

## INDUSTRY AND COMMERCE IN SHANGHAI

*January 1, 1950*

Having received and read your telegram dated December 30, 1949, I should like to submit the following report.

1. With the exception of companies manufacturing luxury goods, private enterprises in Shanghai are now considerably better off than they were last June and July. Both the government and the industrialists and businessmen recognize this. The improved situation is due to the arrival in Shanghai of raw materials from the interior and to the reopening of the markets in central and south China. The situation will no doubt improve further following the liberation of the Southwest.<sup>55</sup>

2. According to a telegram dated December 3, 1949, from the Shanghai Municipal Committee of the Communist Party, many large and medium-sized factories in Shanghai were so heavily in debt that they were finding it hard to continue operating and were requesting loans from the government in order to avoid closing down altogether. Although that was true at the time, the difficulties were only temporary and essentially different from those of last June and July.

3. The current difficulties of private enterprises in Shanghai stem from their owners' overpessimistic estimate of the nationwide price fluctuations that occurred from October 15 to November 25 of last year.<sup>56</sup> Thinking that the RMB yuan would fall in value even more sharply than before and that the increase in interest rates would lag behind that of prices, they acted too greedily. Speculators tried to obtain loans to buy commodities, and ordinary factory owners chose to borrow money to meet expenses (payrolls, for example) rather than to sell goods in stock. However, interest rates went up so much that for every yuan<sup>2</sup> borrowed, the borrower had to pay two yuan per month in interest. And little did the capitalists expect that, beginning on November 25, commodity prices would fall and become stabilized. So now they were anxious to sell their goods to repay their debts. The more they

---

Telegram addressed to Comrade Mao Zedong.

sold, however, the lower the price and the smaller the market; accordingly more and more of them tried to obtain new loans as a means of repaying the old. As a result, the money supply remained tight and interest rates remained high, despite falling prices. Quite a few capitalists complained incessantly about the lack of working capital. The contents of the Shanghai telegram of December 3 were a reflection of this situation.

4. On December 8, we allocated ¥50 billion to east China, most of the amount to be used for purchasing goods from private enterprises in Shanghai, a smaller portion to be made available to them in the form of loans. We plan to allocate another ¥100 billion if necessary. This action placed us in a very good position at the Second Shanghai Conference of Representatives of People from All Circles.<sup>57</sup> On December 22 the East China Financial and Economic Commission reported that it had been able to help surmount Shanghai's industrial and commercial crisis with an expenditure of only ¥20 billion.

5. Afterwards, Rong Yiren, owner of the Shenxin cotton mills, said that the Shanghai industrialists and businessmen had learned a lesson from the fact that this time the Communist Party had succeeded in stabilizing prices without resorting to political means.<sup>58</sup> The Party, he said, had put an end to the silver dollar crisis of last June by political means, whereas it had handled the recent situation through economic means.<sup>59</sup> This, he added, was something the businessmen and industrialists had never anticipated. Reports from various quarters show that most Shanghai merchants were particularly adventurous in their speculations during the recent price fluctuations, because they calculated that the RMB yuan would depreciate as drastically as the "gold yuan" notes had done.<sup>60</sup> In contrast, the Tianjin merchants, who had gone through three episodes of price fluctuation and stabilization since their city's liberation, were more experienced. They did not make overly daring moves but held back before going too far and consequently did not suffer too much.

The complaints of the Shanghai industrialists and businessmen early last month were partly intended to make people believe they were too hard up to buy any large amount of government bonds. Of course, their main problem at the time was a tight money supply and a lack of working capital. Knowing they could not oppose the issuance of government bonds, they gave it their superficial support while harbouring two hopes: first, they would be able to subscribe to a smaller amount of bonds and second, the government would purchase gold at a reasonable price. We have decided to fulfil their second hope and see to it that there is no serious strain on the money supply. In other words, everything will be done to keep it at an appropriate level.