOUNDLAND</td>
<td>1.2</td>
<td></td>
</tr>
<tr>
<td>JAPAN</td>
<td>0.3</td>
<td></td>
</tr>
</tbody>
</table>

Commodities from the United States

- Bread Grains: 17%
- Cotton: 83%

$65.3 Million Reported Shipped

2/ Not comparable with earlier charts, which included ocean freight for bread grains, rice and fertilizer.
CHRONOLOGY OF EVENTS IN ECONOMIC AID PROGRAM
FOR CHINA DURING 1948

Feb. 18 The President sends to Congress a message on Economic Aid to China.

Feb. 20 The Department of State presents to the Foreign Affairs Committee a proposed program of economic assistance to China, with a summary of background information.

April 3 Congress approves the Foreign Assistance Act of 1948 (Public Law 472) including Title IV, the China Aid Act of 1948, in which $338 million is authorized for economic aid to China, and $125 million for additional aid through grants without regard to the provisions of the Economic Cooperation Act of 1948.

April 30 The President allocates to ECA $36.5 million, out of $50 million R.P.C. funds for use in initiating economic assistance to China under Public Law 472, Title IV.

April 30 Notes are exchanged by the Secretary of State and the Chinese Ambassador to the United States, setting up interim arrangements for the provision of assistance to China pending final negotiation of a bilateral agreement.

May 5 Roger D. Lapham is appointed Chief of the ECA Mission to China.

May 8 The first phase of the China Aid Program, involving an expenditure of $36.5 million, is approved by the ECA Administrator.

May 14 The first procurement authorization for China is issued for $1,106,960 worth of flour.

June 7 Mr. Lapham arrives at his post in China.

June 7 The first members of a Reconstruction Survey Group, headed by Charles L. Stillman, arrive in China to lay out the Industrial Reconstruction and Replacement part of the China Aid Program.
June 8  The Chinese Government promulgates an organic statute for the establishment of the China Council for United States Aid (CUSA) as an agency of the Executive Yuan.

June 18  The first joint meeting is held between CUSA and the ECA Mission to China.

June 28  Congress approves (P.L. 793) appropriation of $275 million for economic aid to China under the terms of P.L. 472, Title IV, and $125 million for additional aid through grants, without regard to the provisions of P.L. 472.

June 28  Harlan Cleveland is appointed Director of the China Program at ECA Headquarters in Washington.

June 30  The China Relief Mission (operating under P.L. 84) is abolished, personnel being taken over by the ECA China Mission.

June 30  The status of operations at the end of the first quarter after passage of the China Aid Act is reflected in the following figures: Commodities (rice, wheat and flour, cotton, petroleum, fertilizer) programmed, $36 million; authorized, $26.5 million for 91,400 long tons; arrived in China, 41,500 tons. Industrial reconstruction and replacement programmed $0.5 million; authorized, $0.3 million.

July 1  Personnel transferred (some, tentatively) from the China Relief Mission (under P.L. 84) to the ECA China Mission include approximately 65 Americans, 475 aliens.

July 3  The Economic Aid Agreement (bilateral agreement) between China and the United States is signed in Nanking by the Minister of Foreign Affairs and the American Ambassador to China.

Aug. 5  An exchange of notes between the United States and China, establishing the Joint Rural Reconstruction Commission, is signed in Nanking.

Aug. 7  The first deposit is made in the Special Local Currency Account, or counterpart fund.
Aug. 9  The Reconstruction Survey Group presents an interim report.

Aug. 11 Provisional allotments are announced for the first four replacement projects under the reconstruction and replacement program.

Sept. 5  The sale of ECA rice for the rationing program begins in Shanghai.

Sept. 5  The ECA China Mission and CUSA reach initial agreement on principles to cover the distribution of ECA-provided fertilizer in China.

Sept. 13 A first tentative local currency program, covering expenditures from the counterpart fund for relief, rural reconstruction projects and administrative expenses, is agreed to by CUSA and the ECA China Mission.

Sept. 13 The China Program Division is formally established within ECA Headquarters in Washington.

Sept. 19 Raymond T. Moyer and John Earl Baker are appointed by the President as American members of the Joint Rural Reconstruction Commission.

Sept. 19 The Reconstruction Survey Group presents additional findings and recommendations.

Sept. 23 The ECA Public Advisory Committee for the China Program is established.

Sept. 29 The first meeting of the Public Advisory Committee is held.

Sept. 30 The ECA China Mission reports local currency payments for special projects approved and deposited during September as totaling gold yuan 1,449,346.97 for selected medical, welfare, relief, conservancy, public works and agricultural projects throughout Nationalist China.

Sept. 30 Status figures at the end of the second quarter of operations are: Commodities programmed, $106.2 million; authorized $83.9 million for approximately
205,200 tons; arrived in China, 193,400 tons; distributed, 90,200 tons. Reconstruction and Replacement programed, $5.1 million; authorized (as amended), $0.1 million. Personnel strength of China Mission, 86 Americans and 469 aliens.

Oct. 1
The first meeting of the Joint Rural Reconstruction Commission is held in Nanking.

Oct. 1
The seventh ECA regional office in China is opened in Tsingtao.

Oct. 1
The first ECA-imported cotton moves to mills, after conclusion of detailed arrangements with the Chinese Government as to end-use control.

Oct. 2
The first fertilizer contract is let under the ECA China Program.

Oct. 2-3
The ECA Industrial Survey Group, together with CUSA representatives, conducts a field survey in west China.

Oct. 14
The Chinese Government signs a contract with the J. G. White Engineering Corporation for technical advisory service to CUSA and ECA on industrial reconstruction and replacement projects.

Oct. 18
The Joint Rural Reconstruction Commission makes its first policy announcement, dealing with general principles agreed upon as governing allocations in this field.

Nov. 8
The Chinese and U. S. Governments exchange notes providing for continuation and extension of duty-free importation of relief shipments from the U. S., and for financing local currency transport costs for such shipments out of the Special Account.

Nov. 8
Mr. Isphahn announces measures taken to expedite ECA food shipments in support of the rationing program.

Nov. 11
An arrangement is concluded for the loan to ECA of 10,000 tons of rice from Hongkong to ease the food crisis in Shanghai.
Nov. 11-13 Cloth and cotton of ECA origin are flown to Nanchang, the plane returning with 5 tons of rice, providing a test of indigenous procurement, by barter, of food for cities during a food crisis.

Nov. 16 A first ECA emergency wheat shipment of 9,000 tons reaches Tientsin; this and subsequent shipments making possible continuation of the Tientsin and Peiping rationing systems.

Nov. 18 A tentative program for the Special Local Currency Account is favorably reviewed by the National Advisory Council.

Nov. 19 The first of a series of shiploads of emergency rice reaches Shanghai.

Nov. 21 The Chinese Government establishes a new Economic Coordination Board.

Nov. 23 Members of the Joint Commission on Rural Reconstruction leave Nanking to organize action programs in Szechuan and Hunan provinces.

Nov. 30 Operational status figures are: Commodities programmed, $168.6 million; authorized, $164.8 million for approximately 553,300 tons; arrived in China, 218,000 tons; distributed, 151,300 tons. Industrial reconstruction and replacement tentatively programmed, $50.1 million; authorized, only $1.1 million (due to civil war conditions). Personnel strength of ECA China Mission, 101 Americans and 372 aliens.

Dec. 5 ECA announces that more than two-thirds of the total commodity aid program for China has been authorized, that nearly half of the commodity aid has arrived in China—including $19.2 million worth of food, $54 million worth of cotton, and $29 million worth of petroleum—and that the food, petroleum and one-third of the cotton delivered have gone into consumption channels.

Dec. 5 Joint Rural Reconstruction Commission headquarters are transferred from Nanking to Canton.

Dec. 11 Administrator Paul Hoffman arrives in Shanghai for conferences with ECA China Mission.
Dec. 21 Administrator announces suspension of industrial reconstruction projects, previously programmed at $70 million, with continuation in part of pre-project engineering surveys; this action does not apply to commodity and rural reconstruction programs.
BACKGROUND AND PURPOSES
OF ECONOMIC AID TO CHINA DURING 1948

Background

Conditions prevailing in China prior to the President's recommendation of an economic assistance program for China were described in a summary statement presented by the Department of State, on February 20, 1948, to the Committee on Foreign Affairs. With respect to the background, at that time, of conditions in China, the statement said:

"China's economy has deteriorated steadily since the defeat of Japan. This deterioration has been due to the devastation which civil warfare has added to the disorganization and destruction brought about by the war against Japan, and to the difficulties faced by China, in the circumstances, in mobilizing effectively its available resources. It has taken place despite large amounts of foreign aid extended or available to China since VJ-day... In addition, the Chinese Government has expended more than $700 million of its own foreign-exchange holdings.

The civil warfare in China has seriously dislocated economic activity in two major respects. First, its physical impact has been felt through the destruction and dislocation of transportation and industrial facilities, and in the isolation of raw material, fuel, and food sources from centers of consumption and ports of export. Second, the monetary and financial impact of civil war is felt throughout the entire economy in the disruptive consequences of inflation resulting from the issuance of paper currency in order to finance mounting Government deficits caused mainly by military expenditures. Inflation impedes the production and movement of goods for domestic consumption and export, and stimulates speculation and hoarding. It thus intensifies existing scarcities, and requires ever-larger Government appropriations.

Note issues and prices have continued to increase at tremendous rates. Note issue increased more than eight times during 1947; the price of rice in Shanghai increased more than 15 times during the same period. The official exchange value of the yuan was CN$3.250 to the US$1 as of January 1, 1947."
and has been raised to a current rate of CN$140,000 to the US$1. Black-market quotations are currently around CN$200,000 to the US$1.

"Government expenditures for the year 1947 were originally estimated at CN$9.4 trillion, against estimated revenue of CN$7.4 trillion. By May 7, 1947, a new budget of CN$18 trillion for 1947 was approved, and later, as prices further increased, new revisions brought total government expenditures for 1947 to about CN$40 trillion. Of this amount, not less than 70 percent has been required for military purposes. Revenue from taxes and government-operated enterprises has covered less than one-third of the total government expenditures.

"The rate of increase in note issue in 1946 was about 10 percent per month; in the first half of 1947 it rose to 15 percent per month; currently it is 25 percent per month. Prices have moved unevenly with periods of very sharp upward fluctuation alternating with periods of quiescence. Intervals between the periods of sharp increases are becoming shorter, and the increases tend to become steeper.

"The continued low level of Chinese exports and official receipts from overseas remittances caused by civil war and inflation, has made it necessary for the Chinese Government to draw down its official Chinese foreign-exchange holdings to finance the major portion of Chinese imports. Chinese government holdings of gold and dollar exchange have fallen from about US$900 million on December 31, 1945, to about US$234 million as of January 1, 1948, of which $96.5 million represents gold ($66 million being held in China) and $137.8 million consists of official dollar balances in the United States. In addition, holdings of sterling area currencies as of January 1, 1948, are estimated at approximately $40 million; and official holdings of silver are valued at around $30 million, almost all of which is held in China.

"Private Chinese holdings of gold, foreign exchange, and long-term assets in all foreign currencies are not known but may be estimated to be at least US $500 million. Such holdings have increased since the end of 1945, through private accumulation of
gold in China, through flight of capital via Hong Kong, and other means. The ability of the Chinese Government to mobilize these privately held assets is, however, decreasing with continued deterioration in the financial and economic situation.

"As a result of the continued drains on her foreign-exchange holdings, China soon will be unable to meet external costs for procurement of essential imports needed for the continuation of her basic civilian economy. The official proceeds of exports and remittances would be grossly inadequate to meet minimum requirements, and such proceeds could be expected to decline. If imports were contracted much further, industrial activity would diminish rapidly, minimum consumption needs in Shanghai and other vital areas would not be met, government revenues would fall off sharply, and prices would be in a situation of panic psychology and uncontrolled inflation. Accordingly there is immediate necessity for an economic-assistance program for China which will afford the Chinese Government an opportunity to take steps which only the Government itself can take to arrest the trend of economic deterioration, and to begin effective steps toward more stable economic conditions."

Purposes

Economic aid provided by the United States to China during 1948 has been separate from the European Recovery Program. The China Aid Act of 1948, Title IV of Public Law 472, approved April 3, 1948, stated, in Section 403: "It is not the purpose of this title that China, in order to receive aid hereunder, shall adhere to a joint program for European recovery."

The general purposes of the China Aid Act of 1948 were set forth in Section 402, in the following terms:

"Recognizing the intimate economic and other relationships between the United States and China, and recognizing that disruption following in the wake of war is not contained by national frontiers, the Congress finds that the existing situation in China endangers the establishment of a lasting peace, the general welfare and national interest of the United States, and the attainment of the objectives of the United Nations."
It is the sense of the Congress that the further evolution in China of principles of individual liberty, free institutions, and genuine independence rests largely upon the continuing development of a strong and democratic national government as the basis for the establishment of sound economic conditions and for stable international economic relationships. Mindful of the advantages which the United States has enjoyed through the existence of a large domestic market with no internal trade barriers, and believing that similar advantages can accrue to China, it is declared to be the policy of the people of the United States to encourage the Republic of China and its people to exert sustained common efforts which will speedily achieve the internal peace and economic stability in China which are essential for lasting peace and prosperity in the world. It is further declared to be the policy of the people of the United States to encourage the Republic of China in its efforts to maintain the genuine independence and the administrative integrity of China, and to sustain and strengthen principles of individual liberty and free institutions in China through a program of assistance based on self-help and cooperation: Provided, That no assistance to China herein contemplated shall seriously impair the economic stability of the United States. It is further declared to be the policy of the United States that assistance provided by the United States under this title should at all times be dependent upon cooperation by the Republic of China and its people in furthering the program: Provided further, That assistance furnished under this title shall not be construed as an express or implied assumption by the United States of any responsibility for policies, acts, or undertakings of the Republic of China or for conditions which may prevail in China at any time."

That the effectiveness of aid to China would depend primarily upon policies and actions of the Chinese Government and upon other developments within China was emphasized in statements by the President and the Secretary of State prior to the passage of the China Aid Act of 1948 and in a statement by the Administrator for Economic Cooperation after the Act was approved. In a message to Congress on aid to China, transmitted on February 18, 1948, the President stated:

"... We have hoped for conditions in China that would make possible the effective and constructive use of
"American assistance in reconstruction and rehabilitation. Conditions have not developed as we had hoped and we can only do what is feasible under circumstances as they exist.

"We can assist in retarding the current economic deterioration and thus give the Chinese Government further opportunity to initiate the measures necessary to the establishment of more stable economic conditions. But it is, and has been, clear that only the Chinese Government itself can undertake the vital measures necessary to provide the framework within which efforts toward peace and true economic recovery may be effective.

"In determining the character and dimensions of the program which might be suited to this purpose, we have had to take into account a number of diverse and conflicting factors, including the other demands on our national resources at this time, the availability of specific commodities, the dimensions and complexities of the problems facing the Chinese Government, and the extent to which these problems could be promptly and effectively alleviated by foreign aid. United States assistance to China, like that provided to any other nation, must be adapted to its particular requirements and capacities."

The Secretary of State, in a statement to the Committee on Foreign Affairs of the House of Representatives on February 20, 1948, said:

"The Chinese Government is in dire need of assistance in its present serious economic difficulties. However, the political, economic and financial conditions in China are so unstable and so uncertain that it is impossible to develop a practical, effective, long-term over-all program for economic recovery. Nevertheless, it is desirable that the United States Government render assistance to China in her present critical situation in order to help retard the present rapid rate of economic deterioration and thus provide a breathing space in which the Chinese Government could initiate important steps toward more stable economic conditions."

After reviewing briefly conditions in China, the Secretary added:
"... In view of this situation, the program should not involve the virtual underwriting of the future of the Chinese economy. The United States should not by its action be put in the position of being charged with a direct responsibility for the conduct of the Chinese Government and its political, economic and military affairs."

During the course of subsequent hearings before the sub-committee of the Committee on Appropriations, House of Representatives, a statement by the Administrator for Economic Cooperation was presented for the record on May 18, 1948, in which the Administrator said:

"As the testimony before Congress and the reports of the congressional Foreign Relations Committees showed, the situation in China is a very difficult one. The long struggle against the Japanese, followed by civil strife which has continued and grown in intensity, has resulted in an ever-increasing disruption and deterioration of the Chinese economy.

"Today, China's civil war takes two-thirds of the Government's internal budget. The resulting inflation, which has now reached the point where it takes more than a million Chinese dollars to buy one American dollar in Shanghai's black market, is both a result and a cause of the progressive deterioration.

"The Chinese rely heavily upon imports to keep their economy going. But inflation and instability in China have meant a decrease in exports and other receipts, which must be relied upon to pay for necessary imports.

"I think it is important, therefore, to emphasize what I take to be the intent of Congress in passing the China Aid Act of 1948. It was not deemed possible under all the circumstances to work out a longer range plan of assistance to China, such as is embodied in the European recovery program. The aid now provided for is a 1-year program of assistance. I cannot emphasize too strongly, that this program, even if administered in the most effective way, cannot be expected to work any miracle in China. The program is designed to give China this further opportunity to work out for itself the means of arresting the deterioration of its economy, and of laying the groundwork for rehabilitation and recovery. In
according our help we must do the very best job we can with what we have, calling on China for a continuation and an intensification of its efforts to create the necessary conditions to success."
Financial Developments

The Budget Problem

Budgetary imbalance, prior to 1948, had been the principal cause of China's nine-year-long inflation. In 1947, not less than 70 percent of the Government's expenditures were for military purposes. Revenues in that year covered less than one-third of total expenditures, the balance being financed almost entirely by expansion of the note issue.

In 1948, the budgetary deficit was unquestionably much more serious. The loss of territory to Communist forces, the further dislocation of transportation and productive facilities and a sharp increase in smuggling combined to reduce receipts from taxes, government-operated enterprises and customs duties. Increased military expenditures were incurred as the civil war spread and mounted in intensity.

The Government budget for January to June 1948 estimated expenditures in the amount of Chinese National Currency (CN) 96 trillion. Actual expenditures for the six-months' period were CN 240 trillion. In the month of May, for example, expenditures totaled CN 75 trillion; this was five times the amount of revenue for the month. Budget estimates, in July, for the last six months of 1948 called for expenditures of CN 900 trillion. For the month of August alone, actual expenditure calculated in the new Gold Yuan currency was announced as GY 300 million. At the rate of exchange for CN, this was the equivalent of CN 900 trillion or the entire amount of the July budget for the half-year period. Each budget was higher than the previous one, and each budget was overspent several times.

These facts are indicative of the critical nature of the Chinese Government's budgetary problem during 1948. The increasing deficits were met by expanding the note issue. This, in turn, produced a continual spiralling in prices. With prices increasing rapidly, ever-larger appropriations were made for Government military activity and subsidy payments.

The Inflation

Although less damaging in the rural areas, inflationary conditions by the end of 1948 had almost completely disrupted commercial
and industrial activity in urban areas still under the control of the Central Government. Drastic currency and economic reforms promulgated on August 19 did not restrain the price spiral for more than a few weeks.

Prices in August 1948, as measured by the Shanghai wholesale price index, were more than 3 million times those of the prewar half year, January to June 1937. In the first eight months of 1948 prices increased more than 60 times and the black market rate for U. S. dollar notes increased more than 70 times. In the same period the note issue increased only 20 times. Thus the rate of price increase for the period progressively exceeded the rate of expansion of the note issue, and accordingly the value of the total currency outstanding contracted in terms of purchasing power. This contraction of the purchasing power of an expanding note issue has been observed in the later stages of currency inflation in other countries.

The increase in prices was uneven, and abnormal price dispersion widened as economic frictions developed. Prices established by administrative and contractual determination could not keep pace with the increase of prices established in market situations. Consequently, the price system became increasingly ineffective in facilitating the flow of goods and services. Electric power suppliers in Shanghai, for example, continually faced the problem of the increasing lag of government-determined power rates behind the daily rise in costs of raw materials and labor.

Immediately prior to the August currency reforms, there was a sharp increase in the velocity of circulation. Lack of public confidence in, and consequent flight from, the national currency increased the already widespread speculation in commodities, foreign currencies and precious metals. By August gold, silver, U. S. and Hongkong dollars were being increasingly used as units of account and media of exchange in certain areas of China.

The August 19 regulations were instituted by the Government in an attempt to strengthen its financial position and retard the inflation. A new currency called the Gold Yuan was introduced to replace the old Chinese National Currency at the rate of GY 1 to CN 3 million. The rate of exchange for one U. S. dollar was set at GY 4; thus the Government in effect legalized the black-market rate in Shanghai which immediately prior to the currency reform had been approximately CN 12 million to one U. S. dollar.

The new currency was inconvertible but was to be backed by official gold, silver, foreign exchange and securities of certain
government-owned enterprises. The note issue was to be limited to GY 2 billion. It was declared illegal to hold or deal in gold, silver and foreign currency, which were required to be surrendered to the Government at specified rates. The regulations called for the registration of private assets held in foreign countries by Chinese nationals.

The reforms froze all prices at August 19 levels and steps were taken to enforce price ceilings. Hoarding and speculation were strictly forbidden and violators of the regulations were subject to severe punishment.

The August reforms achieved a limited but transitory success. The surrender of gold, silver and foreign currencies strengthened somewhat the Government's foreign exchange position. The legalization of the black-market exchange rate provided a temporary stimulus to exports which had languished under the earlier unrealistic rates. For a brief period in certain large cities where police action was most effective, black markets disappeared, prices remained fairly steady and the velocity of the circulation slowed considerably.

In attacking the problem of inflation, however, the August 19 measures failed to eliminate the most crucial feature. Although the Government had announced its intention of balancing the budget at the time of the August reforms it never succeeded in controlling the deficit. Expenditures continued to rise with increased military activity and subsidy payments were increased in order to maintain ceiling prices. Further expansion of the note issue was required as a result of continued extensive deficit financing. In addition large amounts of currency were injected into the economy in payment for the public's surrender of gold and foreign exchange. Between August 19 and October 1 the note issue had increased almost five times.

Prices in western and northern cities and in rural areas, where police enforcement was ineffective, continued to increase and the consequences of such geographical price differentials began seriously to hamper the movement of food and raw materials to the large cities. In Shanghai where police action was most stringent, trade and production were largely strangled by the maintenance of unrealistic price ceilings. By October however it became apparent even in that city the enforcement of the regulations could not hold back the inflationary pressures.

In Shanghai and other large cities an expanded purchasing power had developed in all income groups as a result of accumulated
holdings of gold yuan currency. It was in these cities that conver­sions of gold, silver and foreign currencies into gold yuan had been concentrated. A further expansion in purchasing power had resulted from the virtual elimination, by enforcement of the August 19 regu­lations, of what had been predominant fields of investment for idle capital, such as hoarding and dealing in wholesale lots of commodities. As accumulated holdings of the new currency increased, the restraints on production imposed by police action to maintain unrealistic price ceilings and the restraints on domestic commerce resulting from ar­tificial price differentials had combined to reduce considerably the stocks of goods in these cities.

Thus by October it had become clear that, in actual effect, the August 19 regulations had proven to be highly inflationary. It was at this inauspicious time that the Government, having failed to in­crease revenues by other means, announced plans for a program of heavy commodity taxes. It was also at this time that the Government, suffered at Tsianan in Shantung province the first of a series of major military defeats. The already shaken public confidence in the new currency completely crumbled and the rush to convert currency holdings into commodities became a panic as the public grew aware of the limited inventories of rice and other consumer goods available.

The commercial and industrial activity of the country had deteriorated to such an extent that on November 1, price ceilings were removed in order to encourage the flow of trade. On November 11, the August currency measures were revised to permit the holding of gold and foreign currencies. The Government undertook a program of gold sales to the public at a price which was, in effect, GY 2,000 per ounce. This price was ten times the price at which the public had sold its gold to the Government three months earlier. The limit of GY 2 billion set on the issue of gold yuan in August was also removed in November. By the end of that month, the GY note issue was well over GY 2 billion. The official exchange rate for one U. S. dollar was adjusted from GY 4 to GY 20. At the end of November the black market which was now back in full strength quoted the U. S. dollar at GY 50, and Shanghai prices were more than 18 times the price level of August 19. At the end of December, the black-market rate in Shanghai for the U. S. dollar had climbed to GY 165 and prices had reached 26.6 times the August 19 level.

The Government's attempt, beginning in August, to retard the inflation had contributed to a critical situation by the end of 1948. Whatever public savings had existed in the form of hoards of gold, silver and foreign currencies had been sharply diminished. The issue of the new currency had increased faster than ever, while the
greater part of the old CNG note issue was still outstanding and cir-
culating in rural areas.

