

February 2, 1949 – Record of A. I. Mikoyan's Conversation with Politburo Members of the CPC Central Committee Ren Bishi and Zhu De on Economic Issues

On the afternoon of February 2, 1949, Politburo members of the CPC Central Committee Ren Bishi and Zhu De provided me with a detailed briefing on economic policy in the liberated areas of China.

Also present on their side was interpreter Shi Zhe, while on our side were Kovalev I. V. and Kovalev E. F.

Ren Bishi divided the economic report into four sections:

- 1) Finance,
- 2) Trade,
- 3) Industry,
- 4) Agriculture.

1. FINANCE

Taxation

Speaking about the financial situation in the liberated areas of China, Ren Bishi stated that the population of these regions amounted to 200 million 90 thousand people. The number of taxpayers was 184 million, while the remainder did not pay taxes because they lived near Kuomintang-controlled areas or in newly liberated territories.

The number of adults not engaged in productive labor was 5 million 480 thousand, accounting for 3% of the total taxpayer population.

Ren Bishi noted that once the Yangtze River was crossed, the number of taxpayers would increase significantly. The number of those not engaged in productive labor would reach 6 million. This category included a 4-million-strong army along with its entire service apparatus, as well as 2 million government, party, and other administrative workers. Workers were not included in this count.

As previously mentioned, the ratio between those engaged and not engaged in production fluctuated around 3%. If this percentage were higher, we would not be able to cover expenses.

We believe that the tax burden on the people remains heavy, but the demands of the war require us to increase expenditures.

They believe that since the primary taxpayer in the liberated areas is the peasant, his average annual income amounts to approximately 200 kg of millet, of which 30 kg is paid as taxes each year (per capita calculation).

Speaking about taxation, Ren Bishi stated that they previously had a progressive tax system, but now, following land redistribution, a differentiated taxation system has been introduced. Under this system, all household incomes and the average harvest over the past five years are taken into account. Taxes are calculated in kind, using the value of millet as the unit of measurement. Taxes are paid in grain, textiles, and, to a lesser extent, livestock. In general, meat is rarely used as a tax payment, as livestock farming is underdeveloped. The meat ration for a soldier is extremely low—approximately 500 grams per month per person (800 grams in Manchuria). Soldiers receive around 2 grams of fat per day.

The meager ration of a Chinese soldier is evident when considering that the cost of maintaining one American soldier could support 20 Chinese soldiers for a year.

Tax revenues are distributed as follows:

- Taxes from peasants – 59.5%
- Taxes from trade – 13.9%
- Income from enterprises – 19.8%
- Income from captured war spoils – 8.6%

They consider the current tax rate in the liberated areas to be high, though slightly lower than that in Kuomintang-controlled territories. In the cities of the liberated areas, taxes are several times lower compared to urban taxes in Kuomintang-controlled regions. Indirect taxes on tobacco, salt, matches, and other goods are not well developed yet, as they are only now beginning to focus on urban economies.

Overall, taxpayers in the liberated areas bear a lighter burden compared to those in Kuomintang-controlled regions. Ren Bishi stated that the tobacco tax in Manchuria is 50% of its value, while in Kuomintang territories, it is 80%. In Kuomintang-controlled areas, the salt tax exceeds its actual cost by ten times.

Ren Bishi mentioned that for several years, they had successfully maintained a monopoly on alcohol. They now plan to introduce monopolies on salt and tobacco.

Budget

Ren Bishi stated that budget revenues are calculated based on the value of millet rather than in monetary terms. All government expenditures for 1949 amount to 15 million tons of millet, while revenues total 10 million tons, leaving a deficit of 5 million tons of millet. This deficit is equivalent to 250 million U.S. dollars (based on current real prices). The use of millet as the standard unit of calculation has been practiced for a long time in the liberated areas but not in Kuomintang-controlled regions. Millet is considered the most stable commodity.

They believe that the budget deficit can be covered through three sources, though they did not specify the exact contribution of each:

1. Increasing taxes in urban areas;
2. Issuing domestic loans, though they do not expect significant returns from this;
3. Obtaining external loans, which, as they jokingly remarked, cannot be secured from America but must instead be sought from socialist countries.

Monetary Circulation

In 1948, they had to issue new banknotes four times. Money was printed in almost every liberated region. As a result, the amount of currency in circulation increased fivefold in North China and twenty-sixfold in Manchuria. Consequently, prices rose significantly: in Manchuria, by eight times; in East China, by more than seven times; and in Northwest China, by nine times.

