

## **February 1949 (Exact Date Not Specified) – Record of A.I. Mikoyan’s Conversation with Members of the CCP Politburo on Economic Policy**

### **QUESTIONS OF CCP ECONOMIC POLICY**

Regarding economic policy, Mao Zedong asked me to speak with members of the Politburo, who would provide detailed information and outline the future economic plans of the CCP.

For several hours, we listened to two groups of Politburo members discuss these issues: one focused on general economic policy (Liu Shaoqi, Ren Bishi), and the other on practical economic matters (trade, finance) (Ren Bishi, Zhu De).

Later, we discussed these issues with Mao Zedong and other Politburo members. It is important to note that the Chinese comrades presented their reports based on prepared written documents, which had apparently been pre-approved by Mao Zedong, as all participants frequently referred to them and adhered strictly to their content.

It is also worth noting that the Politburo members we spoke with were highly competent and confident when discussing general political, party, international, peasant, and broad economic issues. However, they were significantly less knowledgeable about specific economic affairs. Their understanding of industry, transportation, and banking was vague at best. For example, they had no information about Japanese-owned assets confiscated by the Kuomintang after the war, nor did they know which major foreign enterprises existed in China and to which countries they belonged. They also lacked knowledge about the activities of foreign banks in China.

This explains why they had no concrete plans for these sectors. Furthermore, they were unaware of which enterprises fell under the category of bureaucratic capital, which they intended to confiscate, how many such enterprises were located in liberated territories, and what their condition was. They had no data on what remained in the banks of Beiping and Tianjin after their liberation.

As a result, their economic plans were largely broad policy directives with no attempt to formulate concrete strategies, even for areas already under their control in the liberated regions. They appeared isolated, residing in remote rural areas, disconnected from economic realities.

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### **BUDGET FOR 1949**

*(Covers only the liberated part of China)*

Since the value of money circulating in the liberated areas was unstable and declining, their budget was not calculated in monetary terms but instead converted into millet. According to this budget, total government expenditures for 1949 amounted to 15 million tons of millet, while total revenue was estimated at 10 million tons of millet, resulting in a deficit of 5 million tons. Based on their calculations, this deficit equated to approximately 250 million U.S. dollars at current market prices.

They reported that this deficit would be covered through three sources, though they did not specify how much would come from each source:

1. **Increasing urban taxes** – They believed that existing rural taxes were already high, only slightly lower than those imposed by the Kuomintang. Meanwhile, urban taxes were several times lower than those in Kuomintang-controlled areas. Additionally, no taxes had been collected in the liberated cities for the past one and a half years to avoid alienating the urban population.

2. **Issuing a domestic loan** – However, they acknowledged that this would not generate significant revenue.
3. **Seeking an external loan** – They jokingly remarked that obtaining such a loan from the United States was impossible, so they would have to turn to socialist countries for financial assistance.

### **MONETARY CIRCULATION**

On December 3, 1948, the CCP decided to exchange the various devalued currencies circulating in the liberated areas (except Manchuria) for a unified currency. The exchange rates were set at:

- **Shandong Province:** 100 old yuan for 1 new yuan
- **Northwest China:** 2,000 old yuan for 1 new yuan

Under these conditions, exchanging all the existing currency would require **28.4 billion new yuan**. If the previously mentioned budget deficit is not covered, the issuance of new money would have to reach **100 billion yuan**, meaning that in just one year, the currency would devalue more than threefold.

Despite this rapid depreciation of the communist-issued banknotes, they claim that their money still holds value better and is more widely accepted by the population compared to Kuomintang banknotes.

A major issue they face is a **shortage of paper and ink** for printing money. They estimate that they need **10,000 tons of paper per year**, of which they can produce **7,000 tons** domestically. They are requesting an additional **3,000 tons** from the Soviet Union, along with the necessary ink supplies.

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### **ECONOMIC STRUCTURE**

They believe that the economy of Liberated China consists of the following sectors:

1. **State-owned**
2. **Cooperative**
3. **State-capitalist**
4. **Private-capitalist**
5. **Small-scale commodity production**, including **natural and semi-patriarchal exchange forms**

The **small-scale commodity economy** holds the largest share. The **cooperative sector** is currently minor, but they see promising prospects for its expansion. **State capitalism** also holds a small share, but they believe it has significant growth potential.

They estimate that after confiscating bureaucratic capital, **state-owned enterprises will account for about 10% of the total economy**. Despite its relatively small share, the **state sector holds a leading position**, encompassing **railways, shipping, coal mines, metallurgy, and banks**.

The situation in **Manchuria** is different, as **state-owned enterprises make up 47%** of total national economic output, while the **entire industrial sector comprises 53%** of the region's economy.

During our discussion, it became clear that they **lack concrete plans** regarding which key industries they intend to control as the economic backbone of the state (major banks, large industries, and other sectors). They also have **no data on the number of private and state-owned banks**.