International Financial Position

China's foreign exchange receipts from exports, overseas remit-
tances and other international transactions in 1948 have been in-
sufficient to finance commercial and official Chinese Government
imports (not including imports financed by the United States Govern-
ment), debt service and miscellaneous payments. The resulting deficit
has been covered by payments from the Chinese Government's holdings
of gold and foreign exchange, which amounted to US$234 million as of
January 1, 1948, plus sterling area currencies estimated as equivalent
to about US$40 million, and silver valued at around US$30 million.
Drawings from official holdings in 1948 to cover the deficit probably
exceeded US$100 million. Notwithstanding these drawings, the total
value of Chinese Government holdings of gold, U. S. dollars and other
foreign currencies, and silver as of January 1, 1949, may have ex-
ceeded somewhat the corresponding figure for January 1, 1948. Ac-
cording to announcements by the Chinese Government, the equivalent
of approximately $150 million in gold, U. S. dollars, Hongkong dollars
and other foreign currencies has been exchanged by private individuals
in China for the new Gold Yuan currency following the issuance of the
financial regulations of August 19, 1948.

Private Chinese holdings of gold, foreign exchange and long-
term assets in all foreign currencies are not known, but in February
1948 were estimated to be of a value not less than $500 million.
Government efforts to encourage the registration of private assets
abroad are understood to have met with indifferent success. Not-
withstanding the surrender to the government of foreign exchange
assets in China by private individuals after August 19, 1948, it is
believed that private Chinese holdings will have increased during
1948 through more than offsetting accruals to private accounts from
transactions outside official channels. Such accruals have resulted
from smuggled exports, undervaluation of exports and other devices.

Economic Developments

Agricultural Production

Food Crops. Output of food crops in 1948 was at approximately
prowar levels (1931-37 average) despite the effect of civil war.
Rainfall was favorable in North China, and in the Yangtze Valley and
South China the influence of summer floods and periodic drought was
**PREWAR RICE CONSUMPTION OF PRINCIPAL CHINESE CITIES, 1926 (Metric Tons)**

<table>
<thead>
<tr>
<th>City</th>
<th>Consumption</th>
<th>Chief Sources of Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai</td>
<td>810,000</td>
<td>Lower Yangtze, South-east Asia, Central Yangtze</td>
</tr>
<tr>
<td>Hankow</td>
<td>65,000</td>
<td>Lower Yangtze</td>
</tr>
<tr>
<td>Nanking</td>
<td>240,000</td>
<td>Central Yangtze</td>
</tr>
<tr>
<td>Tsingtao</td>
<td>10,000</td>
<td>Yangtze, South-west Asia</td>
</tr>
<tr>
<td>Tientsin</td>
<td>39,000</td>
<td>Yangtze, South-west Asia</td>
</tr>
<tr>
<td>Peiping</td>
<td>33,000</td>
<td>Yangtze, South-west Asia</td>
</tr>
<tr>
<td>Hangchow</td>
<td>54,000</td>
<td>Lower Yangtze</td>
</tr>
<tr>
<td>Ningpo</td>
<td>69,000</td>
<td>Central Yangtze</td>
</tr>
<tr>
<td>Changsha</td>
<td>25,000</td>
<td>Central Yangtze</td>
</tr>
<tr>
<td>Chungking</td>
<td>35,000</td>
<td>South-west Asia</td>
</tr>
</tbody>
</table>

**PREFMAP AND POSTWAR RICE PRODUCTION OF CHINA, BY AREA (Metric Tons)**

<table>
<thead>
<tr>
<th>Area Number</th>
<th>Province</th>
<th>1931-37</th>
<th>Postwar</th>
<th>Normal Deficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Szechwan</td>
<td>434,350</td>
<td>461,500</td>
<td>Urban Areas</td>
</tr>
<tr>
<td>2</td>
<td>Honan</td>
<td>11,792,100</td>
<td>18,109,500</td>
<td>Normal surplus</td>
</tr>
<tr>
<td>3</td>
<td>Honan</td>
<td>11,320,100</td>
<td>11,319,500</td>
<td>Normal surplus, East China, Shanghai, Kiangsu, Kwangtung.</td>
</tr>
<tr>
<td>4</td>
<td>Szechwan</td>
<td>5,363,500</td>
<td>6,325,500</td>
<td>Normal surplus</td>
</tr>
<tr>
<td>5</td>
<td>Honan</td>
<td>6,617,900</td>
<td>9,219,900</td>
<td>Kwangtung normally surplus, Shanghai self-sufficient.</td>
</tr>
<tr>
<td>6</td>
<td>(South)</td>
<td>15,838,000</td>
<td>9,418,000</td>
<td>Normally deficient.</td>
</tr>
<tr>
<td>7</td>
<td>Taiwan</td>
<td>1,660,000</td>
<td>1,630,000</td>
<td>Normally surplus.</td>
</tr>
</tbody>
</table>

Source: National Agricultural Research Bureau of China Ministry of Agriculture and Forestry.

**KEY TO SYMBOLS**

- **Features**
  - Principal Rice Growing Areas
  - Principal Urban Consumption Centers
  - Approximate Communist-held Areas as of Dec. 31, 1949

**AVERAGE ANNUAL RICE PRODUCTION (Millions of Metric Tons)**

- 1931-37
- 1947

offset by otherwise satisfactory crop conditions. Comparison of
estimated food output by major crops before the war and in 1948 is
shown below:

<table>
<thead>
<tr>
<th>Crop</th>
<th>Conversion Rates*</th>
<th>1931-37</th>
<th>1948</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Rice</strong></td>
<td>74</td>
<td>33.8</td>
<td>33.5</td>
</tr>
<tr>
<td>Glutinous rice</td>
<td>74</td>
<td>3.3</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Wheat</strong></td>
<td>79</td>
<td>17.2</td>
<td>20.2</td>
</tr>
<tr>
<td>Barley</td>
<td>70</td>
<td>5.5</td>
<td>5.4</td>
</tr>
<tr>
<td>Kaoliang</td>
<td>83</td>
<td>6.1</td>
<td>5.6</td>
</tr>
<tr>
<td>Millets</td>
<td>88</td>
<td>7.2</td>
<td>7.3</td>
</tr>
<tr>
<td>Corn</td>
<td>88</td>
<td>5.6</td>
<td>6.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>24.6</td>
<td>24.9</td>
</tr>
<tr>
<td>Total, cereals</td>
<td></td>
<td>78.9</td>
<td>80.7</td>
</tr>
<tr>
<td>Sweet potatoes</td>
<td>30</td>
<td>5.6</td>
<td>7.5</td>
</tr>
<tr>
<td>Soybeans</td>
<td>88</td>
<td>5.3</td>
<td>5.3</td>
</tr>
<tr>
<td>Field beans</td>
<td>88</td>
<td>2.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Broad beans</td>
<td>88</td>
<td>2.6</td>
<td>2.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10.7</td>
<td>10.7</td>
</tr>
<tr>
<td>Total, legumes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rapessed</td>
<td>65</td>
<td>1.6</td>
<td>2.1</td>
</tr>
<tr>
<td>Peanuts</td>
<td>55</td>
<td>1.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Sesame seed</td>
<td>80</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.8</td>
<td>4.6</td>
</tr>
<tr>
<td>Total, oilseeds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>99.0</td>
<td>103.5</td>
</tr>
</tbody>
</table>

* As used by the National FAO Council of China and the US Agricultural Attache.

By major areas, food production in 1948 compared favorably with
prewar output in all but the North China coastal region (Hopeh and
Shantung), where the crop was 95 percent of prewar but appreciably
above the 1947 level.
### CHINA: FOOD OUTPUT IN 1931-37 AND 1948 BY MAJOR AREAS*

*(In 1,000,000 metric tons milled rice equivalent)*

<table>
<thead>
<tr>
<th>Crops</th>
<th>North Coast</th>
<th>North Central</th>
<th>Lower Yangtze</th>
<th>Middle Yangtze</th>
<th>Szechwan</th>
<th>South China</th>
<th>All China</th>
<th>All Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1931-1937</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rice and wheat</td>
<td>4.4</td>
<td>4.8</td>
<td>12.6</td>
<td>11.0</td>
<td>7.1</td>
<td>10.9</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>Coarse grains</td>
<td>8.3</td>
<td>5.2</td>
<td>3.3</td>
<td>1.5</td>
<td>2.8</td>
<td>0.5</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td>Total cereals</td>
<td>12.7</td>
<td>10.0</td>
<td>15.9</td>
<td>12.5</td>
<td>9.9</td>
<td>11.5</td>
<td>6.5</td>
<td></td>
</tr>
<tr>
<td>Sweet potatoes</td>
<td>1.1</td>
<td>0.7</td>
<td>1.0</td>
<td>0.7</td>
<td>0.8</td>
<td>1.1</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>Legumes</td>
<td>2.1</td>
<td>1.4</td>
<td>2.7</td>
<td>1.5</td>
<td>1.7</td>
<td>0.5</td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td>Oilseeds</td>
<td>0.8</td>
<td>0.4</td>
<td>0.7</td>
<td>0.7</td>
<td>0.6</td>
<td>0.3</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>16.7</td>
<td>12.5</td>
<td>20.3</td>
<td>15.4</td>
<td>13.0</td>
<td>13.4</td>
<td>7.7</td>
<td></td>
</tr>
<tr>
<td>1948</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rice and wheat</td>
<td>4.0</td>
<td>5.8</td>
<td>13.9</td>
<td>10.8</td>
<td>7.2</td>
<td>10.3</td>
<td>4.1</td>
<td></td>
</tr>
<tr>
<td>Coarse grains</td>
<td>8.0</td>
<td>5.5</td>
<td>3.6</td>
<td>1.4</td>
<td>2.9</td>
<td>0.6</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>Total cereals</td>
<td>12.0</td>
<td>11.3</td>
<td>17.5</td>
<td>12.2</td>
<td>10.1</td>
<td>10.9</td>
<td>6.9</td>
<td></td>
</tr>
<tr>
<td>Sweet potatoes</td>
<td>1.3</td>
<td>1.3</td>
<td>0.9</td>
<td>0.9</td>
<td>1.0</td>
<td>1.9</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>Legumes</td>
<td>1.8</td>
<td>1.2</td>
<td>2.6</td>
<td>1.4</td>
<td>2.0</td>
<td>0.5</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>Oilseeds</td>
<td>1.9</td>
<td>0.6</td>
<td>0.7</td>
<td>0.9</td>
<td>0.5</td>
<td>0.4</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>16.0</td>
<td>14.4</td>
<td>21.7</td>
<td>15.4</td>
<td>13.6</td>
<td>13.7</td>
<td>8.8</td>
<td></td>
</tr>
</tbody>
</table>

* North Coast, Hopeh and Shantung; North Central, Shensi, Shansi, and Honan; Lower Yangtze, Kiangsu, Anhwei and Chekiang; Middle Yangtze, Hupeh and Hunan, and Kiangsi; South China, Kwangsi, Kwantung, and Fukien; All Other, southwest, northwest, and Inner Mongolia.

In the north coast area, where the wartime reduction in acreage was partially restored (acreages of the winter and summer 1948 crops were down a quarter and a tenth, respectively, as compared with 1931-37), favorable growing conditions brought total output to near prewar levels. In the north central area, food production was 15 percent greater than prewar, due particularly to an increase in wheat acreage and yield in Shensi and an increase in potato acreage in Honan. In the lower Yangtze region a better-than-average rice yield boosted output to 7 percent above prewar. In the middle Yangtze area rice acreage and output were down in Hupeh and Hunan because of floods, but an increase
in Kiangsi rice acreage brought total output up to approximately the prewar average. In south China continuing food shortages forced some shifting from rice to the more intensive crop, sweet potatoes; despite slight reductions in cereal production and in total acreage, food output was above prewar levels.

One factor in the postwar recovery in food production which continued into 1948 was the rehabilitation effort conducted during the UNRRA period, which provided selective distribution of improved seed, fertilizers, tools and machinery and an increase of several million acres in protected crop acreage through reclamation and flood control work.

Perhaps the most important factor in the total 1948 crop production was that no major area had poor crops. Whether or not the 1948 estimates prove to have been fully accurate, food output was substantially above that of 1946 and 1947.

In the light of this fact, it is clear that food shortages during the latter part of 1948 were attributable to disturbed financial and economic conditions resulting from the military conflict rather than to poor crops. In the lower Yangtze valley, for example, food distribution channels to Shanghai were extensively disrupted due to widespread lack of faith in the currency and inability to institute large-scale barter trade as an effective substitute. In north China, economic blockade of the Peiping-Tientsin area increased the dependence of these cities on food imports by sea from central China and abroad.

Industrial Crops. Industrial crops continued to be depressed with the continued disruption of transport and marketing and consequent low farm prices. Cotton production in 1948 was up slightly from 1947 at 2.2 million bales, but still far below the 1936 peak of 3.6 million bales. Tobacco was apparently an exception with the 1948 crop estimated at a peak level of 240 million pounds, compared with 1947 production of 135 million pounds and the prewar peak in 1937 of 210 million pounds; this was due particularly to the heavy demand for cigarettes which inspired a large expansion in west China production to compensate for the loss of other major producing areas to the Communists. Silk production received government aid and subsidization, and the estimated 1948 output of filature and native raw silk was placed at 71,500 bales, up 18 percent from 1947, despite poor export markets. Tea output, as in 1946 and 1947, is believed to have remained at about half of the prewar annual production of 600 to 800 million pounds, due to the distorted domestic price structure and generally depressed conditions in the industry.
The industrial sector of the economy during 1948 increasingly felt the restrictive influence of distorted prices, disrupted communications, and in some districts virtual economic isolation arising from the civil war. Although some improvement was effected in areas removed from the fighting zones, output in general remained at low levels and rehabilitation needs continued to be largely neglected.

Shanghai's industry, protected to some extent by the inflow of foreign supplies, managed to operate at 1947 levels during the first half of the year despite intermittent power and raw material shortages. In the latter months of 1948, however, inability to replenish working inventories at price ceilings fixed by the economic reform measures of August together with the cessation of coal shipments from north China curtailed industrial activity. Some progress in industrial recovery was reported in the Wuhan area of central China (Hankow and adjacent urban districts) during the first three quarters of the year especially with respect to cotton textile production, and in Formosa, sugar, coal, and chemicals were produced in greater quantity than in the preceding year but at levels substantially below war period rates. Projected reconstruction and development of industry in Kwangtung failed to materialize according to plan but some advances were made in the production of sugar, cement, textiles, and electric power. Industry in the north, however, deteriorated extensively during the course of the year. The collapse of Nationalist resistance in Manchuria in November was preceded by a period in which industrial facilities in the Mukden-Chinhsien area were operated at minimal levels as Communist control was extended over the surrounding districts. Similarly, the reduced flow of commodities between city and countryside in north China caused power and raw material shortages that effectively blocked the recovery of industrial output.

Mining. Coal production in Nationalist China during 1948 was approximately equal to the 1947 level, but increased transportation difficulties and the precarious military position of important mines north of the Yangtze during the latter part of the year impeded the distribution of output to the major coal consuming cities. The most critical area in this respect was the north Hopeh site of the Kailan mines. These mines produced more than one-third of China's postwar coal output and supplied Shanghai, Tientsin, and Tsingtao with most of their coal requirements. The loss of the port of Chinwangtso in November effectively immobilized shipment of coal from these mines, with the result that a stockpile of close to 1,000,000 metric
tons is reported to have accumulated. In December, the mines were captured intact by the Communists. Similarly, the blocking of transport channels from the mines in the central Yangtze area, reflected in increased stockpiles at the mines, further reduced the flow of coal to Shanghai. The Communists at the end of 1948 had captured or threatened mines that had previously produced more than 60 percent of Nationalist China's coal output.

### COAL OUTPUT IN MAJOR PRODUCING AREAS OF NATIONALIST CHINA, WAR-PERIOD, 1947 and 1948

<table>
<thead>
<tr>
<th>Area</th>
<th>War-Period</th>
<th>1947</th>
<th>1948 (Estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manchurian pockets</td>
<td>1942-44</td>
<td>6.7</td>
<td>2.0</td>
</tr>
<tr>
<td>North Hopeh</td>
<td>1942</td>
<td>7.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Lower Yangtze Valley</td>
<td>1942</td>
<td>2.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Central Yangtze Valley</td>
<td>1942</td>
<td>2.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Szechwan</td>
<td>1942</td>
<td>2.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Southwest China</td>
<td>1942</td>
<td>0.8</td>
<td>0.5</td>
</tr>
<tr>
<td>Taiwan</td>
<td>1941-42</td>
<td>2.8</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>25.1</strong></td>
<td><strong>13.8</strong></td>
<td><strong>13.4</strong></td>
</tr>
</tbody>
</table>

China's production of the export minerals (tungsten, tin, and antimony), increased in 1948 over previous postwar years but still remained substantially below prewar levels. Production of these minerals was hindered both by the government's inability to replace mining equipment damaged or destroyed during the war and by the lack of adequate transportation to export outlets. The progress attained toward recovery was largely attributable to the fact that tungsten and tin were mined in areas well removed from military activity. The chief center of antimony mining in north central Hunan, however, was at the end of the year threatened by Communist advances. Comparative data on prewar and postwar production of these minerals are shown in the following table:
### CHINA'S ANNUAL PRODUCTION OF EXPORT MINERALS
**1935-37 (Average), 1947 and 1948**
(In metric tons)

<table>
<thead>
<tr>
<th>Mineral</th>
<th>1935-37 (Average)</th>
<th>1947</th>
<th>(Estimated)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tungsten</td>
<td>12,800</td>
<td>6,400</td>
<td>10,000</td>
</tr>
<tr>
<td>Tin</td>
<td>12,500</td>
<td>4,000</td>
<td>6,500-8,000</td>
</tr>
<tr>
<td>Antimony</td>
<td>12,600</td>
<td>1,900</td>
<td>3,000</td>
</tr>
</tbody>
</table>

* As estimated by the National Resources Commission.

- **Manufacturing.** The performance of the cotton textile industry, by far the largest segment of China's modern industry, was affected markedly by the conditions which influenced manufacturing as a whole in 1948. Operable capacity remained at 3.8 million spindles, the same level as in 1947 and approximately one-third less than the prewar capacity. Of this total, more than half was located in Shanghai and an additional 15 percent in Tientsin and Taingtao.

Output continued to be dependent on imported supplies as trade between cities and the cotton-producing interior remained at low levels. For the first half of the year production was maintained at the 1947 rate, or about equal to 75 percent of the prewar level. During the latter part of the year, however, power shortages and price maladjustments curtailed operations in Shanghai, and the lack of raw cotton supplies resulted in sharp production cut-backs in the northern mills. Available data on mill consumption of raw cotton during 1948, as compared with 1946-47 and the prewar period, are shown below:

### CHINA: MONTHLY MILL CONSUMPTION OF RAW COTTON
(In bales)

<table>
<thead>
<tr>
<th>Period</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prewar average</td>
<td>200,000</td>
</tr>
<tr>
<td>August 1946-July 1947, average</td>
<td>134,000</td>
</tr>
<tr>
<td>February-June 1948, average</td>
<td>145,000</td>
</tr>
<tr>
<td>July 1948</td>
<td>135,000</td>
</tr>
<tr>
<td>August 1948</td>
<td>115,000-120,000</td>
</tr>
</tbody>
</table>
The course of the civil war in 1948 affected unfavorably a significant portion of China's transport facilities. Although operative rail mileage in south China was substantially increased, the mileage in Nationalist hands in north China and Manchuria dropped from 4,100 km to 1,000 km, with the remaining mileage of reduced significance. The acquisition of shipping was slowed, as the total Chinese tonnage neared the prewar tonnage operating in the coastal and river trade; however, much of the shipping was commandeered by the military with the increase of military activity in north China and along the Yangtze, while private shipping, faced with shortages of fuel and supplies, found many operations unprofitable. A sizable increase in air traffic was due to shortages of rail and shipping facilities, the increasing number of Nationalist military "pockets," and the heavy government subsidization of the airlines. Transport equipment generally deteriorated greatly in 1948 due to the heavy war-traffic demand and lack of replacements. Facilities contracted in relation to commercial demand. Except for the Shanghai-Nanking-Hangchow Railroad, government transport has required heavy subsidies.

Railroads. During 1948 there was a sharp reduction in operable railroad mileage in Nationalist hands north of the Yangtze, as the Communists seized the remaining lines in Manchuria, Shantung, and Shensi and parts of the Junghai, Pingshan, Tsingpu, and Pingsui railroads. The interruption of through lines reduced the usefulness of the remaining lines. For example, the destruction of a part of the rail connection between the Kailan mines and the port of Chinwangtao reduced coal movement from mines to port to a trickle by September. Military traffic accounted for the bulk of the supply movements by rail north of the Yangtze, with commercial traffic reduced to a minimum.

In south and central China completion of the Chekiang-Kiangsi and Nanking-Wuhu lines, together with progress of the Hunan-Kwangsi-Kweichow line, increased operating rail mileage. However, rail lines were plagued by uncertainties in coal supply, port maintenance, operating funds, and replacement equipment, and, apart from the profitable Shanghai-Nanking-Hangchow line, traffic was spotty and heavily subsidized. Substandard construction and maintenance were reported to have contributed to deterioration in the condition of the railroads and their operating efficiency.
**ESTIMATED OPERATING RAILWAY LINES IN NATIONALIST CHINA**  
(In kilometers)

<table>
<thead>
<tr>
<th>Area</th>
<th>1936</th>
<th>November 1947</th>
<th>November 1948</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manchuria</td>
<td>8,900</td>
<td>1,200</td>
<td>0</td>
</tr>
<tr>
<td>North China*</td>
<td>5,700</td>
<td>2,900</td>
<td>1,000</td>
</tr>
<tr>
<td>South &amp; Central China</td>
<td>5,300</td>
<td>4,900</td>
<td>5,500</td>
</tr>
<tr>
<td>Taiwan</td>
<td>3,800</td>
<td>3,900</td>
<td>3,900</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>23,700</td>
<td>12,900</td>
<td>10,400</td>
</tr>
</tbody>
</table>

* Including the Junghai Railroad.

**Shipping.** China's merchant marine expanded in 1946 and 1947, with UNRRA assistance; tonnage in 1948 was comparable with that operating in the prewar river and coastal trades. This rapid growth of the shipping industry, however, was accompanied by operating difficulties. Much of the tonnage was overage; a considerable portion was ill-adapted to the particular requirements of the various river and coastal trades. Shortage of repair parts immobilized some vessels. Moreover, uncertain supplies of fuel oil and coal, and for private firms their high cost on the market, increased costs of operation.

Operations were unprofitable also because of the nature of the shipping traffic. The increase in military movements in north China and on the Yangtze resulted in increased military commandeering of vessels, estimated at 55 percent of the total tonnage in October 1948; fear of military requisitioning led to the immobilization of other commercial vessels. Military reverses reduced commercial cargoes available especially in north China. The uncertainty of commercial shipping facilities on the Yangtze has tended to increase the costs of domestic trade and to reduce available cargoes. Only in south China and Taiwan were conditions sufficiently stable to permit an increase in shipping activities.

**Aviation.** The notable increase in air transport during 1948 (see table below) was an indication of the inadequacies of other forms of transportation. The number of besieged Nationalist "pockets" increased and their requirements became larger with the advance of the Communist armies, necessitating greater air traffic to and from these areas. The heavy use of air facilities in other parts of
Nationalist China was due in part to government subsidization of fares to the point where, in some months, receipts did not even cover gasoline costs. Under these conditions the demand for air transport far exceeded the capacity of the three operating airlines. The substantial rise in passenger and freight traffic during 1948 was made possible by the acquisition of some additional, and especially by the more intensive use of existing, facilities; a recurrent limiting factor was shortage or uncertainty in aviation gasoline supplies.

**PASSENGERS AND CARGO CARRIED BY CHINESE DOMESTIC AIRLINES, 1947 AND JANUARY TO MAY 1948**

*(In monthly averages)*

<table>
<thead>
<tr>
<th>Passengers Carried</th>
<th>Cargo Carried</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese National Aviation Corporation</td>
<td>14,500</td>
</tr>
<tr>
<td>Civil Air Transport</td>
<td>2,100</td>
</tr>
<tr>
<td>Central Air Transport Corporation</td>
<td>9,700</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>26,300</strong></td>
</tr>
</tbody>
</table>

* Based on estimated traffic for January-March 1948.

