

# CHINESE CHAOS

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THE financial position of the Chinese Government is so serious as to demand the immediate attention of the interested Powers. China is in a peculiar category among the States of the world. Whereas foreigners transact business in certain countries at their own risk, with little or no expectation of official support in case of loss, in China circumstances are different.

Her customs duties are collected by a foreign-managed organization, nominally in Chinese employ, but in reality acting as trustee for the service of foreign debt. The national monopoly of salt is partially under foreign control for the same purpose. The railways in various degrees are also subject to foreign control, in order to secure maintenance and repayment of the foreign loans with which they were built.

Extraterritoriality puts foreigners in China under their own law. Foreign warships patrol the inland waters of China and protect foreign shipping, because the Chinese Government cannot guarantee safety. Foreign troops occupy the approaches to the capital, and in the capital itself the foreign Legations are protected by guards of their own nationality.

This unusual situation has gradually arisen throughout the last sixty years, and the main cause of it may be summed up in a sentence. There is no effective Government in China in the modern sense, and commercial and other relations with China, as she has been in the past and still is, would be impossible without the special arrange-

ments which exist. Whether foreigners have always been fair in demanding special conditions from China is another question. There is much to be said on both sides. But it is the fact that vast foreign interests have arisen under these special conditions.

If China had meanwhile been putting her house in order and earning the right to complete independence, as Japan and Siam have done, her present disabilities would have disappeared, or would-be-disappearing. On the contrary China is more unorganized than ever, and she is simply incapable of standing alone. The Powers interested have recently shown great, if not very intelligent, good-will toward her. It is both their wish and their interest to stabilize her. How can they best serve her and their own interests at this juncture? By standing aside and letting the processes of disruption operate without restriction? Or by taking such action as they can to reorder her affairs and give her Government an opportunity to make a fresh start?

There are two great facts to be faced. The first is that the power of government has departed from the centre and has become vested in a number of different military commanders established in the various provinces. There is no central authority at all. These commanders have enlisted large forces by which they maintain their positions. In order to keep up these separate and independent armies, they tax their satrapies heavily and improperly.

Mostly men who have risen owing to

a force of character exceeding the average among their fellow countrymen, these commanders — Tuchuns, that is, military governors — are generally illiterate. Under them the administration is chaotic, and nearly every province is a prey to bandits, in spite of the presence of large Regular forces. The bandits, in fact, are mostly soldiers who, owing to nonpayment, have deserted with their arms. When bandits become too troublesome they are taken into the provincial armies and forgiven.

So the process goes on, and the armed forces of China to-day are little else than hordes of men who may be soldiers at one moment and banditti the next. They are an intolerable pest to the country in either capacity.

Why is a Tuchun a Tuchun? As governor of a province he controls the revenue. He taxes perhaps forty millions of people. He trades in opium or encourages its growth in order to raise money. He taxes commerce regardless of domestic law and foreign treaties. He legalizes vice and gambling. He degrades the currency and issues quantities of irredeemable paper notes. Everything is done with a view to producing money. Some of the proceeds go to pay for the army through which he retains power. The remainder goes into his own pocket. He spends nothing on public works. His whole career is a grand orgy of exaction.

Why should such a one reduce his forces and send the money saved to a central Government? A strong central Government would be his implacable enemy, and the enemy of everyone like him. The Tuchuns are intensely jealous of each other, but they are all in the same boat. Let anyone begin to rise above his fellows and they combine against him.

The second great fact. Shorn of power, the Government gets nothing from the provinces. For the past few

years it has been living on the surplus revenues of the three departments whose receipts are more or less under foreign control — customs, salt, and railways. In addition, it has borrowed enormously from foreign countries which had motives for making bad transactions, or which did not realize that they were making bad transactions, and from their own people at rates for which the word usurious is inadequate. More and more the successive Peking Governments which have been set up by one or other of the militarists have been sucked dry for military purposes.

To-day a mountain of debt confronts Peking, which could not be found in a hundred years out of existing resources. Such money as dribbles in is commandeered by the militants, leaving almost nothing for the payment of officials and the foreign and domestic creditors, who are legion.