When I asked about the handling of Kuomintang currency, Ren Bishi explained that two types of banknotes circulate in Kuomintang-controlled areas: the former *fabi* and the *gold yuan*, introduced as part of the monetary reform of August 19, 1948. According to Kuomintang regulations, as of

January 1, 1949, *fabi* were to be withdrawn from circulation, leaving the *gold yuan* as the only legal currency. Initially, the exchange rate was set at 4 *gold yuan* per 1 U.S. dollar. However, the *gold yuan* has since undergone severe depreciation.

Ren Bishi stated that they were stockpiling *gold yuan* to purchase essential materials in Kuomintang-controlled areas. Prices in these regions fluctuate drastically. Since the monetary reform, they have increased by 1,250 times. The Kuomintang had introduced the *gold yuan* as a means to extract gold from the population, but, as is now evident, this effort was entirely unsuccessful.

Returning to the issue of monetary circulation in the liberated areas, Ren Bishi stated that previously, almost all liberated regions issued 8–9 different types of banknotes, and within each region, these 8–9 types were further divided into local subtypes. Naturally, this created significant difficulties for the population.

In December 1948, a decision was made—and is now being implemented—to exchange the various currencies circulating in the liberated areas (except for Manchuria) for a unified currency of the liberated regions: banknotes of the People's Bank. The exchange rate was set at:

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

To complete this exchange, a total of 28.4 billion new yuan will be required. However, if the aforementioned budget deficit is not covered, the issuance of new money will need to reach 100 billion yuan, leading to a depreciation of over three times within a year.

Despite this decline in value, they believe that the currency of the liberated areas is depreciating at a slower rate than that of the Kuomintang-controlled regions and that the population is more willing to accept it compared to Kuomintang currency.

Due to the necessity of printing new banknotes, they are experiencing a significant shortage of paper and ink. They estimate that they will need 10,000 tons of paper for the year, of which 7,000 tons they can produce domestically, while 3,000 tons along with the necessary ink must be requested from the Soviet Union.

2. Trade

Ren Bishi stated that they plan to confiscate commercial enterprises belonging to the "four great families" and major comprador capitalists, although they do not have precise data on the number of such enterprises. They only know that such businesses exist in Tianjin, Qingdao, and Beiping but are unaware of their exact ownership or quantity, except for Song Ziwen's textile factories in Tianjin, which contain 320,000 spindles.

When I asked whether they had a program for the nationalization of bureaucratic capital, Ren Bishi replied that they did not. Likewise, they have no concrete data on which enterprises they intend to take under state control as a foundation for the national economy (such as large banks, heavy industry, etc.).

Regarding foreign trade, Ren Bishi explained that while it had previously served only military needs, they are now considering shifting its focus toward economic recovery and meeting the needs of the broader population.

Currently, the liberated areas of China conduct trade through Manchuria with the Soviet Union, Korea, and Hong Kong (via the port of Dalian and North Korea). During the 1947–1948 export year, total exports amounted to 598,000 tons of various goods (mainly grain, meat, and eggs), which accounted for 58.6% of total exports. Imports were valued at 29.3 billion Manchurian yuan, of which:

- 64% was allocated for military needs,
- 8% for railway and industrial equipment,
- 28% for civilian goods.

In 1948, the liberated areas imported 3,000 machines.

Ren Bishi emphasized that all exportable goods from the liberated areas would be directed primarily to the Soviet Union and the people's democracies, and only surplus goods would be offered to capitalist countries in exchange for necessary imports.

They require imports on a much larger scale than they can offer in exchange. In 1949, they can supply the Soviet Union with goods beyond what has already been offered from Manchuria, including:

- 250,000 tons of various grains and rice,
- 50,000 tons of vegetable oils,
- Coal, salt, and silk.

However, they cannot supply cotton, as its production has significantly declined and domestic demand remains high.

As for tungsten, tin, antimony, tung oil, and tea, they can only provide these after the liberation of southern China, as these commodities are not currently produced in the liberated areas.

As an example of the planned exports for 1949 from individual liberated regions, Ren Bishi referred to Shandong Province.

In the first half of 1949, Shandong Province plans to export goods totaling \$6.6 million (USD). The export structure includes:

- Peanut oil – 28%
- Tobacco – 14%
- Gold – 11%
- The remaining consists of grain, bristles, seafood, and starch.

Ren Bishi further stated that they intend to establish a state monopoly on foreign trade. The main trade operations will be conducted through state organizations, though private enterprises in major port cities will still be allowed to engage in export-import transactions under state supervision.