**Internal Trade**

Domestic trade in 1948 failed to recover from the depressed levels of 1946 and 1947, and in the latter part of the year declined disastrously under military reverses, repressive and unsuccessful government controls, and panic conditions resulting from the deterioration of the government's position. The year saw an increase in government participation and control of domestic trade, in an attempt to secure necessary food and raw material supplies for the urban economies and to maintain exports. The food rationing programs assisted by the China Relief Mission and ECA gave promise of reasonably stable food supplies in the major coastal cities. However, the steady deterioration of the Nationalist military and financial position interfered with implementation of the Chinese Government's agreed contribution to these programs.
Flow of Industrial Materials and Export Commodities. Extensive communist control over the agricultural hinterland of north China and Manchuria throughout 1948 coupled with continued disruptions of major rail lines in the area cut down the flow of commodities between city and countryside. A military embargo on consumer goods destined for rural areas, instituted as a measure of economic warfare, added to these physical barriers impeding internal trade. A further significant deterrent was the reluctance of farmers to accept rapidly depreciating currency in exchange for goods. As long as farmers in north China found it difficult or impossible to exchange agricultural commodities for cloth and other urban manufactures, trade possibilities remained extremely limited. Under these conditions, raw cotton continued to be used largely for home spinning rather than for sale to urban mills; coal shipments to the cities were periodically interrupted and eventually cut off altogether; and north China's traditional export commodities such as hides, wool, and bristles reached outlets in reduced volume.

As indicated above, the direct and indirect effects of the war were also manifested in the internal trade of the Yangtze Valley. Burdensome transit tariffs for local revenue reappeared. Military use of river shipping during the high water period added to the cost and limited the volume of commercial river traffic. Agricultural shipments to the cities were reduced in quantity. Major export commodities, such as tung oil, could be moved only by subsidization and direct control through government trading corporations.

Distribution of Food. With insufficient food reaching the cities through the market mechanism, the government at the end of the first quarter of 1948 entered upon a food rationing program designed to ensure the orderly procurement and distribution of urban food requirements. In support of this program, the United States undertook to match approximately available domestic supplies with grants of foreign rice, wheat, and wheat flour, administered through the China Relief Mission and subsequently the ECA, contingent upon the successful functioning of domestic procurement and the rationing mechanism. As of July 1, 1948, the China Relief Mission had distributed 100,000 metric tons of rice and 50,000 metric tons of flour under the rationing program. Tentative ECA plans called for the distribution through March 1949 of 135,000 metric tons of flour to north China cities and 275,000 metric tons of rice to Shanghai, Nanking, Canton, and Swatow. These projected shipments amounted to nearly half of the total ration requirements in these cities.
During the opening months of their operation, the rationing programs aided by the U. S. China Relief Mission and ECA served to reduce excessive price fluctuations (within the context of continuing inflation) and on the whole worked out successfully. Subsequent difficulties encountered, which are discussed in the section below on the ECA food program, resulted in serious urban food shortages during the latter part of the year which necessitated the delivery in the last quarter of 1948 of ECA shipments originally scheduled for the first quarter of 1949.

Foreign Trade

Imports. Even with the continuation of external aid, China's imports during 1948 fell to less than half of the 1947 level.

Private commercial imports declined from more than US$450 million in value in 1947 to an estimated US$180 million in 1948. This sharp drop reflected a response to the Government's stringent foreign exchange position and to the arrival of U. S. Foreign Relief Program and ECA commodities. Projected allocations of foreign exchange for essential imports during the period February to July 1948 were only 50 percent of the average quotas established in 1947; these allocations were reduced by approximately 40 percent for the period August 1948-January 1949.

The decline in imports, not an increase in exports, accounted for an approximate balancing in 1948 of imports and exports on private commercial account, in contrast to the high commercial trade deficits of previous postwar years. (In 1947, a commercial trade deficit of more than US$200 million had been incurred.)

Imports in 1947, in addition to the above US$450 million, had included imports on Chinese Government and UNRRA accounts and unrecorded imports amounting in all to more than US$550 million in value, making a total (excluding military aid shipments) of slightly more than one billion U. S. dollars. Imports in 1948, including U. S. Foreign Relief shipments of US$45 million, ECA deliveries estimated at US$110 million, special government purchases and recorded and unrecorded commercial imports, are estimated to have been well under a half billion U. S. dollars in value.

Exports. China's exports during 1948 continued to be plagued by the same difficulties that had been in evidence throughout much of the postwar period. Producing areas were extensively cut off from export outlets. The civil war and chaotic financial conditions tended
to discourage the production of commodities for export and for
domestic consumption, and to keep the volume of smuggling at high
levels. For most of the period the Government continued to sacrifice
exports for whatever support an overvalued exchange rate could give
to its rapidly depreciating currency. Two abortive attempts to im-
prove the situation may be noted. At the end of May the Government
instituted an exchange certificate system designed to narrow the gap
between the exchange rate at which official trade was conducted and
the black market rate. Although this plan resulted in an initial
stimulation of exports, its effects proved temporary as the increase
in domestic prices and black-market exchange rates outstripped the
rate of increase in the prices of exchange certificates. Similarly,
exports were encouraged during the short period of price stability
following the introduction of the Gold Yuan in August, but here again
the eventual breakdown of price controls once more introduced a
spread between the official and black market exchange rates and re-
sulted eventually in the reinstitution of the exchange linkage
system.

Under these conditions exports, estimated at US$180 million
in 1948, remained at approximately the same low level as that re-
corded in 1947. In general, those commodities produced in areas re-
moved from the fighting zones or aided substantially by government
subsidization, such as tung oil, egg products, and cotton yarn and
piece goods, were exported in relatively high volume. As a whole,
however, if adjustment is made for changes in prices, China's ex-
ports in 1948 were probably less than 40 percent of the prewar volume.
ECONOMIC AID PROGRAM FOR CHINA
TO DECEMBER 31, 1948

Scope and Rationale

The President, in his message of February 18, 1948, to Congress on aid to China recommended authorization of an economic aid program in the amount of $570 million, to provide assistance over a fifteen-month period extending to June 30, 1949. Of this amount, $510 million was estimated as required for financing essential commodity imports into China, "which would permit the Chinese Government to devote its limited dollar resources to the most urgent of its other needs," and $60 million was recommended for "a few selected reconstruction projects to be initiated prior to June 30, 1949." "Essential imports" cited included cereals, cotton, petroleum, fertilizer, tobacco, pharmaceuticals, coal and repair parts for existing capital equipment. Reduced to a twelve-month basis, the program of economic assistance proposed by the President would have called for approximately $403 million for commodity shipments to China and an additional $60 million for aid to selected reconstruction projects.

The China Aid Act of 1948 authorized for expenditure during the ensuing twelve-month period (April 3, 1948, to April 2, 1949) $338 million for economic assistance to China, of which $275 million has been appropriated, and an additional $125 million for aid to China through grants "on such terms as the President may determine and without regard to the provisions of the Economic Cooperation Act of 1948."

The program of economic aid to China administered by the ECA during 1948 has been limited to expenditures within the $275 million appropriated by the Congress.

In Section 407 of the China Aid Act of 1948 (Public Law 472, Title IV), the Congress authorized for "a program for reconstruction in rural areas in China," an amount "equal to not more than 10 per centum of the funds made available for economic assistance under the Act, which amount could be "in United States dollars, proceeds in Chinese currency from the sale of commodities made available... or both." Thus a third category of assistance was specified. The China Aid Act did not further stipulate the relative magnitude of expenditures to be incurred in behalf of the three general types of limited assistance contemplated, namely: a commodities program, an industrial reconstruction program, and a rural reconstruction program.
Related to these three types of aid within China and available for helping to carry them out was a special local currency or "counterpart" fund, established by the Chinese Government pursuant to the terms of an "Economic Cooperation Agreement between the United States of America and the Republic of China." (The text of this bilateral Agreement is quoted below, under the heading, "Documents.")

In administering economic aid to China, as approved by Congress, the ECA has faced the obligation to ensure as efficient use as possible, under prevailing conditions, of the $275 million appropriation provided by Congress, recognizing that the assistance thus furnished would, to be fully effective, have to be supplementary to, and not a substitute for, vigorous efforts on the part of the Chinese Government and people.

With limited resources and under prevailing conditions in China, it has not been possible for the ECA to undertake a comprehensive approach to China's broad problems of budgetary and financial stabilization and economic recovery. It has been necessary, instead, to concentrate upon a few restricted activities designed to furnish some assistance at critical points in the Chinese economy; to maximize in the aid program, where possible, the use of private trade channels as one means of sustaining a degree of normal economic activity; and to devise effective end-use controls designed to ensure efficient utilization of all the economic aid provided.

Initiation of the Program

On April 30, 1948, notes were exchanged between the Secretary of State and the Chinese Ambassador in Washington, setting up interim arrangements for the initiation of the China Aid Program, pending the negotiation of a bilateral economic aid agreement. These notes (a) confirmed the Chinese Government's adherence to the purposes and policies set forth in Section 2 of the China Aid Act of 1948; (b) specified that prior to the conclusion of an agreement under Section 405 of the China Aid Act and until July 3, 1948, the extension of aid to China as authorized by Section 404 (a) of the Act, would be provisionally governed, subject to agreed modifications, by the Agreement negotiated in connection with the United States Foreign Relief Program, dated October 27, 1947; and (c) recorded an understanding relating to the establishment of special mission for economic cooperation to China, together with an assurance that the Chinese Government would extend the fullest cooperation to representatives of the United States
Bilateral Agreement

Section 405 of the China Aid Act provided that an agreement should be "entered into between China and the United States containing these undertakings by China which the Secretary of State, after consultation with the Administrator for Economic Cooperation, may deem necessary to carry out the purposes of this title and to improve commercial relations with China." Consequently, negotiations were begun in early June between the United States Embassy in Nanking and the Chinese Ministry of Foreign Affairs regarding the terms of a bilateral economic cooperation agreement between the two countries. These negotiations were concluded satisfactorily and the Agreement was signed on July 3, 1948 by Ambassador J. Leighton Stuart and the Chinese Minister of Foreign Affairs, Wang Shi-h-chien. (The full text of the Agreement is quoted below in the section entitled "Documents.")

In general, the Agreement with China followed the pattern of the bilateral agreements being negotiated simultaneously between the United States and those European countries which participated in the Organization for European Economic Cooperation. The language of certain articles was made almost identical for those undertakings specified by Title I of the Foreign Assistance Act which applied in principle to the Chinese as well as to the European situation. Because of certain basically different aspects of the Chinese situation, however, some standard articles were modified considerably in the China Agreement, or unique provisions were added. In view of conditions prevailing in China, the scope of joint control, particularly with respect to prices and allocations, was broader under the terms of the China Agreement than under the European bilateral agreements. One unique article in the China Agreement, that calling for improvement of commercial relations, was required specifically by Section 405 of the China Aid Act.

The Agreement with China set forth a number of undertakings by the Chinese and/or the U.S. Government relating to the following:

-provision of aid to the Chinese Government in accordance with the terms of the China Aid Act of 1948 (other than Section 404 (b) thereof);
measures for improvement of general economic conditions including effective use of aid goods, appropriate use of private Chinese assets in the U. S., development of industrial and agricultural production, creation of more stable currency conditions, cooperation with other countries to increase international trade, and prevention of commercial arrangements which interfere with the purposes of the Agreement;

improvement of commercial relations with other countries, with particular reference to the conditions affecting foreign trade by private enterprises in China;

fair and equitable distribution of aid goods, and of similar goods produced locally or imported with other funds, and the method of determining terms, conditions and prices for distribution of aid goods;

deposits of Chinese currency in value commensurate with the value of U. S. aid provided on a grant basis, and the principles governing disposal of such deposits;

facilitating the acquisition by the U. S. from China of materials in short supply in the U. S.;

negotiation of duty-free treatment for imports into China of relief goods by private agencies or individuals;

joint consultation, and provision of information by the Chinese Government, regarding matters relevant to the Agreement;

publicity within China regarding provision of aid under the Agreement;

establishment in China of, and treatment to be accorded to, a U. S. Special Mission for Economic Cooperation;

settlement, by reference to an agreed upon international tribunal, of claims espoused by either
government on behalf of its nationals against
the other government for compensation for damage
arising as a consequence of governmental measures
taken after April 3, 1948;

entry into force, amendment and duration of the
Agreement.

Advisory Bodies

Two advisory bodies have on request furnished helpful counsel
and guidance on broad questions relating to the planning and con­
duct of the ECA China Aid Program: The National Advisory Council
on International Monetary and Financial Problems, established by
Congress, and the Public Advisory Committee for the China Program,
appointed by the Administrator under authority granted in Public
Law 472, Section 107(b).

Members of the National Advisory Committee for the China
Program have been: Isaiah Bowman, president-emeritus of Johns
Hopkins University and a member since 1940 of the Permanent Inter­
national Commission for China and the United States; Arthur B.
Foye, senior partner of the international public accountant firm
of Haskins and Sells and, since 1945, president of the Far East­
America Council of Commerce and Industry; Paul V. McNutt, former
ambassador and United States high commissioner to the Philippines,
and president and chairman of the Board of United Service to
China; Elizabeth Luce Moore, former chairman of the USO Council,
one of the founders in 1940 of United China Relief, and a trustee
of Wellesley College, of the China Institute in America, and of
the United Board for Christian Colleges in China; and Walter S.
Robertson, former minister-counselor for economic affairs at the
United States Embassy in Chungking, and a principal assistant to
General George C. Marshall during his special mission to China in
1945-1946.

ECA Mission to China

Authority for the establishment of a special ECA Mission to
China is contained in Public Law 472, Sections 109 and 403.

The organization of the China Mission began with the appoint­
ment of Roger D. Lapham, former mayor of San Francisco, as Chief
of the Mission. The appointment was made on May 5, 1948, and Mr.
Lapham arrived in China on June 7, accompanied by initial members
of a Reconstruction Survey Group. Staffing of the Mission has
been kept at a minimum consistent with the efficient performance of ECA economic aid functions in China. As of December 31, 1948, 89 Americans and 355 non-Americans were on duty with the Mission.

Clearances between ECA Headquarters and the China Mission are conducted through a China Program Division in Washington. This is a staff office of 20 persons which facilitates the integration, without needless duplication, of China operations within the general framework of ECA financing and supply operations.

Relations with the Chinese Government

To provide for an orderly conduct of relations between the Chinese Government and the ECA China Mission, the Government appointed a Council for United States Aid (CUSA), with the Prime Minister as Chairman, which includes in its membership the Ministers of Foreign Affairs, Finance, and Communications, the Governor of the Central Bank, the Chairman of the National Resources Commission, the Mayor of Shanghai and the Chairman of the Chinese Technical Mission to the United States.

The Economic Cooperation Agreement between the United States and the Chinese Governments, signed at Nanking on July 3, 1948, by the United States Ambassador and the Chinese Minister for Foreign Affairs, provided the framework of understanding and agreements on the basis of which ECA operations in China have been conducted. The text of the Agreement appears in the final section of this paper.

Takeover from U. S. China Relief Mission

The first organizational problem faced by the Chief of the ECA Mission to China was the need to make provision for the orderly transition from the work of the U. S. China Relief Mission, which had been responsible for the $45,000,000 interim relief program in China, previously provided under Public Law 84, to the new program under ECA direction. Arrangements were made for the temporary transfer of considerable numbers of the personnel in the China Relief Mission, in order to ensure the orderly liquidation of that Mission's responsibilities under the supervision of ECA, and at the same time to utilize, for the benefit of the ECA program, the experience of personnel already available in China, who had been working with a program similar in certain respects to the China Aid Program.
Takeover responsibilities included principally the receipt and distribution of residual China Relief Mission supplies, responsibility for residual proceeds from the sale of such supplies, and the carrying on or liquidation of various local currency projects agreed to by the China Relief Mission.

Approximately 25,000 tons of CHM rice and flour valued at about $5.8 million were on hand on June 30, 1948, which were taken over and distributed under the supervision of the ECA Mission through the rationing system. Approximately $5.2 million worth of medical supplies and $670,000 worth of pesticides were on order in the United States, to be delivered during the early months of the ECA program. The general policy governing distribution of medical supplies has been to distribute them for the greater part free of charge and in large part in outlying areas where it has not been feasible to ship ECA bulk supplies. About a third of the pesticides has been reserved for the use of the Rural Reconstruction Commission, the remainder being sold through normal commercial channels or distributed free by the Ministry of Agriculture through agricultural demonstration centers.

There was virtually no cash balance in the CHM local currency account at the time of the ECA takeover. However, commitments had been entered into for over 260 projects predicated on anticipated proceeds from the sale of undistributed rice and flour. The ECA, accordingly, assumed responsibility for the orderly completion or liquidation of these projects. In July and August, the equivalent of US $197,600 was disbursed from the local currency Special Account for these purposes, about 55 percent for public works, 43 percent for medical purposes, and 2 percent for miscellaneous projects. After August, considerable weeding out was done in order to reduce the number of projects to a number which would permit adequate supervision and these have been included in the overall ECA-CUSA program for the Special Account.

Organization

Headquarters of the ECA Mission to China were established in Shanghai, and regional offices in Nanking, Peiping, Tientsin, Tsingtao, Canton and Taipeh (on Taiwan or Formosa).

The approved pattern of the Mission as of December 31, 1948, is reflected in the accompanying organizational chart. The principal functions of each organizational unit within the Mission are set forth in the Appendix.
Assistance has been given to the Mission by ECA Headquarters in the recruitment of American personnel and the coordination of personnel procedures, fiscal activities, and administrative management in accordance with Headquarters procedures and in compliance with foreign service requirements of the State Department.

**Administrative Expenses**

The ECA China Program has operated under a limitation, for administrative expenses incurred in U. S. dollars, of $1.2 million—less than one-half of one percent of the amount appropriated for the current China program. This necessitated rigid economies in the planning of staff requirements, and a maximum use of other agencies and means in order to develop an effective field organization. The $1.2 million ceiling did not apply to administrative costs provided from counterpart local currency funds in China, from which source approximately three-fifths of the administrative costs of the Mission are being met.

Administrative expenses, with the benefit of special arrangements referred to below, were held, up to the end of December 1948, within an amount provisionally estimated at approximately $560,000. However, a large percentage of these expenses were incurred during the last quarter of the calendar year 1948. This was attributable chiefly to two factors: (a) the fact that the ECA China Mission was not fully staffed, and operations in China were not in full swing, until the October-December quarter; and (b) the necessity of incurring increased expenses (notably for extensive transfers of supplies and personnel, including the removal of some dependents) as a result of unsettled and uncertain conditions in north and central China. A third factor contributing to higher costs was beginning to appear at the end of the year, namely, the necessity, with the excessive rate of depreciation of Chinese currency, of meeting certain administrative expenses out of U. S. dollars instead of local currency.

Payment for expenses incurred on behalf of American members of the Mission, including travel for members and dependents, is governed by U. S. Foreign Service regulations which are mandatory with respect to ECA employees.

Military developments in China have made necessary budgetary provisions for the voluntary removal of certain dependents and household effects from threatened areas. As of December 31, 1948, some dependents and women employees with children were being evacuated,
and some members of the Mission had been reassigned in accordance with changing program plans.

The use of consulting engineers or engineering firms on a contract basis, in connection with the development of surveys and plans for reconstruction projects in the industrial field, has made it possible to have competent engineering surveys and to prepare for supervising this part of the program without incurring direct administrative expenditures in excess of the ceiling on administrative costs.

A similar saving has been effected in the case of the rural reconstruction program. As indicated above, the Congressional appropriation for this program, to be supervised by a Joint Commission on Rural Reconstruction, was "an amount equal to not more than 10 per centum" of the appropriation for economic aid to China, which amount could be in U. S. dollars, proceeds in Chinese currency from the sale of commodities made available to China, or both. From the ceiling of $27.5 million thus established for the rural reconstruction program, $2.5 million was tentatively earmarked for availability in U. S. dollars, to be used principally for salaries, dollar administrative requirements and essential procurement of agricultural supplies and educational media. The Joint Commission's allotments for both program and administration represent a program cost and are thus not chargeable to the limitation on administrative funds for the China Mission.

To avoid needless administrative duplication and expense, administrative arrangements were entered into between the State Department and the China Program of ECA, in which the State Department agreed to provide communication facilities and to assume disbursing functions with respect to U. S. dollars and to perform such minor services, in return for which ECA would reimburse the State Department, either through direct payment or through the provision of agreed services as needed by American or alien personnel.

Economies in time and space facilities were effected by the takeover of office and warehouse space and equipment previously utilized by the China Relief Mission operating under P.L. 84. Effective coordination with the Chinese Government Council for U. S. Aid (CUSA) was facilitated by a provision for CUSA offices in the same location as those of the ECA China Mission.

The civil war, with its attendant disruption of rail services, has made necessary an almost exclusive use of air travel on the part of the members of the Mission in China, including chartered flights.
when necessary. Telegraph workloads in excess of available capacities through diplomatic or military channels have necessitated a considerable use of commercial telegraph facilities for unclassified operational messages.

Through the economies and special arrangements outlined above, direct administrative expenses charged against the ECA program in China were, as of December 31, 1948, within an administrative budget based upon the $1.2 million limitation for the one-year period of the authorizing legislation. And it was expected that administrative expenses incurred in the course of operations through April 2, 1949, would, despite the rising costs referred to above, be kept within this limitation.
The commodities program has had as its aim the provision of a continued flow to China of certain key commodities essential to the maintenance of minimum economic activity and subsistence in the urban centers of China. As indicated above, resources available for ECA commodity imports into China were not of a sufficient order of magnitude to reduce substantially the great imbalance in the Chinese national budget or to solve the nation's balance of payments problem by providing all essential imports which could not be financed by the Chinese themselves. It was essential, therefore, to concentrate upon the commodities which were of most strategic importance in helping to bolster China's internal economy. Commodities procured under the ECA program have included food, cotton, petroleum, fertilizer and coal. In addition, as mentioned above, some residual medical supplies and pesticides were taken over by the ECA, from the earlier U. S. Foreign Relief Program, for distribution. The scope and character of each of these commodity programs are discussed below.

Procurement and Shipment

Following consultation with the National Advisory Council, ECA decided to finance commodities for China entirely on a basis of grants, not loans. The reason for this action lay in the state of the Chinese Government's external finances, as described in an earlier section of this paper.

Commodity procurement has been conducted by two methods—through private trade channels for cotton, fertilizer, petroleum and coal, and through the U. S. Department of Agriculture for rice, wheat and flour.

Cotton has been purchased through ECA financing by the Chinese Textile Industries, Inc., a quasi-government corporation, from U. S. cotton brokers submitting bids through agents in Shanghai. Fertilizer has been purchased by the Central Trust of China from suppliers presenting bids, overall quantities purchased being governed by the size of International Emergency Food Committee allocations to China. Petroleum products have been purchased from suppliers on the basis of recommendations submitted by a joint Chinese-American subcommittee of CSUSA, these recommendations being based on the prewar supply pattern; although this method of selecting suppliers has to some extent reduced the scope of price competition, prices paid for petroleum have been carefully scrutinized in the light of Section 202 of Public Law 793.

Procurement of wheat and flour has been from United States surpluses, purchases being made by the Commodity Credit Corporation of the U. S.
Department of Agriculture from private suppliers on the basis of competitive bidding. These purchases have been against U. S. Department of Commerce allocations, determining the total quantity of U. S. wheat exportable to China. Rice has also been procured by the Commodity Credit Corporation, pursuant to Section 121, Public Law 472, chiefly in Siam and Burma, purchases being made against EEFC allocations.

Up to December 31, 1948, more than 99 percent of the ECA-financed cargo tonnage originating in the United States and delivered to China had been shipped in U. S.-flag vessels; this was far in excess of the overall requirement for ECA (in section 111(a)(2) of Public Law 472) that at least 50 per centum of the gross tonnage of commodities, procured within the United States out of funds made available under this title and transported abroad on ocean vessels, is so transported on United States flag vessels to the extent such vessels are available at market rates.

Procurement and Pricing of Commodities in China

Aid in providing essential commodities has been regarded by the ECA as a supplement to, and not a substitute for, production and supply efforts by the Chinese Government. This has been especially true with regard to the food program, in connection with which the ECA China Mission has undertaken to secure as effective performance as possible by the Government in providing from indigenous sources a substantial share of the food supplies required for the cities receiving ECA food shipments. In order to minimize the degree of subsidy to private consumers at the expense of government income, the China Mission has undertaken, with varying results, to exert its influence in favor of the selling of rations food at, or near to, actual market prices; the same is true with respect to cotton goods and petroleum products. Similar influence has been exerted, as far as practicable, with regard to prices for coal, rates for electric power, or levels at which any enterprise, directly or indirectly assisted by ECA, sells its products.