The evil of militarism is responsible for the evil conditions of the finances. Each condition reacts on the other, so that steadily things are becoming worse and worse. The situation of Government employees in Peking is tragic. Many modern-style banks which have arisen of late years will shortly collapse if Government indebtedness is not liquidated. Many valuable educational institutions must soon cease functioning if provision is not made for them. Every kind of public work is neglected. Enterprise is everywhere paralyzed. Economic development is arrested.

Everything indicates that the splendid foreign trade which has persisted in spite of the internal chaos of the past ten years will in the end be seriously affected. Huge foreign interests are dependent upon the foreign commerce. The funded foreign debt of China is dependent on the maintenance of the foreign trade. The whole existence of the State is based upon its commerce,

and if the foundation decays what becomes of the State?

The Chinese have had opportunity after opportunity to straighten their affairs. The Revolution ousted the Manchus who encumbered the country. Yuan Shih-kai succeeded, and no sooner had order been restored than he scattered his resources in the vain endeavor to ascend the throne from which he had been instrumental in deposing the Manchus. Again the revolutionists had the chance to begin afresh. They failed, partly because they were deficient in the qualities necessary to combat the adverse circumstances, and partly because the circumstances were indeed adverse.

The fighting of last spring brought back Parliament, a benevolent President, and a Government in which Young China predominated. There has been no beneficial result whatever, and the only political effect visible to-day is the endeavor to put a typical Tuchun in the Presidential chair and to isolate Wu Pei-fu, one of the few patriots in sight who has power at his back. It is not the intention to do well that has been lacking, but the power to do well. Where a Government without money can do nothing, a Government with money might do very much better — especially in China, where money is the mainspring of life.

There seems to be only one practicable way of improving the situation, and that is by relieving the Government of its heavy burden of debt and providing it with a regular income — in other words, by giving it a fresh start. The greater evil of militarism is something with which the people of China alone can deal, for the foreigner cannot tackle this problem unless prepared to intervene with force. But the lesser and consequent evil of disordered finance can be corrected by foreign agency, with the double result of put-

ting debts to foreigners on a sound footing and at the same time making the Government solvent. A heavily encumbered debtor has little chance of recovery. Relieved of his encumbrances, the same man may regain credit and become a pillar of society.

The floating debt which hangs around the neck of every Government which takes office in Peking, and handicaps every attempt to reorganize, is a monumental sum in itself, but a comparative trifle in proportion to the population and resources of the country.

It is called a floating debt to distinguish it from the regular debt composed of long-term loans issued in Europe and secured on customs, salt, and railways. It comprises debts to foreigners and Chinese, the latter mainly in the shape of domestic loans for fixed terms, the former mostly long overdue. Whereas the regular debt is secured practically independently of the Chinese Government, and causes it no concern, generally speaking there is no specific security for the floating debt.

It can be said that the Ministry of Finance is permanently invested by an army of creditors, who press the siege without intermission, for whole or part payment or for interest on account. At the same time the income of the Government is not sufficient even to pay the staffs of the Ministries, let alone cost of public works, grants for education, pay of police, and the manifold daily needs of an Administration. In these circumstances the army of debtors has nothing to gain, and the clamor is maintained only that each shall have his place on the list when the grand smash comes which shall force a general liquidation.

It is impossible to estimate the floating debt exactly, owing to the difficulty of computing outstanding interest and fixing exchange. But the following summary states the case nearly enough

for the purpose of indicating the general position in Straits dollars: —

Domestic loans.....	\$340,000,000
Short-term debts to Chinese banks and firms.....	88,000,000
Treasury notes outstanding.....	34,000,000
Unsecured foreign loans.....	240,000,000
Owing to foreign firms.....	100,000,000
	<hr/> \$797,000,000

This total amounts in sterling approximately to £99,625,000.

The domestic loans have all been contracted since the Revolution. Directly or indirectly, the proceeds have been spent mostly for military purposes. Nothing productive has been done with any of the money. The bonds of some of these loans were sold for prices as low as 15 to 20 per \$100 bond. Many bonds were forced upon the public by the Central and Provincial Governments. On the whole, probably the Government received as cash on an average something like half the face value.

There is a large and busy market in Peking for the bonds, which fluctuate up and down according to the prospects of interest and amortization being forthcoming on the appointed dates. Various offers at consolidation have been made, and one scheme provided for \$12,000,000 per annum from the salt surplus, \$10,000,000 from the wine and tobacco monopoly, pending the reorganization of which the Board of Communications was to furnish \$500,000 per month. Any deficiency was to be made up from the customs surplus. One payment only was made out of the salt surplus, but nothing has come from the two other sources, with the result that this whole liability now falls on the customs surplus.