Initially, they do not plan to sign intergovernmental trade agreements, instead focusing on individual trade or barter transactions. They requested Soviet advisors to assist in organizing foreign trade, fearing that they might make serious mistakes if left to manage it alone.

When I asked when they planned to introduce the foreign trade monopoly, Ren Bishi replied that it would most likely be implemented after the formation of a coalition government.

Regarding the principles of trade with the Soviet Union and the people's democracies, I stated that they align with the agreements reached in Moscow during the six-nation conference.

Industry

Ren Bishi then moved on to describe the industry in the liberated areas of China.

According to preliminary estimates, China's total coal reserves amount to 265 billion tons, while iron ore reserves are estimated at 4 billion tons. The major coal and iron deposits are concentrated in Manchuria, North China, and Northwest China, all of which are under our control.

- Manchuria holds 78% of all iron ore deposits in China.
- Shanxi Province accounts for 51% of the country's coal reserves.
- We estimate that 80% of China's coal and 75% of its iron are under our control.

In 1948, we extracted 4,000 tons of iron in Manchuria and 16,000 tons in North China. In 1949, we plan to significantly increase iron and coal production in Manchuria, North China, and East China.

Textile Industry

Currently, we control over 770,000 spindles, which accounts for 15% of all spindles in China. We also have 11,800 weaving looms, making up 23.9% of the total looms in the country.

Manchuria's Industrial Output

Previously, Manchuria produced:

- 2 million tons of iron annually (now reduced to about 150,000 tons).
- 26 million tons of coal annually (currently producing 10 million tons).

Forestry

Manchuria contains three-quarters of China's total forests, with an estimated 3.3 billion cubic meters of timber. Under Japanese rule, 6 million cubic meters were processed annually. This year, we plan to process 3.5 million cubic meters.

Manchuria's Role in National Defense

Ren Bishi emphasized that Manchuria is a key part of their national economic plans and will be developed as the industrial base for China's national defense. It must be capable of producing automobiles, airplanes, tanks, and other types of military equipment.

At the same time, he mentioned that they hope to receive assistance from the Soviet Union for the industrial development of Manchuria. He outlined three possible forms of Soviet assistance:

1. Sino-Soviet joint economic enterprises
2. Loans from the USSR
3. Concessions granted to the Soviet Union

Rare Minerals & Soviet Collaboration

Ren Bishi noted that Soviet assistance would also be needed for the extraction of rare minerals, such as:

- Uranium
- Magnesium
- Molybdenum
- Aluminum

These resources are located near Mukden, Jinzhou, and in Rehe Province.

Previously, the Japanese extracted and exported one ton of uranium from China. If these minerals are of interest to the Soviet Union, we could consider either:

- Joint exploitation of these resources, or
- Granting a special concession to the USSR for their extraction.

Industrial Development in Manchuria

Ren Bishi emphasized that the industrial development of Manchuria requires highly qualified specialists. Currently, at the Anshan Metallurgical Complex, they are forced to rely on Japanese specialists.

In light of this, Ren Bishi stated:

"We request that the Soviet Union provide us with at least 500 specialists in various economic fields."

Agriculture

Ren Bishi briefly outlined the state of agriculture in the liberated areas.

- In 1948, the total area under grain cultivation was 35 million hectares, yielding 41.2 million tons of crops.
- Given that the rural population is 170 million people, this means an average of 3 mu (1/16 ha) per person, with an average yield of 245 kg of millet per mu.

Cotton Production

- The main cotton-producing region is North China, where 12 million mu of land is dedicated to cotton.
- In 1948, 620,000 hectares were sown with cotton. In 1949, this will increase to 750,000 hectares.
- On average, one hectare produces 240 kg of cotton.

Ren Bishi stressed the great national economic importance of cotton for China. However, cotton is in short supply, and China is importing it from the United States.

For example, Shanghai imports up to 300,000 tons of cotton annually from the U.S.

In response, I stated that cotton is indeed crucial to China's economy, but it is not good that China relies on imports from the U.S.. Instead, China must achieve self-sufficiency in cotton production, to which Ren Bishi fully agreed.

- In 1949, they plan to increase cotton production to 180 million kg.

Agriculture in Manchuria

- In 1949, they plan to increase grain yields in Manchuria by 12%.
- Projected grain harvests for 1949:
 - North China – 11.85 million tons
 - Shandong – 6.1 million tons
 - Manchuria – 14 million tons
 - Chahar and Rehe provinces – 2.6 million tons
 - Total grain production: 34.3 million tons (an increase of 2.5 million tons compared to 1948).

At this point, the conversation concluded.