End-Use Control

Measures essential to effective end-use control have been carefully developed for each of the commodity programs, in order to assure that supplies provided through ECA would go to the recipients for which they were intended, to furnish maximum assistance to people and institutions within China, to support efforts of the Government to increase production and stabilize economic conditions, and generally to secure the best results attainable through the expenditure of ECA dollars.

Food has been distributed through controlled rationing systems in major cities of China, and a detailed record has been kept of individual
HOW FOOD RATIONING FUNCTIONS IN CHINA

12,700,000 PEOPLE ARE SERVED BY THE RATIONING PROGRAM

CHINESE RATION COUPON

TRANSLATION:
"This coupon may be used in the city of rettging for food. The total amount of food is stated in the number of pounds for the total amount of food."

AVERAGE FOOD CONSUMPTION

- Each person is allowed 15 catties (16 lbs.) of flour or rice on the rationing program or a total of 94,000 tons for all seven cities.

TOTAL RATIONING CONTRIBUTION

* ECA has granted supplies to offset Chinese deficiencies.
recipients of this aid; ECA representatives attend as observers the meetings of City Food Committees, and ECA investigators inspect and report on all phases of operations under the rationing program. The cotton aid program is directed in China by a Joint Management Board whose decisions require CUSA and BOA concurrence; a system has been established for following cotton through conversion into yarn, the conversion of yarn into cloth, and the subsequent domestic use or export of the resulting textiles. Petroleum has been distributed primarily by major oil companies which themselves help to make sure that ECA-financed oil goes only to the uses for which it is allocated; a joint CUSA-BOA Petroleum Committee estimates requirements and supervises distribution. Control arrangements are being developed to insure that fertilizer will be distributed in a way that will achieve maximum effect in increasing food production.

Further details with respect to end-use controls are contained in the description below of the several commodity programs, and in the Appendix.

Food

The interior of China—including countryside, towns and cities—has normally been relatively self-sufficient in foodstuffs, but the larger coastal cities have in recent decades become increasingly dependent, for part of their food supply, on imports from abroad. As previously indicated, the problem of food supplies for these cities became acute in the spring of 1948 due to the disruption of communications and trade by the civil war, spiralling inflation, and increasing strains upon the Government's foreign exchange resources.

Inception of Food Rationing in Postwar China

Food rationing in postwar China was first developed in the program of the United States China Relief Mission. Under this program the U.S. Government provided—for the five major coastal cities of Shanghai, Nanking, Canton, Peiping and Tientsin—approximately 200,000 tons of rice, wheat and flour, of which more than 150,000 tons was distributed before the end of June 1948. Contributions from the Chinese Government approximately matched this tonnage, with the result that between March and the close of June about 300,000 tons of food was sold at prices considerably lower than those prevailing on the open market to between 11 and 12 million inhabitants of these cities.

Each individual, under the rationing program, was limited to a monthly purchase of 16.5 pounds of rice or flour, although no one was limited in the amount that might, if available, be purchased at inflated prices on the open market.
This program was an innovation in China. Food rationing on a major scale had not previously been practiced there as it has in most other countries of the world where shortages posed a problem of equitable distribution of available supply. Chinese officials considered the matter long and carefully before undertaking the responsibility for a program which depended for its success upon the development and maintenance of relatively complicated administrative machinery. However, once started, the administration of the program was carried out with a record of competence, precision and honesty that became a source of gratification to all parties concerned, including the Chinese officials responsible for the operation.

Seven-City Rationing Program

Following the first arrivals of ECA food supplies in China, it was decided that the rationing program should be continued as the best means of applying US aid in an equitable manner, of retarding somewhat the rapid rate of price increase, and of providing an added source of revenue to the Government. Under the ECA program, the number of cities participating in rationing was extended to include Swatow and Tsingtao. In the latter city, the U. S. Navy maintained a base in an area which was surrounded by Communists and cut off from local sources of food supply.

The somewhat fluctuating population of the seven cities participating in the rationing program ranged, in total, between 12.7 and 13 million during 1948.

Under arrangements agreed upon between the ECA China Mission and the Chinese Government Council for U. S. Aid (CUSA), agreement was reached on the setting up, within the Chinese Government's Ministry of Food, of an Office of Emergency Food Procurement (OEFP), which was to handle indigenous purchasing for the rationing program. The OEFP undertook initially to procure from indigenous sources approximately 60 percent of the total food required for the operation of the rationing system, and ECA approximately 40 percent.

Emergency Feeding Programs

In addition to this rationing program for seven cities, a limited emergency feeding program for Mukden was developed while that city remained in Nationalist hands. Nearly one thousand tons of flour delivered under this emergency program were cooked and fed directly to key groups of workers with appropriate publicity. The resultant increase in morale was notable until, with the Communist assault on Mukden, the program had to be suspended. Some 400 tons of ECA flour in Chinchow awaiting airlift to Mukden were captured by the Communists during their rapid advance in that sector.
In order to cope with the heavy influx of refugees into Tsingtao from the war zones and to compensate for the reduced supplies of indigenous food coming into the city because of communist occupation of surrounding territory, the ECA China Mission has also provided, in that city, continuing support for a special Refugee Feeding Project originally instituted under the CRM program. This project, conducted outside the rationing program in cooperation with municipal authorities, consists of open-air kitchens which prepare and serve daily portions of rice congee to an estimated 100,000 refugees. Damaged rice, sweepings and poorer grades of rice unsuitable for rationing, which are received in ECA shipments from southeast Asia, are set aside for this project in Shanghai, for transshipment to Tsingtao. The bulk of shipments have been made via vessels of the U. S. Navy, which considers the project a necessary emergency measure effective in the maintenance of orderly conditions in Tsingtao. Requirements for the project are 1,500 tons per month.

August 19 Regulations and Indigenous Procurement

An element of subsidy was inherent in the seven-city rationing plan. But it was never intended that the prices of rationed cereals would be allowed to fall far below open market prices. At first, prices for rationed foods were adjusted monthly to a level approximately 5 percent below prevailing open-market rates and held there throughout the ensuing month, regardless of price rises in the open market. Thus the Government was in a position to obtain much needed revenue from sales of rationed rice and flour, even though some slight subsidy accrued to the people, for the U. S. supplies thus sold cost the Government nothing and all local currency returns from this sale constituted a net gain.

Under the Government's August 19 reform measures, however, ration prices, particularly in the central and north China cities, were set well below market prices, with the result that the dependence of the program on governmental subsidies became heavy during the period until November when these measures were drastically revised. As the military, political and economic situation deteriorated, the Government deemed it expedient to use the rationing programs to provide an outright subsidy to all the people in the urban coastal cities in an effort to mitigate public discontent. At this time, wages were lagging so far behind essential commodity prices that the city populations began to be unable to purchase minimum requirements of daily necessities. ECA officials reluctantly acquiesced in the selling of U.S.-contributed food supplies along with indigenous supplies, at what to the Government were ruinously subsidized prices, but warned that the policy would prove exceedingly costly.

Since ECA funds for food procurement were limited, it appeared advisable at the outset to conserve them in large part to provide foodstuffs
for the 1948-49 winter and spring months and thus assure rationing supplies at the time of the year when food is normally less plentiful. The Chinese Government agreed to find and deliver the foodstuffs needed for rationing during the last quarter of 1948, with the understanding that the ECA would undertake to supply a major portion of the ration during the first quarter of 1949 and to deliver additional food thereafter to the extent of availability of funds from the 1948 appropriation.

Difficulties developed in the implementation of this plan. The obtaining of indigenous supplies by the Chinese CERP was slow and erratic; its attempts to purchase domestic food supplies were inspired by lack of sufficient appropriations and by the disparity between official and black-market prices. There was a failure to act quickly to procure domestic supplies in quantity when the harvests were in. Anticipated purchases of rice in Burma did not materialize. Some flour was collected at Shanghai for the ration in the cities of north China, but commandeering by the military of the ships selected for the transport of these supplies caused considerable delay in their movement. As indicated above, the unsuccessful economic regulations promulgated by the Government on August 19, 1948, resulted in the exclusion from China's major cities of normal free-market supplies of indigenous foods. The acute shortages, dramatized by all-night queues in front of food shops, were intensified by a partial breakdown of the rationing system during October. At the middle of October none of the cities except Canton and Tsingtao had even been able to start the October ration, and one city was still trying to fulfill the September ration commitment.

Throughout this period, the ECA China Mission pressed for the lifting of arbitrary food price ceilings in the cities, for a realistic pricing of rationed foods, and for more vigorous efforts by the CERP to procure indigenous supplies.

**Speed-Up of ECA Deliveries**

Steps were also taken to speed up ECA deliveries of wheat, previously scheduled for the first quarter of 1949, in order to move up to November and December the resumption of ECA's contribution to the ration system. Some success was achieved in the acceleration of ECA shipments to China—which proved to be of crucial importance in allaying unrest in major cities—and in the development of more realistic pricing for rationed food, but indigenous procurement efforts by the Chinese Government continued to lag.

Reported shipments as of December 31, 1948, under procurement programs 1, 2 and 3 (for the second, third and fourth quarters of 1943, were valued at approximately $37,000,000 for the purchase of 129,000
tons of rice and 107,000 tons of wheat and flour. In addition, about 25,000 tons of rice and flour had been received as residue from the China Relief Mission and 9,000 tons of rice had been borrowed from Hongkong to relieve a threatened November food shortage in Shanghai. Of these amounts, approximately 120,000 tons of rice and 30,000 tons of wheat and flour had before the end of December been released for the rationing programs. Additional Program 3 stocks either en route, loading or waiting for shipment, at the end of 1948, totaled 27,000 tons of rice from Siam and Burma and 56,000 tons of wheat and flour from the United States.

Supervision of Rationing Program

Although administered by Chinese Government officials, the ECA food program in China has been carefully supervised by ECA representatives who have insisted upon the maintenance of high standards of performance and honesty. Mindful of the considerable pilfering and misuse of food supplies previously delivered under the UNRRA program, ECA has paid utmost attention to the problem of end-use control. Strict supervision and careful checking have been applied to every phase of distribution in order to assure that all ECA-financed food supplies allocated to the rationing program actually reach the end recipient. A detailed description of rationing and end-use control under the ECA food program is contained in the Appendix.

The United States has delivered its contributions to the rationing programs regularly and on time. ECA officials in China have manifested constant concern that the rationing program should be conducted for the benefit of the people as a whole. These facts are well known to the millions of persons affected, and has done much to sustain their faith in the friendship of the American people.

Cotton

The first step in the cotton program involved an easing of pressure upon China's strained foreign exchange resources by ECA financing of existing consignment contracts with early delivery dates; these contracts were between the China Textile Industries, Inc., and the agents in Shanghai of American cotton shippers. All of the cotton involved was programmed for supply from the United States. In the course of authorizing procurement of this cotton, provision was made for joint supervision, by the Government and the ECA China Mission, of processing and distribution of raw cotton after arrival in China.

The total cotton program developed under the current China Aid Program involved an expenditure of nearly $70 million. During October 1948, the first of this cotton reached the mills and the system of control and reporting of end use was perfected. As of December 31, cotton in the amount of 299,038 bales, costing approximately $52.7 million, had arrived
in China and was being allocated and distributed to the mills; 51,000 bales of yarn and 557,000 bolts of cloth (40 yards each) had been received back from the mills.

Under the ECA China aid program, all cotton is procured through private trade channels. Cotton shipments to China are continuing under schedules designed to maintain production and employment while avoiding any undue advance stockpiling.

'The Chinese textile industry with about 3,900,000 operable spindles is China's largest manufacturing industry and raw cotton is one of China's vital imports. Not only are the cloth and yarn produced of great significance to the Chinese economy, but a high level of employment among the textile workers is important to the maintenance of relative stability in industrial centers, particularly in Shanghai.

Raw Cotton Supply Problem

Before the war, cotton grown in China supplied the bulk of the fibre required to keep the textile mills in operation. Due to some reduction in cotton acreage and, more important, to the extensive disruption of internal transportation trade caused by the civil war (see accompanying map), indigenous cotton has gone largely into household use and China has had to depend on imports for more than a third of the cotton used in her mills. In the year 1947-1948, mill consumption was about 1,950,000 bales; imports of cotton were about 700,000 bales (as compared with a prewar level of imports of 340,000 bales). Procurement was in considerable part from India, and limited quantities were purchased also from British East Africa, Burma and Egypt.

Provision of the necessary foreign exchange for cotton importation has been for China a problem of increasing proportions. The ECA program, which financed 300,000 bales in 1948 and in January 1949 was in process of financing an additional 100,000 bales, has been a major factor in the sustaining of production and employment in China's textile industry during the latter part of 1948.

Use and Control of ECA Cotton Imports

The plan developed for the use of ECA cotton imports called for the conversion of the cotton into yarn under arrangements involving processing or trading at a fixed ratio under which raw cotton is paid for by the processing and in most cases by conversion of the resulting yarn into cotton cloth. The Council for United States Aid (CUSA) and the ECA Mission to China agreed upon a division of the yarn and cloth produced from ECA cotton, with 50 percent to be used for domestic consumption and the rest to be exported—the proceeds to be used for purchase of additional raw cotton. Exports under this program had up to December 31, 1948,
earned an equivalent of more than $4.5 million in foreign exchange, all sales being to countries of southeast Asia. Domestic distribution is largely by direct sale through commercial channels; some of the textiles, however, have been used in barter schemes, as described below, designed to bring more food into the cities. More than 2,000 bales of yarn and cloth made from ECA cotton were bartered in Nanjing, Shanghai and Nanchang for 33,000 piculs of rice at a time when no other grain was moving into these cities from producing areas.

The arrangements adopted followed careful planning and careful negotiation by the Mission with the Chinese Government. The conversion, storage and disposition of ECA-financed cotton shipments to China are under the control of a Joint Management Board, and full records of each stage of the process are kept for end-use control purposes. Details of the end-use control mechanism developed are presented in the Appendix.

**Petroleum**

Since production of crude oil in China is negligible, the country is almost wholly dependent upon imports of petroleum products required in the operation of utilities, transport facilities, and manufacture and for household use. The cutting off of coal from north China, as a result of the civil war, increased greatly during the year the relative importance of petroleum products for power and industrial units in which they could be substituted for coal.

Taken as a whole, petroleum imports were vital to the operation of China's limited transport facilities and industrial plant. Diesel and fuel oil were essential to the operation of power plants and other utilities. These types, as well as motor and aviation gasoline and lubricants, were essential to the operation of water, rail and air transport. The use of kerosene, normally in wide demand for household lighting and fuel in rural districts and towns lacking electric power, has been restricted by disruptions in transport, but there has been continuing demand in the more accessible areas.

**Use of Normal Trade Channels**

The petroleum program involved, at first, negotiations on the part which each of the petroleum distributing concerns and the large end users in China would play in the importation and distribution of the products. The problems involved were largely settled about the middle of 1948, and firm authorizations were therupon prepared for issuance.

As a result, the importation and distribution of petroleum products under the ECA China Aid Program have been entirely through normal trade
channels and the bulk of the business is handled by the Standard Vacuum Oil Co., the Shell Company of China, Ltd., the California Texas Oil Co., and the Chinese Petroleum Corporation (an agency of the Chinese Government). A number of small importers and distributors have also participated in the program. The oil companies at first charged somewhat higher prices for petroleum products to China than to other destinations in order to recover the foreign exchange component of internal distribution costs. Such price differentials were not satisfactory either to the Chinese Government or ECA; consequently ECA has indicated its willingness to finance only such petroleum shipments as are priced on a cost-and-freight basis and are within the U. S. market price as provided in Section 202 of the appropriation act (Public Law 793).

As of December 31, 1948, the Central Bank of China had financed petroleum brought into China under the ECA China Aid Program to a value of about $28 million, for which amount the Central Bank of China was to be reimbursed by ECA as rapidly as the requisite documentation is furnished ECA by the Central Bank of China.

In view of the Central Bank's straitened foreign exchange position, ECA Headquarters on November 26, 1948 authorized an advance of $15 million to the Central Bank to enable it, pending reimbursement by ECA, to continue financing the release and distribution of petroleum products in China. Shortly before the end of the year, the reimbursement procedure was abandoned, and arrangements were made to finance all future petroleum shipments (and releases from bonded tanks of products already in China) by letter of commitment to U. S. banks. In connection with the new procedure, the ECA Mission to China was given the responsibility of approving each shipment or release in advance, in order to avoid undue stockpiling of petroleum products in Chinese ports.

Administration of Petroleum Program

Requirements programs have been prepared on a quarterly basis by the CUSA-ECA Petroleum Committee, which includes both active members and observers from CUSA and ECA. Up to the end of 1948, prices within China were determined by the Oil Allocation Committee, with approval of the Executive Yuan; the CUSA-ECA Petroleum Committee has sought Executive Yuan approval of a plan to authorize a CUSA-ECA-ELB (Export-Import Board) Price Adjustment Committee in Shanghai to make periodic reviews and price adjustments on its own initiative, in order to keep prices on a realistic basis and prevent the oil companies from sustaining losses because of currency fluctuations.

With ECA assistance, production has been continued at the Kao-hsiang refinery in Taiwan to which, at the end of 1948, 225,000 barrels of crude
oil were being provided monthly, for conversion into motor gasoline, diesel and fuel oil and kerosene. The plan under which this assistance has been given was developed on the basis of recommendations by an independent firm of engineers engaged for the purpose by the Chinese Government upon the suggestion of ECA.

End-use control of the petroleum products imported into China has presented fewer administrative problems for the ECA than end-use control of other commodities. Distribution of ECA-financed petroleum products in China is generally of two types: distribution to large users (for example, fuel oil for the Shanghai Power Company) and distribution by individual companies to end users (for example, retail distribution of gasoline through filling stations to car owners). Since the companies are the distribution agents, and the major distributors are two American companies and one British company, these firms themselves provide a considerable measure of end-use control and are able to do most of the end-use reporting required, subject to necessary spot-checking by the ECA Mission.

Fertilizer

Procurement of fertilizer has proceeded within the limitation of availabilities for China from existing world supplies, as reflected in allocations by the International Emergency Food Council. Although increased use of fertilizers offers promise of substantial increases in indigenous food production, its widespread application during the postwar period has been impeded by a lack of extensive previous experience in the use of chemical fertilizers in China, except in Formosa; by a shortage of extension personnel and organization to train Chinese farmers in the effective application of modern fertilizers; and by the difficulty of devising effective distribution and end-use control systems within China. Under plans being perfected at the end of 1948, it was expected that substantial distribution to end users, particularly in Formosa and south China, would occur during the first quarter of 1949, and that a reasonable minimum of fertilizer could be made available in China for the spring planting.

ECA Procurement of Fertilizers

Under the current China Program, ECA is financing the procurement of approximately 75,000 metric tons of chemical fertilizers, at a cost of approximately US$8.9 million; this should be of material benefit in increasing rice production in some districts, particularly in sections of Formosa and south China. It was at first planned to spend US$13.8 million on fertilizers. Subsequently, arrangements were made whereby the Bank of China, the Central Bank and the Taiwan Provincial Government undertook to finance from their own resources the procurement of a portion of the nitrogenous fertilizers allocated to China by the International
Emergency Food Committee; ECA thereupon reduced its fertilizer commitment by 4.9 million dollars. Under these arrangements China is in a position to acquire during 1948-49, through ECA and Government procurement, 116,000 metric tons of ammonium sulphate and ammonium phosphate. Having been used by Chinese farmers who have previously employed chemical fertilizers, these types are considered the most practical under prevailing agricultural practice.

Aid to Food Production in China

Fertilizers provided by ECA are primarily for use in increasing yields of lowland rice, which should mean a corresponding decrease in dependence upon importations of rice from abroad.

It has been found, through scientific experimentation and practice, that one unit of nitrogenous fertilizer can produce an average increase in yield of at least 2 units of clean rice or about 3 units of paddy rice, all by weight. Theoretically, therefore, one dollar's worth of fertilizer should produce three dollars worth of grain (in terms of each equivalent to the import cost of an equal amount of food). However, owing to high transportation and internal handling costs and low price of rice at producing centers in China, a somewhat smaller gain is realized. Nevertheless, the use of chemical fertilizer is the most effective means known to augment food production in China.

The total annual domestic production of chemical fertilizers in China, at the 1948 rate, was only about 81,000 metric tons (36,000 ammonium sulphate, 35,000 superphosphate and 10,000 calcium cyanamide). A provisional allotment from ECA of $5.5 million to China's domestic fertilizer industry, aimed to increase substantially production capacity, had to be suspended at least temporarily, toward the end of the year, due to disturbed civil war conditions.

At the end of 1948, the first 10,000 tons of ECA fertilizer was scheduled to reach Shanghai in January 1949. This installment, on the basis of an agreement with the Farmer's Bank, was to be distributed to farmers who, during November and December, had advanced rice for the food rationing program. Plans were developed for the distribution, through commercial channels in south China and Taiwan and through the Joint Rural Reconstruction Commission, of additional shipments totalling about 61,000 tons.

Coal

China's principal coal-producing centers have been in north China and Manchuria. As indicated on the accompanying map, military developments together with the cutting of vital transportation routes during
1948 interrupted the flow of coal from north China producing areas to consuming areas in central China.

Arrangements were made, therefore, for ECA procurement on an emergency basis of limited stocks from Japan through the Supreme Command, Allied Powers, Pacific (SCAP) organization. Before the end of 1948, coal in the amount of 15,000 tons had been obtained from Japan at a cost of about $280,000, and there was a prospect that further emergency procurement would be required.

**Medical Supplies**

About $5 million worth of medical supplies were procured for China under Public Law 84, the U. S. Foreign Relief Program. Most of these supplies arrived in China after the expiration of the China Relief Mission on June 30, 1948; they became, therefore, an ECA responsibility. As of December, nearly 90 percent of the supplies programmed by the China Relief Mission had arrived in China.

The reception, storage and transportation phases of the medical supply program have worked smoothly and losses from pilferage and improper handling have been negligible. Special medical warehousing units established have operated with a high degree of efficiency. On the basis of careful allocation and distribution planning by the Council for U. S. Aid, the ECA Mission to China, the Ministry of Health and the International Relief Committee, the distribution of these supplies was proceeding regularly at the end of 1948.

Distribution from Shanghai was being accelerated in view of the rapidly changing political and military situations; additional warehouses were being stocked in Canton and Taipei (on the island of Taiwan), leaving in Shanghai only supplies required in that area. It was expected that final distribution of medical supplies to end users would be completed by May 31, 1949.

**Pesticides**

ECA also took over from the China Relief Mission responsibility for $537,000 worth of pesticides which reached China during 1948; most of these supplies arrived too late for distribution during the lifetime of the China Relief Mission.

Plans were developed and agreed upon between ECA and the Chinese Government in September, for allocations of 35 percent of these pesticides to the Joint Rural Reconstruction Commission, 15 percent to the Ministry of Agriculture and Forestry for free distribution at agricultural demonstration centers; and the remaining 50 percent for sale
through commercial channels. Sales during October and November were principally in south Kiangsu and north Chekiang areas bordering the Shanghai district and were concluded in time to give needed protection to crops. When seasonal demand from farmers in these districts ceased, sales efforts were directed to south China where, with a long growing season, the need for insecticides continued during ensuing months.

In Taiwan, where the use of agricultural insecticides is best known, the only channels through which farmers had been accustomed to obtain their supplies in the past had not, at the end of the year, been utilized in accordance with original plans due to lack of requisite cooperation in making supplies quickly available to consumers.

**Special Barter Arrangements**

A barter program, of an emergency nature, was developed initially on a small scale. Difficulties experienced by the Chinese in obtaining their quota of domestic food supplies for the rationing program were such that CUSA and ECA undertook to exchange limited quantities of cloth and yarn (manufactured from aid cotton) for rice and other indigenous food grains.

About two hundred tons of cloth were sent to Nanking, for example, to be used in exchange for rice, about 150 pounds of rice being obtained for each piece of grey cloth 40 yards long.

In villages near Shanghai a similar type of exchange was developed, and in Changsha, commercial center of a large rice-producing area in northern Hunan, a beginning was made. Such exchanges up to the end of 1948, were experimental in character. The results attained indicated that considerable quantities of rice could be obtained in this manner, and it was planned that regular supplies of yarn and cloth to be used for this purpose would shortly be advanced to Office of Emergency Food Procurement, with ECA observing OEFF operations and ensuring strict end-use accounting.