In other words, China is trying to use the customs and salt surpluses, her only good assets, and both under foreign control, to pay domestic debtors when she is in default all round to foreigners.

This situation recently brought the British, American, French, and Japanese Ministers upon the scene, protesting against the neglect of obligations to foreigners in favor of internal creditors. They referred to the credit of China, 'now become seriously impaired by default on loans in England, America, France, and Japan.' They take exception to the preferential treatment of internal loans, and request that future customs surpluses shall no longer be exclusively used in this manner.

The result was a flurry in the local money-market, and much uncertainty as to the future of the domestic bonds, for the Legations interested have the power to withhold release of surpluses and thus to suspend payments on account of internal loans. Should they do anything of the kind, a financial panic would follow and many Chinese banks would come down.

In much the same category as the domestic loans come the short-term debts to Chinese banks, firms, and so forth. These represent amounts borrowed concurrently with the issue of the domestic loans. Some of the transactions were forced on the banks, and all are at high rates of interest, some indeed at usurious rates. The inability of the Government to pay has left most of the banks high and dry, and suspension must ensue in many cases if an arrangement is not made at an early date. The total under Treasury notes represents transactions of a character similar to the foregoing. It includes over five millions held by the Manchu family in lieu of arrears of pension, and covers a host of liabilities for military supplies, military and official pay.

The formidable figure under unsecured foreign debts covers the series of Japanese loans made in 1918 and 1919, totaling 120,000,000 yen, all overdue and upon which no interest has been paid. These transactions were warmly

criticized in China and abroad, and are repudiated by many Chinese on the ground that they were made without the consent of Parliament. It includes also about 40,000,000 yen due to Japanese firms and banks, mostly for military supplies. In this list appears about 150,000,000 fr. due to the ill-fated Banque Industrielle, and debts due to other foreign banks. It also includes the Marconi and Vickers and the two American loans (G.\$5,500,000 each), all four in default.

The last item of \$100,000,000 owing to foreign firms is for railway, telephone, and telegraph material supplied during the past two or three years through the Ministry of Communications. This department, when the railways were running satisfactorily and producing a net revenue of about \$35,000,000 per annum, was a substantial concern, well able to meet its obligations. Foreign firms, therefore, were justified in accepting orders for material obviously needed and economically productive, and it has been a great shock to them to find, not only that the department has suspended payment, but that the railway position as a whole has become so bad that prospects of payment have become exceedingly remote, while some of the lines are deteriorating to a point where traffic may have to be suspended. British firms at home and in China, and British banks, are deeply involved, and for some firms it will spell disaster if some sort of settlement is not speedily arranged.

On the one side there is a load upon the Chinese Government which is unbearable, and a constant source of anxiety and friction, owing to the demands for payment which cannot be met. On the other side there is the hardship upon creditors and the danger of a financial panic which would inevitably affect the general economic life of the country. Some of the rail-

ways are in desperation for the ready money to purchase daily necessities, for their credit is entirely gone. For instance, although traffic on the Peking-Suiyuan railway is seriously impeded for lack of rolling stock, there are three hundred cars lying at one of the ports of which delivery cannot be obtained because the Government cannot pay the charges.

It is urgent that a settlement of the debts for railway material shall be made, in order to restore credit and make possible the purchase of material essential to continue working. If financial collapse and railway dislocation occur together the foreign trade cannot but be affected, with dire results in every direction. The case for the application of a remedy, if remedy there is, is as urgent as could be, in Chinese as well as in foreign interests.

There is a remedy, and the Treaty Powers interested have already agreed in principle to a policy which makes its application practicable at an early date. It was recognized at the Washington Conference that China's customs duties were unduly low, and it was settled, first, that they should be revised to give China an effective 5 per cent, — which is now in operation, — and, second, that a surtax of  $2\frac{1}{2}$  per cent should be imposed. These two concessions have been estimated to yield an additional revenue to China of \$46,000,000. A further increase was contemplated when China had abolished the likin taxes, which handicap the internal trade of the country.