Of the **state-owned banks**, they mentioned four:

1. **Bank of China**
2. **Bank of Communications**
3. **Central Bank**
4. **Agricultural Bank**

These banks have branches across the country, but **they lack information on their locations and the volume of their operations**.

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#### **MISTAKES IN ECONOMIC POLICY IMPLEMENTATION**

In discussing economic policy, they acknowledged several shortcomings:

1. **Competition between state-owned and cooperative trading organizations**
2. **Commercial transactions between these organizations and private trading enterprises**

They attribute these problems to **poorly trained personnel**.

Mistakes were also made in the **occupation of cities**. For example, when confiscated commercial enterprises were handed over to workers, they **divided and sold off the goods**, while also **dismantling the buildings** for materials.

During the **land reform in rural areas**, errors were made as well. **Landlords and kulaks** had their properties confiscated, but in some cases, **middle peasants' farms were also fully confiscated**, instead of allowing them to retain a **minimum amount of property**.

#### **TRANSFORMATION OF AGRICULTURE**

Liu Shaoqi stated that they would only begin transitioning agriculture to socialism after achieving complete military victory and developing heavy industry. Until then, they would focus on establishing production and marketing cooperatives in rural areas, based on collective land cultivation while retaining individual ownership of land and means of production.

#### **CONFISCATION OF CAPITAL**

They believe that before the military victory is secured, only the following should be immediately confiscated:

Industrial enterprises owned by Chinese warlords

So-called bureaucratic and comprador capital

Foreign military-related enterprises that were established to support the Kuomintang regime

Ports and railways

As for large-scale Chinese and foreign non-military capitalist enterprises, they consider it possible to confiscate them only after military victory and the consolidation of the new government, depending on domestic and international conditions.

## **POLICY TOWARD FOREIGN ENTERPRISES**

Liu Shaoqi inquired about the appropriate measures to take concerning foreign banks and coal mines, particularly those owned by the British.

In the future, the Chinese comrades plan to apply three approaches to foreign enterprises:

1. Confiscation
2. Control
3. Purchase

Additionally, the state will establish a monopoly on salt, tobacco, and alcoholic beverages.

## **TWO DANGEROUS TRENDS**

While outlining the CCP's economic policy, Liu Shaoqi acknowledged that even among senior Communist Party members, two dangerous ideological trends exist:

1. Pro-Capitalist Tendency – Some comrades advocate for capitalism and aim to turn China into a conventional capitalist state.
2. Leftist Adventurism – Others believe that socialism can be built immediately, regardless of whether China has the necessary economic foundation.

Without naming individuals, Liu Shaoqi stated that the party would actively combat both tendencies.

## **THE TRANSITION PERIOD**

"We believe," said Liu Shaoqi, "that China's transition period will be longer than in other New Democracy states. Successfully transforming China into a socialist country will only be possible with the help of the Soviet Union and people's democracies."

This assistance, he said, could take three forms:

1. Sharing experiences
2. Providing literature, textbooks, and technical information

3. Granting credit in the form of equipment supplies, financial aid, and economic cooperation

### **MAO ZEDONG'S VIEW ON ECONOMIC POLICY**

On February 7, 1949, Mao Zedong outlined his general stance on the CCP's economic policy.

He stated that in China:

Industry accounts for only 10% of the economy

The remaining 90% consists of fragmented, semi-patriarchal individual farming households

- Before liberation, the rural economy suffered under threefold oppression: feudalism, capitalism, and foreign imperialism

In China there are 90 million peasant households, uniting 360 million people, 10% of whom are poor - allies of the working class. The leadership belongs to the proletariat. We gave the peasantry land, but did not give them goods, which they desperately need and which we do not have.

If we do not develop industry, we will not provide the peasants with goods, which means we will lose leadership over them.

We are glad that the USSR is giving us warm support and assistance, but it is impossible to win by relying only on outside help. Therefore, while protecting the interests of workers through trade unions, through state intervention in trade in order to reduce prices, by selling grain, fuel and goods for workers and the urban population, while protecting the interests of the poor in the village by involving them in production and household cooperatives, we must also give private enterprises the opportunity to develop.

We intend to use two slogans of Sun Yat-sen:

1. Limiting capital through control.
2. Displacing usurious capital, which is harmful to the people.

We consider, says Mao Zedong, it is possible and necessary to permit free competition in the domestic market of China. We must, since we are still weak and backward economically, use private capital, but without haste here. Ts

Before the revolution, Russia had a relatively developed industry and more than 70 thousand kilometers of railways, while we, with a population of 470 million, have only 26 thousand kilometers of railways, so our transition period will be longer than in the USSR, but even the USSR created the conditions for the elimination of the kulaks as a class only 12 years after the overthrow of the autocracy.

To shorten the transition period, we will need economic assistance. We consider it possible to receive this assistance only from the USSR and the countries of the new democracy. We need a loan for 3 years (1949-1952) in the amount of 300 million US dollars, 100 million per year with interest payments. We would like to receive the loan partly in equipment, oil and other goods, as well as silver, which we need to strengthen the yuan.