In North China ECA representatives were, at the end of November, negotiating with representatives from General Fu Tso-ji's headquarters and local grain dealers. A contract was under consideration calling for 120,000 pieces of cloth to be used in exchange for domestic wheat, flour, and coarse grains, the foodstuffs to be used in a selective rationing plan for workers in essential services. This plan was disrupted by military developments in the Peiping-Tientsin area.

Two principal purposes were served by such barters of cloth and yarn for food: (a) the obtaining of additional supplies of food for use in the rationing programs and (2) the distribution of yarn and cloth in interior areas, in many cases direct to the farmers without passing through middlemen, thus reducing opportunities for cloth and yarn to fall into the hands of speculators.
Shipping

Mention has been made of the fact that more than 99 percent of ECA-financed commodities shipped from the United States to China during 1948 were carried in U.S. vessels.

Internal administrative rulings defining what types of transportation expenditures are eligible for reimbursement from ECA funds, written principally for application to Europe, are generally applied to China. However, due to emergency conditions in China the Administration has seen fit to depart from its general rules on special occasions. These departures involve the payment of partial freight in dollars to certain Chinese ships chartered to move rice from Siam and Burma. The rice, procured by U.S. representatives using ECA funds, has been moved to China on an exacting schedule to meet ECA's feeding program in principal Chinese cities. About $727,000 for freight thus provided before the end of December 1948 made possible the movement of 39 Chinese ships carrying about 155,000 metric tons of rice.

These movements of rice from southeast Asia to China have not taken place exclusively in Chinese ships; funds are made available to U.S. representatives to enable them to use American ships interested in the traffic. However, only one American ship was used for this purpose in 1948; the cost via this vessel was $7.50 per ton as compared with the current Chinese rate of $2.00 per ton from Siam. The Chinese rate toward the end of 1948 was $3.50 per ton from Burma as compared with an estimated $10.00 per ton in American vessels. It is considered doubtful whether the dollars provided the Chinese cover the out-of-pocket expenses of the ships involved, which do receive some additional compensation in Chinese currency from counterpart funds.

The reason for close scheduling of shipping carrying food into China has been to import sufficient amounts to prevent starvation and riots, at the same time avoiding stockpiling of quantities that might be lost as a result of the war. In addition to scheduling rice shipments, considerable authority was delegated to the ECA Mission in China to divert U.S. wheat and flour shipments, as well as shipments of other commodities, to meet changing situations. When the military situation in the vicinity of Tientsin deteriorated, several American ships about to discharge in ports serving that area were diverted to Tsingtao.
A total of $70 million was originally programmed for industrial reconstruction and replacement projects in China. The legislative history of the China Aid Act indicated considerable Congressional interest in this significant aspect of proposed assistance to China. Extensive, painstaking preparations were made, including the sending to China of a special Reconstruction Survey Group, in order to ensure the most productive use of the funds made available for industrial reconstruction and replacement purposes.

Necessity for Suspension

However, due to developments in the civil war situation in China, it became necessary for the Administrator, on December 21, 1948, to announce that work on the reconstruction and replacement program was, to a large extent, being suspended--exceptions being made in connection with the completion of certain pre-project engineering studies which had already reached an advanced stage of development. Preparatory work on some of the projects, located in areas of Manchuria or north China involved in or threatened by military developments, had already in fact been suspended. The series of defeats sustained by the Nationalist forces in the fall and early winter of 1948, jeopardizing the Government's position not only at its remaining bases in north China but also in the Yangtze Valley, had resulted in chaotic conditions and major uncertainties throughout many of the regions in which reconstruction and replacement projects had been planned.

The suspension did not eliminate the possibility of renewed activity on selected projects in areas remaining accessible, in the event that such a partial resumption of the reconstruction and replacement program should at any future time be deemed feasible and expedient. At the time of suspension, all of the projects were still in the pre-project engineering stage, no funds having as yet been actually committed for procurement.

The following paragraphs present a brief summary of the problems encountered in the field of industrial replacement and reconstruction, the planning and preparatory work undertaken, and the practical arrangements developed for the initiation and execution of replacement and reconstruction projects in China. A listing, with brief descriptions, of the projects for which "provisional allotments" were made prior to the suspension of this part of the program, appears in the Appendix.
Planning and Preparatory Work

Initial planning had called for an expenditure of $60 million for reconstruction and $10 million for replacement work; as a result of the work of the Reconstruction Survey Group, however, much greater proportionate emphasis was placed upon replacements needed to increase the productivity of existing enterprises.

Initial members of the Survey Group reached China on June 7, 1948. The Group, consisting of 4 engineers, 2 economists, a lawyer and a businessman (Charles L. Stillman) who served as its head, operated as a part of the ECA Mission to China. After several months' review of conditions in China by the members of this Group, the ECA Mission developed, in agreement with the Chinese Government, a tentative program designed to make a significant start toward the reconstruction or rehabilitation of certain railroads, electric power plants, fertilizer manufacturing units, and coal, tin and antimony mines—all in non-Communist China.

The program finally recommended by the Survey Group and tentatively approved by the Administrator prior to the enforced suspension of this aspect of ECA assistance to China, called for approximately $25 million worth of new reconstruction or development, $35 million to be spent for replacement assistance, and $7.5 million for engineering services and reserves, making a total of $67.5 million; the remaining $2.5 million was earmarked for foreign exchange expenditures required in connection with the rural reconstruction program. Most of the projects planned were in the fields of basic industry and transportation—approximately $13.5 million being provisionally allotted for railway rehabilitation, $17.25 million for power plants, $11 million for coal mines and $5.5 million for fertilizer manufacture.

Following extensive consideration within ECA of the possibility of extending assistance to certain types of replacement and reconstruction projects on a loan basis, and after subsequent consultation with the National Advisory Council, it was tentatively determined that projects currently under consideration would be provided on an outright grant basis, leaving open the possibility of future reconsideration of loan proposals.

Problems of Industrial Reconstruction in China

The Chinese, in taking back control of their country after eight long years faced many problems. The areas reoccupied had been swept over by Japanese armies, by Chinese armies, and by Chinese and American airforces. Communist raids and damage by armies of both sides in the
civil war had continued in many regions. Nearly all existing industrial facilities were in deplorable condition due to a variety of causes dating back to the opening of the Sino-Japanese War in 1937. Railroads, partially restored during the UNRRA period, needed further assistance. Further problems were presented for foreign exchange shortages, internal economic and financial difficulties evidenced in extreme inflation, seriously inadequate transportation and a general disruption of Government and of industrial management, both public and private.

Elimination of much foreign participation in Chinese affairs, as a result of the war and the ending of extraterritoriality, inevitably left a gap in the nation's economic and industrial life. Particularly in the industrial areas, foreign participation in management and control of properties had been of significance in their development and effective operation. Following the war, foreign-flag shipping was excluded from Chinese river and coastal waters, resulting in higher transportation costs and less adequate services. The Chinese were unable to develop comparable services in a short time.

When Taiwan (the island of Formosa) was returned to de facto Chinese control after fifty years of Japanese occupation, U.S. military forces removed nearly all Japanese from the island. The removal of those who had exercised management control and possessed requisite technical knowledge meant that this relatively highly developed island had to be staffed at management and technical levels with Chinese personnel who lacked previous knowledge of the properties involved and who faced, in addition to normal maintenance problems, a large replacement problem resulting from bombing damage inflicted during the war by U.S. airforces.

Considerable quantities of industrial materials and equipment had been made available to China through previous aid programs, notably the UNRRA program, and through Chinese Government procurement from the Pacific islands of United States surplus supplies after the war. China had not been able to absorb all of these supplies during the first three post-war years. The ECA faced, therefore, the problem not only of making sure that equipment under the ECA China aid program was put to effective use, but of helping also to get into operation residual stockpiles of equipment already in China.

Most of China's industrial plant had been badly undermaintained throughout the long war years, and requisite training of personnel had been largely discontinued. Although China's industrial development was still in its early stages, the effective functioning of the nation's limited industrial plant was regarded as vital for the production of goods essential to the reducing of China's dependence upon
external aid, and for an effective approach to the problem of inflation.

The essence of the problem facing ECA, then, was an extensive need for replacement and reconstruction equipment and a lack of the foreign assistance in engineering and management requisite to the effective absorption of such equipment into the Chinese economy. A solution to this problem required a unique approach. Engineering and management assistance would have to be furnished along with the equipment. The ECA, in approaching this problem, needed also to bear in mind objectives implicit in the legislative history of the ECA: to maximize the use of private trade channels, to encourage both internal production and international trade and to avoid impairment of the U.S. economy.

Insufficiency of technical knowledge and experience in management had been a recurrent problem encountered in efforts to help Chinese industry. This made necessary a provision of technical and managerial help along with material assistance. The Survey Group developed a unique plan of action for the meeting of this need. It recommended that each industrial project applying for, and receiving a tentative allotment for, ECA assistance be required to engage the services of a private engineering firm to help in surveying and planning the work needing to be done and in the procurement and installation of requisite equipment. The Survey Group further recommended that the Chinese Government and ECA jointly engage a high-grade American engineering management firm to assist in supervising the entire scheme, in order to ensure that this part of the China Aid Program would, as a whole, be conducted with the benefit of outstanding engineering talent and experience. These recommendations contemplated ECA payment for such engineering services under the "technical assistance" provision in Section 111(a)(3) of the Foreign Assistance Act of 1948. These recommendations, in which the Chinese Government concurred, were approved by the Administrator as a tentative basis on which further development of the program might proceed.

In anticipating the types of firms best equipped to undertake, on behalf of provisionally approved projects, the requisite work of pre-project engineering analysis and subsequent assistance in procurement and installation, consideration was given both to engineering firms without previous experience in China and to concerns which had been active in developing production and trade in China. Some of the latter, with worldwide connections, extensive local experience and competent resident managers and staffs of engineers, both Chinese and foreign, could, it was believed, make valuable contributions, under appropriate safeguards, to the success of the program.
Practical Arrangements Developed

After consideration of all aspects of this complicated program, the Chinese Government and the ECA Mission to China agreed to form a non-voting consultative Joint Committee composed of three representatives of the Chinese Government and two representatives of the ECA Mission to supervise the carrying out of the replacement and reconstruction projects. This arrangement was in accord with the principles of the Economic Aid Agreement between China and the United States which specifies that programs are to be carried out by mutual agreement.

It was decided to engage the services of an outstanding American management engineering firm to assist the Joint Committee. This was a distinct change from methods hitherto employed for previous aid programs by either government or by the United Nations for the UNRRA program. Previous practice had involved efforts to coordinate the work of Chinese and non-Chinese staffs, without use in most cases of special engineering consultants or of normal business and trade channels for functions which might be performed efficiently and economically by private enterprise. The Joint Committee, representing both governments, decided to retain in a technical capacity the J. G. White Engineering Corporation of New York City. The principal function of this corporation, it was agreed, would be to furnish technical supervision, with a group of from six to ten U. S. engineers, of the projects approved under the tentatively authorized $70 million ECA replacement and reconstruction program in China. The staff was not itself to undertake any "projects", but to assist the Joint Committee in selecting, recommending for approval, and supervising a wide range of industrial projects.

The procedure adopted may be outlined briefly as follows:

Private or public enterprises desiring assistance under the program would present initial applications to the Joint Committee which would refer them to the J. G. White Corporation for analysis and recommendation; projects provisionally approved by the Joint Committee were to be given "provisional allotments".

As soon as a "provisional allotment" was made, the successful applicant was to select an engineering firm as its "project engineer", this selection requiring ratification by the Joint Committee set up by the Chinese Government and the ECA China Mission.

The project engineer would draw up a bill of materials with detailed specifications, search world markets for
necessary equipment and supplies which could be procured on the most expeditious and economical terms, and present a fully justified "project" to the Joint Committee.

Upon approval of the project by the Joint Committee, the project engineer would arrange for the procurement and delivery of approved equipment and material, and assist the applicant in achieving prompt installation and use.

Financing was to be done by ECA by a letter of commitment to a U.S. bank, in effect guaranteeing letters of credit (a) to suppliers of equipment or materials under approved projects, and (b) to the project engineer for his approved fee.

At each stage of this procedure, the J. G. White Engineering Corporation was to act as technical staff to the Joint Committee, the Committee taking action only after receiving the recommendations of its technical staff on such matters as: approval of the selection of project engineering firms, approval of fees and charges by these firms, approval of the detailed specifications and sources of procurement of equipment for the projects, and approval of prices of materials to be procured. Before any program was approved, the applicant and the project engineer would be required to submit to the Joint Committee a sworn affidavit containing information with respect to their profit margins and their methods of seeking materials, including competitive bidding. Arrangements could be made for the technical staff of the Joint Committee to accept sealed bids on items where relationships between the project engineer and the supplier indicated that such protection would be desirable.

These procedures taken together represented a new pattern for publicly financed industrial projects in underdeveloped areas. As such, they provided a unique approach toward the solution of a large continuing problem, that of grafting branches of modern technology onto the great trunks of agrarian economy in Asia and other underdeveloped parts of the world. An uninterrupted testing of this approach was unfortunately precluded by events in China.
RURAL RECONSTRUCTION PROGRAM

During the deliberations of the House Foreign Affairs Committee in February and March of 1948 on prospective aid to China, consideration was given to the fundamental and extensive needs of the Chinese economy in the field of rural reconstruction. Some new light had been thrown on this problem by a special agricultural mission sent to China by the President in 1946. Valuable experience in dealing with certain aspects of the problem had been gained through the Chinese Mass Education Movement headed by Dr. James Y. C. Yen. Information from these and other sources was weighed by the Committee with the result that rural reconstruction was included in subsequent China aid legislation as a specific field in which program funds might be spent.

Section 407 of the China Aid Act

Authorization for inclusion of a special rural reconstruction program was provided in Section 407 of the China Aid Act of 1948—the full text of which appears in the Appendix. This Section authorized the Secretary of State, after consultation with the Administrator, "to conclude an agreement with China establishing a Joint Commission on Rural Reconstruction in China, to be composed of two citizens of the United States appointed by the President of the United States and three citizens of China appointed by the President of China." Such Commission, it was provided, subject to the direction and control of the Administrator, was to formulate and carry out a program for reconstruction in rural areas of China, including such research and training activities as might be necessary or appropriate for such reconstruction.

The Act authorized an expenditure, for this rural reconstruction program, of an amount equal to not more than 10 percent of the funds made available for economic aid to China under the China Aid Act. This placed an upper limit of $27.5 million upon the funds which could be used for the rural reconstruction program. It was stipulated that the amount could be made available in U. S. dollars, proceeds in Chinese currency from the sale of ECA commodities, or both.

Establishment of Rural Reconstruction Commission

Following a period of negotiation, notes were exchanged on August 5, 1948, between the United States Ambassador to China and the Chinese Government Ministry of Foreign Affairs, providing an agreement for the establishment of a Rural Reconstruction Commission in accordance with the terms of the China Aid Act of 1948. The texts of these notes are quoted in the section on Documents, below.
Following the conclusion of this agreement, appointments were made by the Chinese and the United States Governments to the Rural Reconstruction Commission, the Chinese members being Dr. Chiang Mon-lin (former President of the Peking National University, former Minister of Education, and recently Executive Secretary of the Chinese Government Executive Yuan), Chairman; Dr. James Y. C. Yen (for 25 years the leader of China's internationally known Mass Education Movement); and Dr. T. H. Shen (outstanding Chinese agriculturist). The United States members appointed by the President on September 19, 1948, were Dr. John Earl Baker (former Director of the China International Famine Relief Commission and former adviser to the Chinese Government), and Dr. Raymond T. Moyer (U. S. Department of Agriculture authority on Chinese agriculture). On October 1, the Commission held its first meeting.

Objectives and Principles

The problem of rural reconstruction in China is one of enormous magnitude and complexity. Intensive and lengthy discussion was required to reach general agreement among members of the Commission with respect to questions of aim, emphasis, organization and methods of work. On October 18, 1948, agreement was reached on a general statement of the objectives and principles of the Joint Commission on Rural Reconstruction. The text of this statement follows:

"I. Objectives

A. To improve the living conditions of the rural people.

B. To increase the production of food and other important crops.

C. To develop the potential power of the people to reconstruct their own communities and the nation, thus to lay the foundation of a strong and democratic China.

D. To help build up and strengthen appropriate services of government agencies--national, provincial and hsien--that are established to carry out measures pertaining to rural reconstruction.

E. To help stimulate and revitalize enterprises of the Rural Reconstruction Movement and other private agencies doing rural reconstruction work."
F. To offer liberals, educated youths and other constructive elements, opportunities to participate in a program of service.

II. Principles

1. Relating to Program

A. The emergency nature of the present situation shall be given paramount consideration in deciding on the nature and location of program and projects.

B. First consideration shall be given to projects which will contribute most directly and immediately to the welfare of the rural people, with special emphasis to be given to the improvement of their economic conditions.

C. A literacy program, supplemented by audiovisual aids, shall be an essential part of this program, as a means of furthering education, organizing the people, and developing and selecting rural leadership.

D. New projects in rural reconstruction deserve encouragement, but unless they can show evidence of self-help and self-support for a reasonable length of time, financial aid shall not be considered.

E. Projects which already have been proved successful, under rural conditions, and which are reasonably simple and inexpensive, shall be broadcast on a large scale.

F. In general, preference shall be given to those agencies engaged in rural reconstruction having a sound foundation and experienced staff and organization.

2. Relating to Procedure

A. The program formulated by the Commission shall be carried out in cooperation with existing agencies.
B. A correlated approach shall be adopted wherever possible, since the various aspects of rural reconstruction are interrelated, the success of one depending on the success of the other.

C. A direct extension-type of adult education shall be emphasized as the most effective and quickest means of promoting the understanding, acceptance and correct use of recommended practices.

D. Local initiative shall be fostered and local resources, both human and material, shall be mobilized for the purposes of the program.

E. Assistance to a project in any province shall be contingent upon the willingness of the provincial and local officials concerned to cooperate fully in efforts to carry it out, and to take other steps, themselves, that are essential to the attainment of results expected of the project."

On October 26, 1948, "A Memorandum of Understanding Between the Economic Cooperation Administration and the Joint Commission on Rural Reconstruction in China, Defining Their Respective Spheres of Administrative Responsibility" was signed by the Chairman of the Joint Rural Reconstruction Commission and the Acting Chief of the ECA Mission to China. This agreement established procedures for the presentation of budget estimates by the Joint Commission and the allocation of U. S. dollar funds for material and technical assistance and of local currency from the counterpart funds for expenses incurred within China. And arrangements were agreed upon for the recruitment, administrative supervision and direction of Commission personnel.

Based on the objectives and principles quoted above, the Commission worked out the main outlines of a program, which was divided into four parts with the following aims:

To increase in supplying areas the domestic production of agricultural commodities currently in serious short supply in China and supplied in part by the United States ECA program, particularly foodstuffs;
To establish centers in which a broad integrated program would be started under appropriate agencies of the Government, through projects related to local government administration, land reform, agriculture, rural public health and rural social education;

To carry out a large-scale effort in adult education as a means of developing the potential power of the people and raising their level of understanding, thus enabling them to participate more intelligently in solving their present problems; and,

To assist significant projects in rural reconstruction established in numerous centers through local initiative and resources.

When Nanking became threatened by military action, it was decided to move the Commission's operational headquarters to Canton. At the same time, a decision was made to focus major attention first on the development of a program in provinces south of the Yangtze River, and to concentrate upon projects susceptible of prompt development and usefulness, in such fields as irrigation, dyke repair, public health, and the control of serious animal diseases.

**Surveys and Organization**

To put this initial program promptly into effect a trip was taken by members of the Commission to Szechwan and Hunan provinces to inspect existing efforts on behalf of the rural population and to consult with responsible persons concerning projects for which assistance had been requested. Steps also were taken to set up regional offices in Chungking (Szechwan), Changsha (Hunan), and Kweilin (Kwangsi), and a central office in Canton (Kwangtung), while retaining a regional office in Nanking. Tentative plans to carry out some phases of a rural program from two offices in north China had to be suspended on account of troubled civil war conditions there. Headquarters of the Commission were moved to Canton on December 5, 1948.

To assist the Commission in carrying out its plans, competent persons were selected as heads for three of the four divisions of work, and, at the end of the year, able appointees were under consideration for the fourth division and to represent the Commission in three of the most important regional offices. A staff of Chinese and American specialists was being assembled to advise the Commission and help carry out its program, although uncertainties in the general situation caused the Commission to proceed gradually in building up such a staff.
The impression gained by the Commission in visits to provinces in west and south China was that these provinces were at the time relatively free from the acute tension then felt in the lower Yangtze area, and that local officials and private agencies were anxious to proceed with rural reconstruction measures along the general lines formulated by the Joint Commission. Steps were taken, therefore, to get into operation, in an initial program, specific projects to which the Commission was prepared to allocate assistance.

Initial Projects

Projects for which detailed plans were being developed included the following:

A broad integrated program in rural reconstruction in the third prefecture of Szechwan province, initiated by the Mass Education Movement and local leaders, assistance to include grants for the development of educational, agricultural and farm organization projects, and loans for irrigation and weaving projects.

The completion of 11 irrigation projects already underway in Szechwan province, which would provide for the irrigation of 191,000 mow (about 30,000 acres) of land by the end of April 1949.

The establishment of a system to multiply and distribute improved rice, corn and cotton varieties in Szechwan province.

The repair of dykes in the Tung T'ing Lake area of Hunan province, which would restore to production and protect from flooding land normally producing around two-thirds of the amount of rice annually imported into China before the war, to be completed by the end of April 1949.

An integrated program of rural reconstruction in Hunan, for which definite plans were yet to be received and agreed upon.

The establishment in Hunan province, the "rice bowl" of central China, of the beginnings of an improved system of rice production and marketing, including the multiplication and distribution of improved seed varieties and the establishment of more modern milling and warehousing centers.
Projects involving cooperation with various Ministries of the National Government were being considered in consultation with these Ministries after specific project plans were reasonably well developed. Steps were being taken to set up appropriate committees of specialists to advise the Commission and to assist in carrying out phases of the rural reconstruction program; the first committee established was for work in the field of public health in rural areas, with a former Minister of Health as Chairman. In accordance with a request of the Rural Reconstruction Commission, a private public relations firm completed in November a special study of the facilities available for a widespread educational effort under the Commission's sponsorship.

Detailed plans for the irrigation projects in Szechwan, for the dyke repair project in Hunan, for certain parts of the program sponsored by the Mass Education Movement in Szechwan, and for several other projects were being reviewed in December with a view to early allocations of funds. The Commission also expected to make early announcement of projects to which it would initially allocate assistance in Kwantung province, and trips were planned to Kwangsi, Fukien and Taiwan to study projects for which aid had been requested.

Specific plans for broader programs with a major emphasis on education, it was anticipated, might not be completed before the end of February 1949. Tentative planning, conditional upon developments, called for an extension of some assistance to such integrated programs during the spring of 1949. It was expected, however, under prevailing conditions, that available funds under the current program would necessarily be allocated principally to projects of a short-range nature, emphasizing increases in agricultural production and improvements in rural health conditions.
STRATEGIC MATERIALS

Article VI, paragraph 1, of the Economic Cooperation Agreement between the United States and the Republic of China (the full text of which is quoted in the section on Documents, below) provided that the Chinese Government would facilitate the transfer to the United States, for stockpiling or other purposes, materials originating in China which are required by the United States of America as a result of deficiencies or potential deficiencies in its own resources upon such reasonable terms of sale, exchange, barter or otherwise and in such quantities and for such period of time as may be agreed to between the Government of the United States of America and of China for domestic use and commercial export of such materials. The Government of China agreed to undertake "such specific measures as may be necessary to carry out the provisions of this paragraph" and "when so requested by the Government of the United States of America, to enter into negotiations for detailed arrangements necessary to carry out the provisions of this paragraph."

Article V, paragraph 4, of the same agreement, provided that expenditures in Chinese currency from the Special Account (described below) would be "only for such purposes as may be agreed from time to time with the United States of America, including expenditures incident to the stimulation of production activity and the development of new sources of wealth including materials which may be required in the United States of America because of deficiencies or potential deficiencies in the resources of the United States of America."

A preliminary investigation was conducted by members of the Reconstruction Survey Group, with a view to promoting increased production and export to the United States of strategic materials available in China and required by the United States, particular attention being given to tin, antimony and tungsten in south and southwest China. Such procurement, it was felt—to the extent that it could be developed—would, in addition to increasing the supplies of minerals needed by the United States, serve the double purpose in China of increasing local employment and augmenting the country's slender foreign exchange resources.

Production and Procurement Problems

It was found that foreign exchange policies and controls connected therewith since V-J Day, related to the Government's attempts to deal with the inflation, had exerted a depressing
influence upon the production and export of these minerals, making it impossible for exporters, by and large, to obtain by negotiations through official channels fair and realistic prices for their goods. Only on rare occasions, when official exchange rates were for short periods realistic, were such exporters able to secure reasonable returns upon their produce. Initial negotiations looking toward the acquisition of these materials were aimed in part at securing the agreement of the Chinese Government to changes of policy designed to remove some of the obstacles to the flow of materials through legitimate channels of trade to the U. S., at prices fair to the producers.

Additional difficulties in procurement and export of such materials to the United States were attributable to shortage of productive equipment in China and to lack of transportation facilities from relatively inaccessible parts of China where such materials existed. Efforts toward helping to meet both these needs were clearly needed if production and procurement were to be developed on any appreciable scale.

Initial Arrangements

Following the aforementioned survey, the ECA China Mission before the end of 1948 began to work out arrangements with Chinese tin interests to make their product available for export to the United States. After receipt of pertinent information from ECA, the Reconstruction Finance Corporation in Washington offered to purchase from China considerable quantities of tin concentrates, to be refined in the U. S. where efficient smelter operation could extract a maximum percentage of high-grade tin; and to buy some tin metal in China for stockpile purposes. Preliminary negotiations were in progress at the end of the year to effect procurement arrangements, which were complicated by the necessity of effecting purchases through barter by the use of commodities or silver, instead of depreciated local currency.
SPECIAL LOCAL CURRENCY ACCOUNT

Provision for the establishment of a special local currency account, or counterpart fund, was contained in Article V of the Economic Cooperation Agreement between the Governments of China and the United States; the full text of this Agreement appears in the section on Documents, below.

Unique Provisions in the Bilateral Agreement

The article referred to provided for two unique features in connection with the special local currency account, or counterpart fund, in China. The first was a provision that deposits would be made in the account only when requested by the United States; thus deposits could be requested at a rate sufficient to cover actual expenses that had to be met currently, without the accumulation of large balances which would rapidly depreciate in value as a result of the inflation. The second was a provision that the Chinese Government would "maintain the value" of allotments made from the Special Account—for such important purposes as administrative costs, rural reconstruction and the internal expenses of industrial projects—by "depositing such additional amounts of currency as the Government of the United States of America may from time to time determine after consultation with the Government of China." The value of allotments, to be thus maintained, could be recorded in terms of such standard and relatively stable measures of value as quantities of cotton yarn, rice or American dollars.

Support for China Relief Mission Projects

Shortly after the establishment of the ECA Mission in China, discussions were initiated with the Chinese Government pertaining to the setting up and operation of the special local currency account. While these discussions were in progress, provisional arrangements were made for the use of counterpart funds made available by the Chinese Government in support of existing projects in the fields of medical services, relief and welfare, conservancy work, and agricultural improvement which had been previously supported from a local currency account created in connection with the operation of the U.S. China Relief Mission. These projects which had theretofore been regarded as ending on June 30, 1948, were in some cases selected by action of the Chinese Government in consultation with the ECA for continuation after that date.
Preliminary Studies and Proposals

After careful study of special questions involved in setting up the special local currency account in China, and in light of discussions with the Government, the ECA China Mission prepared in September 1948 a tentative proposed program of local currency utilization which outlined in some detail projected uses for the counterpart funds in the fields of conservancy, public works, agriculture, medical and health activities and welfare.

Concurrently, analysis was undertaken of the financial and economic problems in China which needed to be considered in determining the manner in which the counterpart funds would be utilized. These problems included: the extensive deficit spending of the Government, concomitant with the continued prosecution of the civil war; the inflationary effect of the enforcement of the Government's short-lived August 19 economic regulations; the continuation of certain inflationary practices of the Government; the progressive deterioration in economic production; the disruption of transportation in disturbed areas; and the loss of public confidence in the currency resulting in widespread hoarding of supplies and excessively rapid turnover of the currency.

Technical problems requiring study included determination of the exchange rates governing payments of local currency counterpart funds into the Special Account; the timing of deposits; and policies to be followed with regard to the disposition of Special Account funds.

Studies and proposals received from the Mission, in relation to these problems, were further analyzed in Washington prior to consultations with the National Advisory Council.

Establishment of the Special Account

Following these consultations, authorization was given to the ECA China Mission to negotiate with the Chinese Government on questions relating to the establishment of the Special Account, deposits into such account, and purposes for which funds from the account might be utilized.

The Special Account was established in the Central Bank of China. It was agreed that, in order to avoid depreciation of cash balances in the account as a result of the inflation, deposits would be made only as called for by the ECA China Mission, in most cases a short time before withdrawal and expenditure.
Utilization of Counterpart Funds

It was further agreed that withdrawals would be made to cover all mandatory expenditures from the account, as called for in the Bilateral Agreement, including the Chinese currency portion of the following expenses: administrative costs of the ECA China Mission; costs of delivering private relief gift packages in China; and costs of the Joint Commission on Rural Reconstruction. It was estimated that expenditures of these types would amount to roughly 12 percent of the total account.

From the outset, it was clear that "sterilization" of local currency Special Account funds could not of itself be the key to controlling the Chinese inflation. The basic cause of the inflation was the magnitude of the Government's deficit financing, which in turn was due to the exigencies of the civil war and shaken public confidence in the currency which led to excessively rapid rates of circulation of the note issue.

On the other hand, it was apparent that an easy money policy in the use of the Special Account would be inflationary, the effect of such a policy being similar to that of greatly increasing the Government's monthly budget deficit through excessive note issue.

The ECA China Mission, in the light of discussions of this problem with the National Advisory Council in Washington followed, therefore, a policy of agreeing only to expenditures from the account which could be regarded as of demonstrated urgency and which in many cases would have offsetting deflationary benefits. Broad categories of non-mandatory expenditures on which the ECA China Mission could agree with the Chinese Government as being appropriate uses for the Special Account included: emergency expenditures which, at the discretion of the Chief of the ECA China Mission, could be considered as consistent with the objectives of the China Aid Act—expenditures envisaged in this category being for such purposes as emergency procurement of indigenous food for the rationing programs; expenditures on certain carefully screened projects, chiefly in the fields of conservancy, health and welfare; and expenditures, when necessary, to insure prompt installation and proper utilization of capital equipment under the replacement and reconstruction program. The total of these expenditures, it was expected, should amount to less than half of the potential local currency account.

Exchange Rates

A persistent problem with respect to the Special Account has
been that of agreeing with the Chinese Government upon appropriate rates at which deposits would be made in terms of U. S. currency—that is, rates reflecting commensurate value in Chinese currency, at given times, for U. S. dollar aid provided. A rapid decline in the value of the new gold yuan and reluctance of the Chinese Government to negotiate formally on a basis other than official exchange rates led, pending a settlement of this question, to deposits being made as advances, without final agreement before the end of 1948 on commensurate value in terms of U. S. dollars.

Deposits and Withdrawals

As of December 31, 1948, deposits into the Special Account totalled, in round numbers, 157,289,000 gold yuan, equivalent (on the basis of rough tentative estimates prior to agreement on applicable exchange rates) to US$9,543,000. Withdrawals on the same date totalled, in round numbers, 150,333,000 gold yuan, equivalent, according to similarly tentative estimates, to US$5,839,000—the equivalent of approximately $1,342,000 being for ECA administrative expenses in China, $2,498,000 for administrative expenses of the Chinese Council for United States Aid, $1,803,000 for special projects, $113,000 for engineering services, and $143,000 for expenses incurred by the Joint Commission on Rural Reconstruction.

Before the end of 1948, the local counterpart funds thus jointly managed by ECA and the Chinese Government had enabled many worthy institutions and projects to continue operations in spite of inflation and civil war.
APPENDIX

Containing Further Details on:

Food Rationing and End-Use Control

End-Use Control of Cotton

"Provisional Allotments" for Industrial Reconstruction and Replacement Projects

Responsibilities of Organizational Units Within the ECA China Mission
Food Rationing and End-Use Control
(As of December, 1948)

At the time of arrival in port, the discharge and physical handling of ECA food cargoes are supervised and directed by ECA agents. The supplies are surveyed and weighed against the ship's bill of lading. When shortages occur, the requisite claims are lodged against the shipping companies concerned. Every precaution is taken to avoid rough or careless unloading and faulty cartage procedures such as the use of large stevedore hooks on rice and flour bags. In cases of such mishandling, complaints are instantly lodged with the discharging agency and rectification demanded. In the event of continued mishandling of cargoes, the guilty agency is discharged. One leading agency, at ECA request, has been deprived of unloading assignments because of an unsatisfactory record on this score.

The food cargoes consigned to the Chinese Government Council for U. S. Aid (CUSA) are tallied upon discharge by a reliable firm of sworn measurers as they enter the wharf godown. In case immediate allocation to retail shops is made at ship's side, ECA supplies are weighed before they are loaded onto trucks in accordance with the amounts indicated on allocation orders turned over to a transportation company by City Food Committees, in which ECA representatives sit as observers. The transportation company is responsible for losses occurring in transit to retail shops and, upon arrival of food at the shops, must weigh in deliveries and co-sign with shopkeepers copies of delivery receipts. On the delivery sheet form appears a section for the indication of any shortage or overage. Estimated losses en route from shipside or godown to retail shops run less than .01 percent.

When food supplies are placed into godowns pending future allocation, ECA inspectors check the weighing-in scales to make sure the goods are not being weighed in "light." Proper methods of storage and stacking are insisted upon as are accurate records of stock. All godowns used are bonded and precautions taken against possible damage from fire and excessive moisture.

Accurate census and registration figures are of the utmost importance in determining the number of rightful ration recipients. A special census has been taken in each city with this objective in mind. Special ration cards were distributed to citizens in four of the cities either through the pao chia (wards) or through special ration coupon offices set up for the purpose. These fundamental ration cards are in triplicate, one being held by the citizen, the
second by the coupon office and the third by the City Food Committees. Each section of the card carries the name, household number and pao chia number of the citizen; in cities in which the citizen is assigned to make his purchases at one definite shop or ward distribution center, the number of the shop or center is also included. Usually a photograph of the ticket holder is attached to the card. In three cities where cards are not used, the citizen's normal registration and identification card with an attached photograph is shown when he makes his ration purchases.

To ensure effective end-use control, ECA established an investigation section in each city under the direct supervision of the distribution rationing officer. The men employed in these sections were carefully screened and assigned only on the basis of a careful scrutiny of past records, keenness of mind and objective attitude. The majority chosen were Chinese or stateless aliens who possessed excellent backgrounds of police and investigative work. A number were former UNRRA or U.S. Army members. All spoke Chinese and were intimately acquainted with and able to detect the kinds of irregularities most likely to occur in connection with food distribution. The number of ECA investigators employed has varied from 24 to 28, with 6 to 7 being assigned in Shanghai, 4 in Peiping, 4 in Tientsin, 3 in Tsingtao, 3 to 4 in Nanking, 4 in Canton and 3 in Swatow.

Their assignments have encompassed investigation of every phase of rationing operations, as follows: the storage of foods in primary godowns, the delivery of same to retail shops, sales to the consumers, the maintenance of shopkeepers' accounts and ledgers, the segregation and accountability of American supplies in the shops, checking of shopkeepers' scales and stocks on hand, and conditions of storage. The inspectors have made certain that ECA posters were displayed conspicuously and that, in accordance with regulations, samples of ration rice were openly displayed in glass jars. Their activities were responsible for disclosing cases of irregularities such as a retailer's failure to turn in sales proceeds on time, a mixing of ration supplies with poorer grades, failure to keep accurate accounts, failure to fill the required data on ration coupons and the buying and selling of coupons. In addition, they have made sample checks on the accuracy of census taking and surveyed the actual distribution of coupons to the citizens. Cases of overdistribution and duplicate issue of coupons were found as were occasional instances in which pao chia officials exacted "squeeze" before issuing coupons to people. The investigation reports, as turned into the ECA office and forwarded to the City Food Committees for action, frequently resulted in the arrest and imprisonment of major offenders, permanent or temporary closure of retail shops, the withdrawal of rationing franchises and the discharge of pao chia officials. In minor cases, warnings and demerits were given. A list
of rules and regulations for the conduct of rationing by retail shops was formulated in each city, with the penalties for violations of these rules and regulations clearly indicated.

As a whole, the work of the investigators, fully supported by the ECA distribution officers in direct charge of their activities, has been a major contribution to the success of the ration program.

The City Food Committees also employed inspectors comparable in number to those of ECA. In general, however, their work was not as effective principally because they were underpaid and in certain instances impeded by politics. In Shanghai, an arrangement whereby investigations were carried out jointly by ECA and City Food Committee investigators proved successful.

One of the principal forces exerting a strong influence on end-use control is the effort of the Food Committees, strongly backed by ECA, to imbue the populace with the idea that the rationing program is their own program, one in which they have a vested interest, one which was designed chiefly for their benefit and which demanded their full cooperation for its successful execution. Vigorous efforts were made to publicize the program objectives, its technical operation and the procedures to follow in obtaining the ration. Citizens were encouraged to report to the City Food Committees any discourtesy or irregularity observed. Rationing program slides in motion picture theaters, radio announcements, newspaper articles, statements by the mayors and the periodic publication of stock and monetary reports all contributed to the consumers' sense of self-identification with the program. Complaint boxes were instituted in Canton, Shanghai and Tientsin and the telephone numbers of the city food committees were widely published. The efficacy of this approach was proved on many occasions when average citizens showed active interest and took the trouble to report irregularities which, upon investigation, were frequently discovered to be justified.

In Shanghai, which is divided into 30 districts, and in other cities the municipal Food Committees included on their staff supervisors for each district. It is the responsibility of each supervisor to see to it that rationing operations in his district are proceeding according to plan, by making a daily inspection round of the shops under his charge. In conjunction with pao chia officials, he is also responsible for the efficient and accurate distribution of ration coupons. A substantial majority of these officers are considered capable and conscientious, the remainder varying in effectiveness. Some are inclined to be too lenient with shopkeepers and have been known to make excuses for retailers who have been guilty of violations; ECA investigators' reports on the activities of these inadequate
officials have resulted in their replacement.

Although ECA investigators are primarily occupied with rationing operations, they are also assigned tasks, as indicated above, in connection with the discharge of incoming vessels and the storage and distribution of food supplies. All transshipments from Shanghai to Nanking and from Peiping to Tientsin have been accompanied by ECA or CUSA guards or expediters. ECA flour traveling the 100 miles from Tientsin to Peiping was carried in locked boxcars. In Canton, the provincial government has provided armed guards on lighters carrying ECA supplies from the outer harbor to the unloading wharf. Losses in transshipment of ECA supplies have run about .07 percent, an almost phenomenal record under current conditions in China.

Investigation report statistics compiled by ECA indicate that a minimum of seven investigations per day are made by each inspector. When irregularities are discovered, written or verbal reports of such are made immediately either to the ECA office, the City Food Committee or the District Supervisor. A periodic review of reported cases is made by ECA in order to check on follow-up action taken.

In Shanghai alone a summary of ECA investigations from July to December shows a total of 343 cases of irregularities of serious nature have been referred to the Authorities for action with the following results:

- 106 shops were given stern warning.
- 186 shops were temporarily suspended from selling rationed rice (1 to 2 months depending on the seriousness of irregularity).
- 28 shops were eliminated from selling rationed rice.
- 19 shops were referred to the Police for Court action (cases still pending).
- 2 shop owners were sentenced to terms of imprisonment.
- 2 shop owners were found not guilty by Court.

ECA publicity includes wide use of posters, clear stamping of bags and the use of American insignia on coupons. The marking of rice and flour bags—either through printing, stencils or stickers which indicate American aid and show the American flag—accomplishes the two-fold purpose of showing the source of supplies and maintaining their identity for accountability purposes throughout all stages of distribution.

The following brief description of the Canton coupon issuance system is presented as a specific example of how end-use control of
food distribution is accomplished. Each resident of Canton presents his resident certificate to his Ration Coupon Office and his registration for rationing is made by the ration officials in the presence of representative citizens or reliable witnesses. The Rationing Registration Certificate is divided into three sections; one is held by the Ration Committee, one by the retailer and the third by the citizen. On public notification, usually not until sufficient stocks are in the shops, each person presents his Registration Certificate to the ticket office and receives the coupon for a particular month's rationing. The number of the shop at which the holder is to purchase his ration is stamped on the coupon.

In Shanghai, Nanking, Taingtao and Peiping, the 'pao chia or Food Committee officials direct the delivery of the coupons to the households. In Canton, Tientsin and Swatow, special coupon issuance offices have been established.

With the exception of some districts in Shanghai wherein a single coupon covering the complete 15-catty ration is used, coupons are divided into three sections, each valid for 5 catties of rice or flour during each of the three 10-day periods of the month. Each section contains the number of a designated shop in the holder's district, which is to be used exclusively. In order to avoid counterfeiting, the color of the coupons is changed each month. They are valid only during the month for which they are issued.

The retail shop, on receipt of the coupon, makes certain that the individual's name, address and household number as shown on the coupon are the same as those on the Registration Card. In some cities, where the Rationing Registration Card is not used, the citizen's census identification card with photograph attached must be presented when each purchase is made. Upon consummation of the sale, the date of sale must be recorded on the coupon or in the retailer's ledger; the coupons are cancelled and immediately pasted in a book, 25 coupons to a sheet. Thus, the ECA inspectors, by a check of the ration stock in the shop and inspection of the records and cancelled coupons, can readily ascertain if irregularities are present or if records and stock sales do not agree.

Each retailer is given until noon of the following day to deposit the day's receipts and collected coupons with an official collecting bank. Deposit slips, made out beforehand by the retailer, are entered along with the deposits. Records of these daily deposits are maintained by the Food Committee, the bank and the shopkeeper himself, and are available at all times to ECA inspectors. Collecting banks, in turn, transmit their collections to the Central Bank of China, where they are credited to the Government Sales Proceeds Account.
End-Use Control of Cotton

The control mechanism developed for the receipt, allocation and end-use of ECA cotton in China is as follows:

Joint Management Board: The Joint Management Board is the operating agency for U. S.-aid cotton. It is composed of representatives from the Central Bank of China, Chinese Government Mills (China Textile Industries, Inc.) and privately-owned mills (China Cotton Textile Manufacturers Association). ECA and CUSA have observers on this board. No action may be taken by the Joint Management Board without ECA-CUSA concurrence. Responsibilities of the Joint Management Board are as follows:

- Procurement of aid cotton through normal trade channels.
- Allocation of aid cotton to individual mills.
- Distribution of yarn and cloth received in exchange for aid cotton.
- Licensing for export of yarn and cloth and application for import of cotton either under ECA aid or otherwise.
- Purchase of raw cotton with proceeds realized on sales of yarn and cloth and/or other activities pertaining to finance and utilization of funds available.
- Inspection, customs clearance and all other detailed procedure in connection with importation of raw cotton and exportation of yarn and cloth exchanged.
- Storage, insurance and transportation of cotton imported and yarn and cloth to be exported, together with all other activities pertaining to the physical handling of cotton, yarn and cloth.

Arrivals and Weights: When a shipment of cotton arrives in Shanghai, it is directly discharged into a warehouse and recorded by ECA according to the bill of lading. No weight check is made at this point due to the fact that the present purchase of cotton calls for the shipper to bear any weight loss or quality claim developing when the cotton is released from the warehouse. Weight
certificates are issued by the Cotton Controller, a commercial firm (E. T. Robertson and Sons), jointly appointed by CUSA and ECA, and any claims for weight loss are based upon these certificates. Certified copies of the weight certificate are furnished the ECA Mission and ECA cotton accounts are adjusted accordingly.

Quality Claims: The procedure for quality claims for Program 1 allows the Cotton Controller to draw information samples in duplicate from 20 percent of the bales representing each mark at the time cotton is weighed over to the mill. Both sets of samples are sealed by the Controller at the warehouse—one set to be inspected by local cotton personnel of the Joint Management Board plus an ECA observer, and the other held in reserve to be opened in the presence of the shipper at the time a claim is made.

Allocations: Allocations of cotton after arrival are made by the Joint Management Board, after the shipments have been broken down and classified according to the number of bales, marks, grade and staples. In preparing allocations, the Joint Management Board prepares a District Allocation Quota Statement, all mills receiving a proportionate share according to the number of spindles operating in each mill. Copies of this statement are received by ECA where they are checked by the ECA Textile Division to see that agreed geographical distribution is observed in the allocation. It is later used by the ECA China Mission to see that the agreed geographical distribution has been effected. In accordance with the established District Quota, the Joint Management Board prepares the Mill's Allocation Quota Statement. When the statement arrives at ECA, the ECA Textile Division checks it to see that agreed allocation to the mills is being observed on paper; it is also used to check allocations against Delivery Orders to see that the allocations are really being carried out physically. At this point mill representatives come into the Joint Management Board and sign contracts which state the number of bales of cotton of various grades and staples that are to be issued and also give the estimated bales of yarn to be received in return. The yarn bales to be received against cotton depends upon the agreed ratio of exchange and the net weight.
of cotton actually delivered.

Releases: Actual release of cotton is made against Delivery Orders which are issued by the Joint Management Board and are countersigned by CUSA and ECA. The ECA End Use Control Division maintains a Delivery Order Register and checks the Delivery Order against allocations. After delivery has been effected under the control of the Cotton Controller, ECA receives a certified copy of the Delivery Report and the certified Weight Certificate. When the Weight Certificate is received, the ECA End Use Control Division figures out, according to agreed ratio, the amount of bales of yarn to be received. Copies of the Yarn Receivable Report are sent to the ECA Textile Division and checked with the Joint Management Board for mathematical agreement as to assets receivable. The same basic control procedure applies to cloth recovery.

Yarn Receipts: With regard to the procedure for receiving yarn or cloth, the Joint Management Board sends notification to the Central Trust Company to arrange with the private mills to turn in to a Central Trust warehouse the required determined numbers of bales of yarn of given count. A copy of this letter is received by the ECA Mission, which checks to determine whether or not the Joint Management Board letter calls for the private mills to deliver the correct amount.

On receiving the yarn or cloth from the private mills, the Central Trust Company issues a receipt to the mills and issues a warehouse warrant to the Joint Management Board for yarn or cloth received. Based upon receipts, the Central Trust makes out a Daily Yarn or Cloth Received Report with copies to ECA, CUSA and the Joint Management Board.

For yarn or cloth received from government mills, the same procedures apply except that China Textile Industries' warehouses retain possession of the material, issue warehouse warrants to the Joint Management Board and make daily reports. ECA and CUSA representatives periodically check warehouses.

Yarn and Cloth Releases: It was determined that yarn or cloth received would not be weighed in but would be tested
and weighed out, any short weight being charged against the mills.

Yarn and Cloth Distribution: As noted in the main text of this paper, the principle has been established that 50 percent of the products manufactured from aid cotton is earmarked for export and 50 percent for distribution on domestic markets. Funds derived from exports are designated for use in importing raw cotton. Distribution on local markets has been effected through sales in local currency and through barter arrangements for the acquisition of locally produced food for use in the rationing program established in major coastal cities.
Prior to the suspension of the industrial reconstruction and replacement program, as indicated in the text, "provisional allotments" had, on the basis of initial surveys, been made to a series of projects principally in the fields of transportation, power and coal mining, assistance on a smaller scale being tentatively allotted for aid in sugar, tin, tungsten, antimony and other production. At the time of the suspension, it was agreed that a considerable number of pre-project engineering studies, which were well underway for many of the projects, would be completed, to be held in readiness for use in the event that it should be deemed feasible to resume any part of the reconstruction and replacement program.

Projects which, before the suspension, had been granted provisional allotments, subject to the results of the pre-project engineering studies and, of necessity, to military and political developments, were as follows:

**Railroads**

A total of $13,500,000 was provisionally allotted for replacements for the following Chinese railroads:

- Canton-Hankow Railroad, $7 million. This is the main north-south line between Canton and the Yangtze Valley and provides a means of bringing food from surplus agricultural areas to the food-deficient Canton area. It also provides an outlet from the tungsten and antimony fields.

- Chekiang-Kiangsi Railroad, $3.5 million. This railroad is an important link in the railway system of south-central China running from south of Changsha on the Canton-Hankow railroad to Hangchow, where it connects with the railroad running to Shanghai.

- Peiping-Tientsin Railroad, $1.5 million. This railroad connects the former capital of China with coastal city of Tientsin and was one of China's most important railway sections.

- Taiwan Railroad, $1.5 million. The Taiwan railroad is the principal internal means of transportation on the
island of Taiwan. It runs from the north to the south along both west and east coasts through the most populated parts of the island connecting all of the major cities. It connects with the railroads of the Taiwan Sugar Company and provides the means of getting exportable surpluses of this commodity to port.

Other Transportation Projects:

A sum of $3 million was tentatively allotted for replacements for other transportation projects as follows:

$1 million for aid to one of the wharves of Tsingtao which needs immediate attention in order to keep it from falling into the sea; $1 million to provide replacement parts and supplies to the three Chinese airlines—China National Aviation Corporation, Civil Air Transport and Central Air Transportation Company; and $1 million for the telecommunications system of the Ministry of Communications.

Power

Provisional allotments totalling $17.25 million were approved for the following power projects:

Shanghai Power Company, $5 million for new construction. The original program to alleviate the very tight power situation in Shanghai was to build a completely new power plant for the United Power Co., a partnership between the Shanghai Power Company, an American-owned and operated property, and three Chinese companies. However, in view of the amount of money and the time required for completion of such a plant, it did not seem appropriate to include it in the initial program. Instead, provision was made for a tapping unit on the Shanghai Power Co., a plant which would increase present capacity by 30,000 kilowatts within two and a half years.

North China power plants, $2 million for replacements. Tentative allotment was for the North Hopeh Power Co. which serves the cities of Peiping and Tientsin and the Kailan mines; and for replacement parts and equipment needed in power plants in Mukden, Taiyuan and Tsingtao.
Taiwan Power Company, three projects aggregating $6 million, $2.5 million being for replacements and $3.5 million for reconstruction. This sum, together with equipment to be provided through private arrangements to the value of $2 million, was estimated as needed to accomplish an increase of 45,000 kilowatts in the power supply of Taiwan within two to two and a half years—from 125,000 kilowatts to 170,000 kilowatts. The power system of the Taiwan Power Company suffered severely from bombing damage and deferred maintenance during the war. The Japanese had completed a considerable amount of so-called "civil work" to provide for a substantial increase in hydro-electric power on the island. This increase in power is rendered necessary by the growing demands of industry generally which, it is said, could absorb at least half of the proposed increase. There has been a tendency among Chinese industries on the mainland to move to Taiwan where political and economic conditions are relatively more stable. In addition, the fertilizer projects in process of development will, it is estimated, require from 20,000 to 30,000 kilowatts of electric power.

Other Power Plants: $4.250 million for replacement parts and equipment. This program took into account the manifest needs of power plants in Nanking (Yangtze Power Company), Hankow, Chungking, Canton, Changsha and seventeen other cities. For some of these plants, aid was designed to increase power output somewhat; in others it was intended to help maintain existing generating capacity.

Coal Mines

The total tentatively allotted for coal mines was $11 million, divided as follows:

Hwainan Mine, $3.5 million. The Hwainan Mine is a privately-owned enterprise located in Anhwei Province about 110 miles northwest of Nanking near the Hwa River. Assistance was requested for the purpose of opening two new mines and completing a railroad branch line to Wuhsu on the Yangtze River. The production of this mine was for use on the railroads and to supply part of the requirements of the Nanking and Shanghai areas. The coal is highly volatile and non-coking in character but very satisfactory for steam purposes. It was estimated that
this aid would result in an increase in production from the present 4,000 tons to 10,000 tons per day within three years. This mine has, however, been cut off by the Communist advances.

Nanling Mine, $750,000. The Nanling Mine is one of the Government's National Resources Commission properties located in Kwangtung province about 35 kilometers from the Canton-Hankow Railway, to be connected with this main line by a branch line now under construction. The mine now produces about 100 tons per day of good quality coking coal. It is estimated that the aid projected would result in an increase to approximately 500 tons per day, for use on the Canton-Hankow Railway and in Canton.

Native Pits, $750,000. These pits are located in Taiwan, western Kiangsi and eastern Hunan, being properties of the National Resources Commission. The aid contemplated is designed to open up new pits as well as to increase production from old pits. It is estimated that this aid, together with equipment previously provided by UNRRA should result in an increase in production of approximately 1,000 tons per day.

Kaokeng Mine, $4 million. This mine is also a National Resources Commission property located about 17 kilometers from Pingshiang on the Chekiang-Kiangsi Railroad near the western border of Kiangsi Province. A branch railway line is at present under construction which will connect with the Chekiang-Kiangsi line, by which the coal can be transported to markets either directly or over the connecting Canton-Hankow Railway. Bituminous coking-quality coal is produced at this mine. It is estimated the aid projected should lead to an increase in production from the present 500 tons to 3,000 tons per day.

Kailan Mining Administration, $1 million. The mines operated by the privately-owned Kailan Mining Administration near Tangshan in the Peiping-Tientsin area produced about half of the coal mined in China, south of the Great Wall. Shanghai and the Yangtze Valley cities as well as Peiping and Tientsin were largely dependent upon it. These mines are badly in need of machinery and mine timbers to prevent costly damage. With the spread of the civil war in the north, the mine was first cut off and later occupied by the Communists.
Coal Mine Replacements, $1 million: to be used for replacement requirements in other mines.

Fertilizer

Tentative allotments for various fertilizer plants totaled $5,500,000, as follows:

I Min Fertilizer Company, Taiwan, $4 million. This amount is earmarked to supplement private Chinese and American capital for the construction of a new fertilizer plant at Shinchu on Taiwan (Formosa), to produce initially approximately 20,000 tons of ammonium nitrate annually. Taiwan under Japanese control was a heavy user of commercial fertilizers for sugar and rice, and substantial quantities have had to be imported since the war.

National Resources Commission Fertilizer Plants on Taiwan, $1 million. These enterprises are operated by the National Resources Commission. The project under analysis includes provision for supplemental equipment for the Keelung Cyanamide, the Lotung Fused Phosphate, and the Shinchu Cyanamide Plants as a result of which production of cyanamide and nitrogen fertilizers would be increased to about 26,000 tons per annum at Keelung, of cyanamide fertilizer production to 18,000 tons per annum at Shinchu, and of phosphate fertilizer to 30,000 tons per annum at Lotung. These increases would substantially augment production of rice and sugar in Taiwan; part of the latter would be for export, and would add to foreign exchange resources.

Yung Li Chemical Company, Nanking, $.5 million. This project was designed to supplement an Export-Import Bank credit to the Yung Li Chemical Co. It was estimated that the successful completion of the project would increase the production of ammonium sulphate by as much as 70,000 tons per year.

Other Projects

Tentative allotments for other projects totaled $10 million, divided as follows:

Tin, Tungsten and Antimony, $2.5 million: This amount was provisionally allotted for replacement equipment and development for the tin mining industry in southwest China, for tungsten mines in south central
China, and for antimony mines in Hunan province south of the Yangtze River. These minerals are among the principal sources of foreign exchange for China. These projects were coupled with contemplated purchases of needed materials by the United States.

Sugar, $1 million for replacements on behalf of the Taiwan Sugar Company: Before the war, Taiwan processed about 1,200,000 tons of sugar, most of which was exported to Japan and was largely responsible for Taiwan's favorable export balance. This industry suffered severely from effective U. S. Air Force bombing and from undermaintenance during the war years. The assistance projected was for allocation among 31 factories, enabling them to process up to 700,000 metric tons of sugar annually by 1950. (The Technical Survey Group regarded this proposed grant as a token of recognition of the importance of some minimum production of sugar on the island and the obvious need for assistance in a more extensive rehabilitation of productive equipment.)

Chinese Maritime Customs, $1 million for procurement of equipment required for anti-smuggling control.

Additional Projects, $5.5 million: This sum was earmarked to cover further projects as need might arise, and to provide a reserve for contingencies. Among other projects under consideration was one relating to the tapping of undeveloped underground water supplies in Taiwan (Formosa).
Responsibilities of Organizational Units
Within the ECA China Mission

The principal functions of organizational units within the Mission have been as follows:

OFFICE OF THE CHIEF OF MISSION - Responsible for: implementing in China the agreements entered into between the U. S. and Chinese Governments to achieve the purposes of the China Aid Act of 1948 (except Section 404(b); assuring performance within China of operations in accordance with the Act; directing and coordinating the economic assistance authorized in the Act.

OFFICE OF THE CONTROLLER - Responsible for: establishment and maintenance of required accounts and records including the local currency account and end-use control accounts; establishing and maintaining adequate fiscal records and accounting controls; and preparation and submission of periodic fiscal reports.

OFFICE OF THE EXECUTIVE OFFICER - Responsible for: internal organization, administrative relations, office management functions, personnel and service activities including space, equipment, and facilities; and such other matters as the Chief of the Mission may assign.

ECONOMIC OFFICE - Responsible for: continuous study and analysis of economic and financial conditions in China; furnishing of advice on the programming of funds from the local currency Special Account; review and evaluation of the effect of economic aid on the Chinese economy; and provision of advice and assistance to the Chief of the Mission in connection with the planning and the conduct of the economic aid program as a whole.

LEGAL OFFICE - Responsible for: providing legal assistance as needed in relation to operation and for examination of operations and review of activities from the legal standpoint to ensure conformity with the provisions of the China Aid Act and any bilateral agreements related thereto.
PUBLIC RELATIONS OFFICE - Responsible for: maintaining public relations through radio, press and other media; developing educational programs concerning the purposes and operations of the China aid program; and supplying information on the ECA China aid program to all interested parties and groups.

SECURITY OFFICE - Responsible for: development and maintenance of security regulations and safeguards in accordance with security policies of the ECA and the U.S. Government generally.

SUPPLY CONTROL AND EXPEDITING DIVISION - Responsible for: general supervision and control of ECA-financed imports into China; the handling of ECA responsibilities pertaining to shipments and the expediting of supply movements; liaison with Chinese Government import and exchange authorities and commercial importers and exporters; assistance in the negotiation and implementation of import contracts and the development of financial arrangements for handling ECA imports through commercial channels; and preparation of appropriate reports and recommendations to the Chief of the Mission as required.

FOOD DIVISION - Responsible for: analyzing needs and determining potential requirements for food and fertilizer; assisting the Chinese Government in making such determinations and presenting them through proper channels; recommendations and assistance in the distribution of food and fertilizer to ensure non-discrimination; participation with the Chinese Government in determinations on allocations and pricing of such ECA imports; observing distribution of food and fertilizer through both public and voluntary (for certain relief allocations) agencies; and preparation of recommendations and reports as needed.

TEXTILE DIVISION - Responsible for: analyzing needs and determining potential requirements for cotton; assisting the Chinese Government in making such determinations and presenting them through proper channels; recommending and assisting in distribu-
tion of cotton imports to ensure participation of business firms as determined; participation with the Chinese Government in determinations on allocation and pricing; observing distribution within such allocations; ensuring that import-export licensing procedures are adequate to the program as agreed; and preparing recommendations and reports as needed.

PETROLEUM, OIL AND LUBRICANTS DIVISION - Responsible for: analyzing petroleum needs and requirements; assisting the Chinese Government in making such determinations and presenting them through proper channels; recommending and assisting in arrangements for the distribution of ECA-financed petroleum products to ensure participation of business firms as determined; participation in determinations on allocation and pricing; observing distribution within such allocations; and preparing recommendations and reports as needed.

RECONSTRUCTION AND REPLACEMENT DIVISION - Responsible for: preliminary surveys, analyses and recommendations with respect to desirable reconstruction and replacement projects; analysis and determinations of costs, engineering feasibility; relative importance to the Chinese economy, economic soundness and availability of materials and equipment needed in the United States or elsewhere; assistance in conducting negotiations and arrangements with technical personnel to be provided by the Chinese Government; and continuous contact with and observation of approved projects.

REGIONAL OFFICES - Responsible for: direction and operation of relevant China Mission activities in the region; observation of economic aid activities in the region and reporting upon them to the Chief of the Mission; assisting the Chinese Government in connection with rationing systems; appropriate direction and supervision of commodity distribution as needed; appropriate supervision and observation of agricultural, conservancy, welfare and relief projects; furnishing information to local groups regarding the economic aid program; maintaining appropriate liaison with provincial and other regional or local authorities; and presenting recommendations and reports as needed.
"Sec. 401. This title may be cited as the "China Aid Act of 1948".

"Sec. 402. Recognizing the intimate economic and other relationships between the United States and China, and recognizing that disruption following in the wake of war is not contained by national frontiers, the Congress finds that the existing situation in China endangers the establishment of a lasting peace, the general welfare and national interest of the United States, and the attainment of the objectives of the United Nations. It is the sense of the Congress that the further evolution in China of principles of individual liberty, free institutions, and genuine independence rests largely upon the continuing development of a strong and democratic national government as the basis for the establishment of sound economic conditions and for stable international economic relationships. Mindful of the advantages which the United States has enjoyed through the existence of a large domestic market with no internal trade barriers, and believing that similar advantages can accrue to China, it is declared to be the policy of the people of the United States to encourage the Republic of China and its people to exert sustained common efforts which will speedily achieve the internal peace and economic stability in China which are essential for lasting peace and prosperity in the world. It is further declared to be the policy of the people of the United States to encourage the Republic of China in its efforts to maintain the genuine independence and the administrative integrity of China, and to sustain and strengthen principles of individual liberty and free institutions in China through a program of assistance based on self-help and cooperation: Provided, That no assistance to China herein contemplated shall seriously impair the economic stability of the United States. It is further declared to be the policy of the United States that assistance provided by the United States under this title should at all times be dependent upon cooperation by the Republic of China and its people in furthering the program: Provided further, That assistance furnished under this title shall not be construed as an express or implied assumption by the United States of any responsibility for policies, acts, or undertakings of the Republic of China or for conditions which may prevail in China at any time.

"Sec. 403. Aid provided under this title shall be provided under the applicable provisions of the Economic Cooperation Act of 1948 which are consistent with the purposes of this title. It is not the purpose of this title that China, in order to receive aid hereunder, shall adhere to a joint program for European recovery.
Sec. 404. (a) In order to carry out the purposes of this title, there is hereby authorized to be appropriated to the President for aid to China a sum not to exceed $338,000,000 to remain available for obligation for the period of one year following the date of enactment of this Act.

(b) There is also hereby authorized to be appropriated to the President a sum not to exceed $125,000,000 for additional aid to China through grants, on such terms as the President may determine and without regard to the provisions of the Economic Cooperation Act of 1948, to remain available for obligation for the period of one year following the date of enactment of this Act.

Sec. 405. An agreement shall be entered into between China and the United States containing those undertakings by China which the Secretary of State, after consultation with the Administrator for Economic Cooperation, may deem necessary to carry out the purposes of this title and to improve commercial relations with China.

Sec. 406. Notwithstanding the provisions of any other law, the Reconstruction Finance Corporation is authorized and directed, until such time as an appropriation is made pursuant to section 404, to make advances, not to exceed in the aggregate $50,000,000, to carry out the provisions of this title in such manner and in such amounts as the President shall determine. From appropriations authorized under section 404, there shall be repaid without interest to the Reconstruction Finance Corporation the advances made by it under the authority contained herein. No interest shall be charged on advances made by the Treasury to the Reconstruction Finance Corporation in implementation of this section.

Sec. 407. (a) The Secretary of State, after consultation with the Administrator, is hereby authorized to conclude an agreement with China establishing a Joint Commission on Rural Reconstruction in China, to be composed of two citizens of the United States appointed by the President of the United States and three citizens of China appointed by the President of China. Such Commission shall, subject to the direction and control of the Administrator, formulate and carry out a program for reconstruction in rural areas of China, which shall include such research and training activities as may be necessary or appropriate for such reconstruction: Provided, That assistance furnished under this section shall not be construed as an express or implied assumption by the United States of any responsibility for making any further contributions to carry out the purposes of this section.
"(b) Insofar as practicable, an amount equal to not more than 10 per centum of the funds made available under subsection (a) of section 404 shall be used to carry out the purposes of subsection (a) of this section. Such amount may be in United States dollars, proceeds in Chinese currency from the sale of commodities made available to China with funds authorized under subsection (a) of section 404, or both.

"Approved April 3, 1948."

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APPROPRIATION FOR CHINA AID

(Excerpts from Public Law 793 - 80th Congress, approved June 28, 1948, entitled, "AN ACT Making appropriations for foreign aid, and for other purposes.")

"Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the following sums are appropriated, out of any money in the Treasury not otherwise appropriated, for foreign aid for such periods as are specified herein ending not later than June 30, 1949, and for other purposes, namely:

(All subsequent sections omitted, except the following:)

ASSISTANCE TO CHINA

"For expenses necessary to carry out the provisions of the China Aid Act of 1948 (title IV of Public Law 472, approved April 3, 1948), until April 2, 1949, including expenses of attendance at meetings concerned with the purposes of this appropriation; purchase and hire of passenger motor vehicles; purchase, maintenance, and operation of aircraft; payment of claims pursuant to section 403 of the Federal Tort Claims Act (28 U. S. C. 921); health service program as authorized by law (5 U. S. C. 150); transportation of privately owned automobiles; entertainment (not to exceed $3,000); exchange of funds without regard to section 3651 of the Revised Statutes; and loss by exchange; $400,000,000, of which not to exceed $1,200,000 shall be available for administrative expenses and of which $125,000,000 shall be available exclusively as provided in subsection 404 (b) of said Act."
EXCHANGE OF NOTES ON APRIL 30, 1948,
BETWEEN THE SECRETARY OF STATE, GEORGE
C. MARSHALL AND DR. V. K. WELLMINGTON
KOO, THE CHINESE AMBASSADOR IN WASHING-
TON, IN IMPLEMENTATION OF THE CHINA AID
ACT OF 1948

The text of Secretary Marshall's note:

"Excellency:

"I have the honor to communicate the following proposals regarding
the China Aid Act of 1948 (Title IV of the Foreign Assistance Act of
1948), which became law on April 3, 1948.

"Pending the conclusion of an agreement between China and the
United States under Section 405 of the Act and until July 3, 1948,
the Government of the United States proposes to arrange for the
performance of those functions authorized by the Act which may be
determined to be essential in furtherance of those purposes of the
Act which apply to the funds authorized under Section 404 (a) there-
of. This action by the Government of the United States is contingent
upon certain requirements, as hereinafter set forth, being fulfilled.

"I should appreciate your notifying me whether your Government
adheres to the purposes and policies set forth in Section 402 of the
Act in furtherance of which the Act authorizes assistance to be pro-
vided, and also whether your Government intends to conclude an agree-
ment with the United States in accordance with Section 405.

"Pending the conclusion of such an agreement, my Government pro-
poses that the extension of aid to China hereunder as authorized by
Section 404 (a) of the Act be provisionally governed by the Agreement
between our two Governments dated October 27, 1947, subject to such
modifications, particularly with respect to the types of assistance
and the terms and methods of procurement and distribution, as may
hereafter be agreed to by our two Governments, having regard to the
different character of the assistance under said Act from the relief
aid extended under the Agreement of October 27, 1947, and subject,
as preliminary arrangements, to the understandings set forth below.

"During the period covered by this letter, it is anticipated
that assistance other than that relating to reconstruction projects
will be furnished to your Government under the Act with funds author-
ized under Section 404 (a) thereof by grant. Terms of payment, if
any, for reconstruction assistance will be reserved for later deter-
mination.

"I suggest that pending the determination of the terms of the
future agreement between our two Governments under Section 405 of
the Act, deposits in the currency of your country in respect of
any assistance furnished hereunder which is designated by my
Government as a grant be made in accordance with the agreement
between our two Governments dated October 27, 1947. I further
suggest that these deposits may be used for administrative ex-
penses of the Government of the United States in the currency of
your country, incident to my Government's operations within your
country under the China Aid Act of 1948 and for such other purposes
as may be agreed upon by our two Governments. The provisions of the
future agreement between our two Governments concerning any deposits
in Chinese currency to be made will apply with respect to all of
such assistance for your Government which is determined to have
been made by grant during the period covered by this letter.

"I trust that your Government will concur in the understandings
expressed above.

"The Act authorizes my Government to appoint a special mission
for economic cooperation to your country. I should appreciate re-
ceiving the assurances of your Government that the fullest coopera-
tion will be extended to the representatives of my Government con-
cerned with operations in implementation of the Act.

"I am sure your Government understands that the proposals set
forth in this letter cannot be viewed as constituting an obligation
on the part of my Government to make assistance available to your
country.

"Accept, Excellency, the renewed assurances of my highest con-
sideration."

The text of Ambassador Koo's note:

"Sir:

"I have the honor to acknowledge the receipt of your note of
April 30, 1948, in which you are good enough to inform me that in
view of the China Aid Act of 1948 (Title IV of the Foreign Assis-
tance Act of 1948) which became law on April 3, 1948, the Govern-
ment of the United States, pending the conclusion of an agreement
between China and the United States under Section 405 of the Act and until July 3, 1948, proposes to arrange for the performance of those functions authorized by the Act which may be determined to be essential in furtherance of those purposes of the Act which apply to the funds authorized under Section 404 (a) thereof, and that this action of the Government of the United States is contingent upon certain requirements, as therein set forth, being fulfilled.

"In reply my Government has authorized me to inform you of its adherence to the purposes and policies set forth in Section 402 of the China Aid Act of 1948 in furtherance of which the Act authorizes assistance to be provided to China. My Government has also authorized me to inform you of its intention to conclude an agreement with the United States in accordance with Section 405 of the Act.

"Pending the conclusion of such an agreement, it is understood by my Government that the extension, pursuant to your note, of aid to China hereunder as authorized by Section 404 (a) of the Act will be provisionally governed by the Agreement between our two Governments dated October 27, 1947, subject to such modification, particularly with respect to the types of assistance and the terms and methods of procurement and distribution, as may hereafter be agreed to by our two Governments, having regard to the different character of the assistance under said Act from the relief aid extended under the Agreement of October 27, 1947, and subject, as preliminary arrangements, to the understandings set forth below.

"During the period covered by your note, it is anticipated that assistance other than that relating to reconstruction projects will be furnished to my Government under the Act with funds authorized under Section 404 (a) thereof by grant. Terms of payment, if any, for reconstruction assistance will be reserved for later determination.

"Pending the determination of the terms of the future agreement between our two Governments under Section 405 of the Act, deposits in the currency of my country in respect of any assistance furnished pursuant to your note which is designated by your Government as a grant will be made in accordance with the agreement between our two Governments dated October 27, 1947. These deposits may be used for administrative expenses of the Government of the United States in the currency of my country under the China Aid Act of 1948 and for such other purposes as may be agreed upon by our two Governments. The provisions of the future agreement between our two Governments concerning any deposits in Chinese currency to be made will apply with respect to all of such assistance for my Government which is determined to have been made by grant during the period covered by your note.
"My Government concurs in the understandings expressed above.

"My Government notes with satisfaction that your Government will appoint a special mission for economic cooperation to my country. I am authorized by my Government to assure you that the fullest cooperation will be extended to the representatives of your Government concerned with operations in implementation of the Act.

"I am authorized to state that my Government understands that the proposals set forth in your note cannot be viewed as constituting an obligation on the part of your Government to make assistance available to my country.

"Accept, Sir, the renewed assurances of my highest consideration."
Text of

ECONOMIC AID AGREEMENT BETWEEN THE
UNITED STATES OF AMERICA AND THE REPUBLIC OF CHINA

"PREAMBLE.

"The Government of the United States of America and the Government of the Republic of China:

"Considering that it is the policy of the Government of the United States of America to extend economic assistance to the people and the Government of China in accordance with the provisions of the China Aid Act of 1948; and

"Considering that it is the policy of the Government of China to undertake a vigorous program of self help in order to create more stable economic conditions in China, and to improve commercial relations with other countries;

"Have agreed as follows:

"ARTICLE I.

"The Government of the United States of America undertakes to assist China, by making available to the Government of China or to any person, agency or organization designated by the latter Government such assistance as may be requested by it and approved by the Government of the United States of America. The Government of the United States of America will furnish this assistance under the provisions, and subject to all of the terms, limitations and conditions, of the China Aid Act of 1948 (other than Section 404 (b) thereof), acts amendatory and supplementary thereto and appropriation acts thereunder, and will make available to the Government of China only such commodities, services and other assistance as are authorized to be made available by such acts. The Government of the United States of America may suspend or terminate at any time the assistance under this Article.

"ARTICLE II.

"1. In order to achieve the maximum improvement of economic conditions through the employment of assistance received from the Government of the United States of America, the Government of China undertakes

(a) to adopt or maintain the measures necessary to ensure efficient and practical use of economic resources available to it, including
(1) such measures as may be necessary to ensure that the commodities and services obtained with assistance furnished under this Agreement are used for purposes consistent with this Agreement;

(2) to the extent practicable, measures to locate, identify and put into appropriate use in furtherance of its efforts to improve economic conditions, in China, assets, and earnings therefrom which belong to nationals of China and which are situated within the United States of America, its territories or possessions. Nothing in this clause imposes any obligation on the Government of the United States of America to assist in carrying out such measures or on the Government of China to dispose of such assets;

(b) to promote the development of industrial and agricultural production on a sound economic basis;

(c) to initiate and maintain financial, monetary, budgetary and administrative measures necessary for the creation of more stable currency conditions and for the promotion of production and marketing of goods for domestic consumption and export; and

(d) to cooperate with other countries in facilitating and stimulating an increasing interchange of goods and services with other countries and in reducing public and private barriers to trade with other countries.

2. The Government of China will take the measures which it deems appropriate to prevent, on the part of private or public commercial enterprises, business practices or business arrangements affecting international trade which have the effect of interfering with the purposes and policies of this Agreement.

ARTICLE III.

1. The Government of China undertakes to make all practicable efforts to improve commercial relations with other countries, including measures to improve the conditions affecting the carrying on of foreign trade by private enterprises in China.

2. The Government of China, in carrying out the provisions of paragraph 1 of this Article, will, among other measures, administer such import and exchange controls as are, or may be, made necessary by the exigencies of China's international balance of payments and the foreign exchange resources available to the Government of China, in a uniform, fair and equitable manner.
"3. The Government of the United States of America and the Government of China will consult, upon the request of either, regarding any matter relating to the application of the provisions of this Article.

"ARTICLE IV.

"1. All commodities provided by the Government of the United States of America pursuant to this Agreement shall be processed and distributed by commercial enterprises or by private or Chinese Government agencies, and in accordance with terms and conditions, agreed upon from time to time between the Government of the United States of America and the Government of China.

"2. The Government of China, in consultation with representatives of the United States of America, will take all appropriate steps designed to achieve fair and equitable distribution within the areas under its control of commodities provided by the Government of the United States of America pursuant to this Agreement and of similar commodities imported into China with other funds or produced locally. To the extent that circumstances and supply availabilities permit, a distribution and price control system shall be inaugurated or maintained in urban centers of China with the intent of insuring that all classes of the population shall receive a fair share of imported or indigenously produced essential civilian supplies. In permitting expendable commodities made available under this Agreement to be utilized in support of the Chinese efforts to improve consumption and price controls, it is understood that the Government of the United States of America takes no responsibility for the success of these urban programs.

"3. The prices at which supplies furnished by the United States of America pursuant to this Agreement will be sold in China shall be agreed upon between the Government of the United States of America and the Government of China.

"ARTICLE V.

"1. The provisions of this Article shall apply only with respect to assistance which may be furnished by the Government of the United States of America on a grant basis pursuant to this Agreement.

"2. The Government of China agrees to establish a special account in the Central Bank of China in the name of the Government of China (hereinafter called the special account) and to make deposits in Chinese currency to this account as follows:
"(a) The unencumbered balance at the close of business on the day of the signature of this Agreement in that special account in the Central Bank of China in the name of the Government of China established pursuant to the Agreement between the Government of the United States of America and the Government of China made on October 27, 1947, and any further sums which may from time to time be required by such Agreement to be deposited in that special account. It is understood that subsection (E) of Section 114 of the Foreign Assistance Act of 1948 constitutes the approval and determination of the Government of the United States of America with respect to the disposition of such balance referred to in that Agreement, and

"(b) The unencumbered balances of the deposits made by the Government of China pursuant to the exchange of notes between the two Governments dated April 30, 1948.

"(c) Amounts commensurate with the indicated dollar cost to the Government of the United States of America of commodities, services and technical information (including any costs of processing, storing, transporting, repairing or other services incident thereto) made available to China on a grant basis pursuant to this Agreement less, however, the amount of deposits made pursuant to the exchange of notes referred to in sub-paragraph (b). The Government of the United States of America shall from time to time notify the Government of China of the indicated dollar cost of any such commodities, services and technical information and the Government of China will deposit in the special account at such times as may be specified by the Government of the United States of America a commensurate amount of Chinese currency computed at a rate of exchange to be agreed upon between the Government of the United States of America and the Government of China. The Government of China will upon the request of the Government of the United States of America make advance deposits in the special account which shall be credited against subsequent notifications pursuant to this paragraph.

"4. The Government of the United States of America will from time to time notify the Government of China of its requirements for administrative expenditures in Chinese currency within China incident to operations under the China Aid Act of 1948 and the Government of China will thereupon make such sums available out of any balances in the special account in the manner requested by the Government of the United States of America in the notification.

"5. The Government of China will further make such sums of Chinese currency available out of any balances in the special account as may be required to cover: A. Expenditures required to carry out the purposes
of the Joint Commission on Rural Reconstruction in China as provided for by Section 407 of the China Aid Act of 1948; and B. Costs (including port, storage, handling and similar charges) of transportation from any point of entry in China to the consignee's designated point of delivery in China of such relief supplies and packages as are referred to in Article VII.

"5. The Government of China shall dispose of any remaining balance in the special account only for such purposes as may be agreed from time to time with the Government of the United States of America including in particular: A. Sterilization as a measure of monetary and financial stabilization; B. Expenditures incident to the stimulation of productive activity and the development of new sources of wealth including materials which may be required in the United States of America because of deficiencies or potential deficiencies in the resources of the United States of America; C. Expenditures upon projects or programs the external costs of which are being covered in whole or in part by assistance rendered by the Government of the United States of America or by loans from the International Bank for Reconstruction and Development; or D. Expenditures upon uncompleted relief or work relief projects undertaken pursuant to the Agreement between the Governments of the United States of America and of China of October 27, 1947.

"6. The Government of China will maintain the value in terms of United States dollar equivalent of such amount of the special account as is: A. Indicated by the Government of the United States of America as necessary for administrative expenditures referred to in paragraph 3 of this Article; B. Required for the purposes of paragraph 4 of this Article; and C. Agreed between the two Governments to be necessary to defray the expenses in Chinese currency associated with reconstruction projects or programs the external costs of which are met in whole or in part by assistance rendered by the Government of the United States of America pursuant to the Agreement. The Government of China will carry out this provision by depositing such additional amounts of Chinese currency as the Government of the United States of America may from time to time determine after consultation with the Government of China.

"7. Any unencumbered balance remaining in the special account on April 3, 1949, shall be disposed of within China for such purposes as may hereafter be agreed between the Governments of the United States of America and of China, it being understood that the agreement of the United States of America shall be subject to approval by act or joint resolution of the Congress of the United States of America.
ARTICLE VI.

1. The Government of China will facilitate the transfer to the United States of America for stockpiling or other purposes of materials originating in China which are required by the United States of America as a result of deficiencies or potential deficiencies in its own resources upon such reasonable terms of sale, exchange, barter or otherwise and in such quantities and for such period of time as may be agreed to between the Governments of the United States of America and of China after due regard for the reasonable requirements of China for domestic use and commercial export of such materials. The Government of China will take such specific measures as may be necessary to carry out the provisions of this paragraph. The Government of China will, when so requested by the Government of the United States of America, enter into negotiations for detailed arrangements necessary to carry out the provisions of this paragraph.

2. The Government of China will, when so requested by the Government of the United States of America, negotiate such arrangements as are appropriate to carry out the provisions of paragraph (9) of subsection 115 (b) of the Foreign Assistance Act of 1948 which relates to the development and transfer of materials required by the United States of America.

3. The Government of China, when so requested by the Government of the United States of America, will cooperate, wherever appropriate, to further the objectives of paragraphs 1 and 2 of this Article in respect of materials originating outside of China.

ARTICLE VII.

The Government of China will, when so requested by the Government of the United States of America, enter into negotiations for agreements (including the provisions of duty free treatment under appropriate safeguards) to facilitate the entry into China of supplies of relief goods donated to or purchased by United States voluntary non-profit relief agencies and of relief packages originating in the United States of America and consigned to individuals residing in China.

ARTICLE VIII.

1. The two Governments will, upon the request of either of them, consult regarding any matter relating to the application of this Agreement or to operations or arrangements carried out pursuant to this Agreement.
2. The Government of China will communicate to the Government of the United States of America in a form and at intervals to be indicated by the latter after consultation with the Government of China:

(a) detailed information regarding projects, programs and measures proposed or adopted by the Government of China to carry out the provisions of this Agreement;

(b) full statements of operations under this Agreement, including a statement of the use of funds, commodities and services received thereunder, such statements to be made in each calendar quarter;

(c) information regarding its economy and any other relevant information which the Government of the United States of America may need to determine the nature and scope of operations, and to evaluate the effectiveness of assistance furnished or contemplated under this Agreement.

3. The Government of China will assist the Government of the United States of America to obtain information relating to the materials originating in China referred to in Article VI which is necessary to the formulation and execution of the arrangements provided for in that Article.

 ARTICLE IX.

1. The Government of China will keep the people of China fully informed of the progress achieved by the Government of China in implementing the undertakings contained in this Agreement designed to achieve more stable economic conditions in China, and it will provide continuously information to the people of China regarding the nature and extent of assistance furnished pursuant to this Agreement. It will make such information available to the media of public information and will take practicable steps to ensure that appropriate facilities are provided for the dissemination of such information.

2. The Government of the United States of America will encourage the dissemination of such information and will make it available to the media of public information.

3. The Government of China will make public in China in each calendar quarter full statements of operations under this Agreement, including information as to the uses of funds, commodities and services received.
"ARTICLE X."

"1. The Government of China agrees to receive a Special Mission for Economic Cooperation which will discharge the responsibilities of the Government of the United States of America in China under this Agreement.

"2. The Government of China will, upon appropriate notification from the Ambassador of the United States of America in China, consider the Special Mission and its personnel as part of the Embassy of the United States of America in China for the purposes of enjoying the privileges and immunities accorded to that Embassy and its personnel of comparable rank. The Government of China will further accord appropriate courtesies to the members and staff of the Joint Committee on Foreign Economic Cooperation of the Congress of the United States of America and will grant them the facilities and assistance necessary to the effective performance of their responsibilities.

"3. The Government of China will extend full cooperation to the Special Mission and to the members and staff of the Joint Committee. Such cooperation shall include the provision of all information and facilities necessary to the observation and review of the carrying out of this Agreement, including the use of assistance furnished under it.

"ARTICLE XI."

"1. The Governments of the United States of America and of China agree to submit to the decision of the International Court of Justice any claim espoused by either Government on behalf of one of its nationals against the other Government for compensation for damage arising as a consequence of governmental measures (other than measures concerning enemy property or interests) taken after April 3, 1948 by the other Government and affecting property or interests of such national including contracts with or concessions granted by duly authorized authorities of such other Government. It is understood that the undertaking of each Government in respect of claims espoused by the other Government pursuant to this paragraph is made in the case of each Government under the authority of and is limited by the terms and conditions of such effective recognition as it has heretofore given to the compulsory jurisdiction of the International Court of Justice under Article 36 of the Statute of the Court. The provisions of this paragraph shall be in all respects without prejudice to other rights of access, if any, of either Government to the International Court of Justice or to the espousal and presentation of claims based upon alleged violations by either Government of rights and duties arising under treaties, agreements or principles of international law.

"2. The Governments of the United States of America and of China further agree that such claims may be referred in lieu of the Court to any arbitral tribunal mutually agreed upon."
"3. It is further understood that neither Government will espouse a claim pursuant to this Article unless the national concerned has exhausted the remedies available to him in the administrative and judicial tribunals of the country in which the claim exists.

"ARTICLE XII.

"1. This Agreement shall become effective on this day's date. It shall remain in force until June 30, 1950 and, unless at least six months before June 30, 1950, either Government shall have given the other notice in writing of intention to terminate the Agreement on that date, it shall remain in force thereafter until the expiration of six months from the date on which such notice shall have been given. Article V shall remain in effect until all the sums in the currency of China required to be disposed of in accordance with its own terms have been disposed of as provided in such Article.

"2. This Agreement may be amended at any time by agreement between the two Governments.

"3. The Annex to this Agreement forms an integral part thereof.

"4. This Agreement shall be registered with the Secretary-General of the United Nations.

"In witness whereof the respective representatives duly authorized for the purpose have signed the present Agreement.

"Done at Nanking in duplicate in the English and Chinese languages, both texts authentic, this third day of July 1948, corresponding to the third day of the seventh month of the thirty-seventh year of the Republic of China."

Sgd. J. Leighton Stuart
For the Government of the
United States of America.

Sgd. Wang Shih-chieh
For the Government of
The Republic of China.
"ANNEX.

"1. It is understood that the requirements of paragraph 1(a) of Article II, relating to the adoption of measures for the efficient use of resources would include, with respect to commodities furnished under the Agreement, effective measures for safeguarding such commodities and for preventing their diversion to illegal or irregular markets or channels of trade.

"2. It is understood that the Government of China will not be requested, under paragraph 2(a) of Article VIII to furnish detailed information about minor projects or confidential commercial or technical information the disclosure of which would injure legitimate commercial interests.

"3. It is understood that the Government of the United States of America in making the notifications referred to in paragraph 2 of Article X would bear in mind the desirability of restricting, so far as practicable, the number of officials for whom full diplomatic privileges would be requested. It is also understood that the detailed application of Article X would, when necessary, be the subject of intergovernmental discussion."

Sgd. J. Leighton Stuart

Nanking, July 3, 1948

Sgd. Wang Shih-chieh

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Translation of
ORGANIC BY-LAWS OF THE EXECUTIVE YUAN
COUNCIL FOR UNITED STATES AID (CUSA)

(Promulgated and made effective by the Executive Yuan on June 8, 1948; official text in Chinese.)

"Article 1. For the purposes of carrying out the Agreement between the United States of America and the Republic of China and coordinating American aid with financial and economic projects, the Executive Yuan sets up the Council for United States Aid (hereinafter called this Council).

"Article 2. This Council shall discharge the following functions:

(1) Matters relating to compilation and drafting of projects for use of American aid;

(2) Matters relating to purchase, take-over, custody and distribution of commodities in American aid;

(3) Matters relating to custody and use of proceeds of sale of commodities and funds in American aid;

(4) Matters relating to reports, statistics, propaganda and examination of use of American aid;

(5) Matters relating to liaison with the American delegation;

(6) Other matters relating to use of American aid.

"Article 3. Functions of this Council shall, in accordance with their nature, be handled in consultation with superior officers of competent ministries and commissions.

"Article 4. After measures for use of American aid have been decided, they shall be sent separately to the various competent organs to enforce them accordingly and to make periodical reports therefor to this Council.

"Article 5. This Council shall have a chairman, who shall concurrently be the President of the Executive Yuan as well as a vice chairman and seven members who shall be invited and appointed by the President of the Executive Yuan.
Among the members provided for in the preceding paragraph, one shall be designated by the chairman to be responsible for the work of liaison with the American delegation.

Article 6. This Council shall have a secretary-general who shall be of the rank of selected appointment and shall handle affairs of this Council under instructions of the chairman and the vice chairman and a deputy secretary-general who shall be of the rank of selected appointment and shall assist the secretary-general in handling affairs of this Council.

Article 7. This Council shall have the following departments:

1. The Secretariat—in charge of affairs relating to documents, meetings, general affairs, receipts and payments, liaison and affairs not belonging to other departments;
2. The Supplies Department—in charge of affairs relating to receipt, purchase, storage, shipment and distribution of commodities;
3. The Financial Department—in charge of affairs relating to custody and use of funds;
4. The Technical Department—in charge of affairs relating to examination, consideration, compilation and drafting of technical projects;
5. The Information and Statistics Department—in charge of affairs relating to reports, information and statistics.

Article 8. This Council shall have five directors and five deputy directors of the rank of selected appointment, two to four counsellors of the rank of selected appointment, three to five secretaries among whom two may be of the rank of selected appointment and the rest of the rank of recommended appointment, seven to 10 technicians among whom six may be of the rank of selected appointment and the rest of the rank of recommended appointment, two to five inspectors of the rank of selected appointment, 15 to 20 experts of the rank of recommended appointment, 25 to 30 department members among whom 12 may be of the rank of recommended appointment and the rest of the rank of delegated appointment and 12 to 20 clerks of the rank of delegated appointment.

Article 9. This Council may have 20 to 30 employees.

Article 10. This Council shall have a certain number of specialists, among whom 12 to 15 may be of the rank of selected or recommended appointment and the rest shall be invited and appointed.
and shall serve without remunerations, and may also invite and appoint three to five advisors.

"Article 11. This Council shall have an accounting department and a chief accountant of the rank of selected appointment to handle affairs relating to annual accounts and ordinary accounts.

"The number of assistant personnel needed by the Accounting Department shall be decided by this Council in collaboration with the Ministry of Audits and with reference to the number of persons of recommended and delegated appointments as prescribed in these By-Laws.

"Article 12. This Council shall have a personnel office a chief thereof of the rank of recommended appointment to handle affairs relating to personnel administration in accordance with the Regulations Governing Personnel Administration.

"The number of assistant personnel needed by the Personnel Office shall be decided by this Council in collaboration with the Ministry of Examination and with reference to the number of persons of recommended and delegated appointments as prescribed in these By-Laws.

"Article 13. For the purpose of giving convenience to handling affairs, this Council may set up offices in business centers and may also establish branches in various localities to meet the requirements of its business; their organic by-laws shall be prescribed separately.

"Article 14. In order to meet the requirements of its business, this Council may set up various committees.

"Article 15. On account of requirements of work, this Council may request relevant organs to transfer their suitable personnel concurrently to undertake the various affairs of this Council.

"Article 16. The rules governing meetings and the detailed rules governing internal administration of this Council shall be prescribed separately.

"Article 17. These By-Laws shall come into force from the date of promulgation."
Text of

EXCHANGE OF NOTES BETWEEN THE UNITED STATES GOVERNMENT AND THE REPUBLIC OF CHINA, SIGNED IN PEKING ON AUGUST 5, 1948, PROVIDING FOR THE ESTABLISHMENT OF A SINO-AMERICAN JOINT COMMISSION ON RURAL RECONSTRUCTION IN CHINA

Text of note from the American Ambassador:

"Excellency:

"I have the honor to refer to Section 407 of the China Aid Act of 1943 enacted by the Government of the United States of America (hereinafter referred to as the Act), which provides, among other things, for the conclusion of an agreement between China and the United States of America establishing a Joint Commission on Rural Reconstruction in China. In pursuance of the general principles laid down in the Act, and in particular section 407 thereof, I have the honor to bring forward the following proposals regarding the organization of the Joint Commission and related matters:

"1. There shall be established a Joint Commission on Rural Reconstruction in China (hereinafter referred to as the Commission) to be composed of two citizens of the United States of America appointed by the President of the United States of America and three citizens of the Republic of China to be appointed by the President of China. The Commission shall elect one of the Chinese members as chairman.

"2. The functions and authority of the Commission shall, subject to the provisions of the above-mentioned section of the Act, be as follows: (a) to formulate and carry out through appropriate Chinese Government agencies and international or private agencies in China a coordinated program for reconstruction in rural areas of China (hereinafter referred to as the program); (b) to conclude arrangements with the agencies referred to in the preceding paragraph establishing a basis for their cooperation; (c) to recommend to the Governments of the United States of America and of China within the limits prescribed by the Act the allocation of funds and other assistance to the program, and to recommend to the Government of China the allocation of such other funds and assistance as are deemed essential to the success of the program; (d) to establish standards of performance for implementation of the program, including the qualifications, type and number of personnel to be used by cooperating agencies in the program, and to maintain a constant supervision of all phases of the program with"
authority to recommend changes in or stoppage of any phase of the
program; (e) to appoint such executive officers and administrative
staff as the Commission deems necessary to carry out the program,
it being understood that the chief executive officer shall be a
citizen of China. Salaries, expenses of travel, and other expenses
incident to the administrative functions of the Commission itself
shall be paid from funds made available under Section 407 (B) of
the Act.

"3. In its program the Commission may include the following
types of activity to be carried out in agreement with the agencies
referred to in paragraph 2(a): (a) A coordinated extension-type
program in agriculture, home demonstration, health and education
for initiation in a selected group of Hsien in several provinces
to include a limited number of subsidiary projects suited to con-
tions in the areas where the program is developed, in such fields
as agricultural production, marketing, credit, irrigation, home and
community industries, nutrition, sanitation, and education of a
nature which will facilitate the promotion of all projects being
undertaken; (b) Consultation with the Chinese Government concerning
ways and means of progressively carrying out land reform measures;
(c) Subsidiary projects in research training and manufacturing to
be carried out in suitable locations to provide information, person-
nel and materials required by the program; (d) Projects to put into
effect over a wider area than provided for in the coordinated exten-
sion-type program specified in (a) any of the above lines of activity
which can be developed soundly on a larger scale, of which examples
might be the multiplication and distribution of improved seeds, the
control of rinderpest of cattle, the construction of irrigation and
drainage facilities and the introduction of health and sanitation
measures; (e) Related measures in line with the general objectives
of this program; (f) The distribution of the assistance in this pro-
gram on the principle of giving due attention to strengthening rural
improvement in areas where selected projects can be progressively
developed and where their development will contribute most effective-
ly to the achievement of purposes for which this program is undertaken
but that the principle of distributing aid will not be controlled by
proportionate or geographical consideration per se.

"4. In respect of any decision of the Commission, the approval
of the Government of China shall be obtained prior to its execution
if the Commission or its chairman, with the concurrence of the Chinese
members, deems it necessary.

"5. The Commission shall publish in China and transmit to the
Government of the United States of America and the Government of China,
in such form and at such times as may be requested by either of the two

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governments, full statements of operations, including a statement on the use of funds, supplies and services received, and will transmit to the two governments any other matter pertinent to operations as requested by either of the two governments. The Government of China will keep the people of China fully informed of the intended purpose and scope of the program and of the progress achieved by the Commission in implementing the program, including the nature and extent of the assistance furnished by the Government of the United States of America.

"6. The Government of China will, upon appropriate notification of the Ambassador of the United States of America in China, consider the United States members and personnel of the Commission as part of the Embassy of the United States of America in China for the purpose of enjoying the privileges and immunities accorded to that Embassy and its personnel of comparable rank. It is understood that the Ambassador of the United States of America in China in making the notification will bear in mind the desirability of restricting so far as practicable the number of officials for whom full diplomatic privileges and immunities would be requested. It is also understood that the detailed application of this paragraph would, when necessary, be a subject of inter-governmental discussion.

"7. All supplies imported into China for use in the program shall be free of customs duties, conservancy dues, and other charges imposed by the Government of China on similar supplies which are imported through regular commercial channels.

"8. The Government of the United States of America and the Government of China will consult with respect to problems incident to the interpretation, implementation and possible amendment of the terms of the agreement embodied in this exchange of notes whenever either of the two governments considers such action appropriate.

"9. The Government of the United States of America reserves the right at any time to terminate or suspend its assistance or any part thereof provided under this exchange of notes. Assistance furnished by the Government of the United States of America under Section 407 of the Act and pursuant to this exchange of notes shall not be construed as an express or implied assumption by the Government of the United States of America of any responsibility for making any further contributions to carry out the purpose of Section 407 of the Act or of this exchange of notes.

"10. This note and Your Excellency's reply accepting the above proposals on behalf of the Government of China will constitute an agreement between the two governments in the sense of Section 407.
of the Act. Subject to the provisions of paragraphs 8 and 9, this exchange of notes will remain in force until June 30, 1949, or, upon the request of either government transmitted to the other government at least two months before June 30, 1949, until the date of termination of the Economic Aid Agreement between the two governments concluded on July 3, 1948.

"I avail myself of the opportunity to renew to Your Excellency the assurances of my highest consideration."

Sgd. J. Leighton Stuart

Text of note from Chinese Minister for Foreign Affairs:

"Excellency:

"I have the honor to acknowledge receipt of your note of today's date which reads as follows: (See previous note)

"On behalf of the Government of China I have the honor to accept the proposals contained in the note quoted above.

"In recognition of the importance of the program as one of the essential means of achieving the objectives in which the Governments of China and of the United States of America unite in seeking under the Economic Aid Agreement between the two governments concluded on July 3, 1948 the Government of China undertakes to afford to the execution of the program the full weight of its support and to direct cooperating agencies of the Government of China including the local officials concerned to give such assistance and facilities as are essential to the success of their undertakings under the program.

"I avail myself of this opportunity to renew to Your Excellency the assurances of my highest consideration."

Sgd. Wang Shih-chieh