A foreign commission is to go into the whole question and to formulate the conditions under which the  $2\frac{1}{2}$  per cent surtax is to be granted. The appointment of the commission, however, awaits the ratification of the Washington resolutions by the French, Italian, and Japanese Governments, and the commission cannot sit before the au-



tumn, or complete its business for at least a year from now — much too long to wait for an examination of the present serious state of affairs.

It is obvious that the increased revenue to be derived from the contemplated surtax must be used to liquidate the floating debt. The view has been expressed that it would be a mistake to use the proceeds of an additional tax on foreign trade for the repayment of transactions like the Japanese loans, which were made for a political purpose and have since been condemned in Japan. The two American loans in default were also given to China unconditionally, in opposition to the policy of the Consortium, to which the United States now subscribes. The Marconi and Vickers loans were warmly criticized because they involved China in enterprises, wireless and aeronautic, which she could not successfully conclude:

The truth of the matter is that practically all the money borrowed by China during the past few years, at home and abroad, has been used, directly or indirectly, to serve the purposes of the militarists; and there is little to choose between any of the transactions, although in some cases the lenders did not realize the uses to which the money was being put.

It may be said that all the loans were bad for China. Yet China has had the money, and in the end she will have to repay. Meanwhile the Americans and the French and the Japanese want their transactions put on a sound footing, and it is useless to expect these Powers to agree to any disposal of the increased customs duties until Chinese debts to them have been settled.

Theoretically, it is sound that parties who made selfish or ill-considered or speculative advances to a bankrupt Government should be allowed to stew in their own juice. But the reality of the situation is that China owes the

money and that failure to recognize the fact will involve her in serious international difficulties. Considering the whole position, the danger of financial collapse, the decay of the railways and the economic check which must follow, it is plain that there is nothing to be done with the additional revenue but to consolidate the unsecured debt.

Forty-six million dollars per annum, *plus* something from the salt, and a further contribution from the wine and tobacco monopoly, which must be reorganized, will suffice to secure a loan or bond issue large enough to fund all China's unsecured obligations. It will be possible to write down domestic loans and probably some domestic debts.

It is, however, at this stage useless to go into details. The mess can be cleared up, and the case for action is established. But the interested Powers should not wait for the Washington Commission. They should appoint a small committee of experts completely familiar with the situation at once to examine the facts and to be prepared with the necessary evidence to lay before the Commission. Otherwise the representatives of nine Powers will assemble in Peking and find themselves confronted by a deluge of figures and a tissue of complicated issues, with which they will be totally unable to deal until they have lived years in the country.

One word in conclusion. If the mess is cleared up and the Chinese Government given a fresh start, it must be recognized that solvency may soon again be succeeded by renewed insolvency. Safeguards may be imposed, and they may hinder any tendency to revert to bankruptcy; but they cannot in the end be effective if the Chinese persist in taking the downward path. This risk the foreigner will have to run. The alternative is to let things go, with all the evil consequences which it has been sought in these articles to describe.

# THE LION'S SHARE

BY \* \* \*

*[It will be remembered that when M. Poincaré left office, after his term as President, he immediately joined the staff of Le Matin, where a position had been kept open for him. It is now common gossip in Paris that a similar post on Figaro awaits him when he shall cease to be Prime Minister. Hence two articles in Figaro bearing the signature of three stars, which is already well-known in the French press, and voicing the sentiments of the Prime Minister and his followers, have sometimes been attributed to him. Nothing but surmise supports the attribution of the authorship, but M. André Tardieu asserts that, if not the author, the Prime Minister is at least the inspirer of these articles. They have called forth much comment in England, where the second has been reprinted entire by the New Statesman.]*

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## I

FROM the time of the Armistice French and English interests have been opposed to each other. As we have said in earlier articles, the history of several centuries might have enabled the rulers to anticipate as much. England, like Germany, had kept her soil and her factories intact. She meant to profit without any delay by the advantageous activities which her financial and industrial leaders had brought about or prepared while hostilities were still in progress, in America, Switzerland, and Holland.

The most elementary justice demanded imposing on Germany first of all the settlement of Reparations accounts due to France and Belgium. This Mr. Lloyd George did not appear to understand. He employed every artifice, every trick, all the cleverness of an imagination rich in devices, to block France and to dupe her. He had reasons of his own. What mattered to him was less fostering Germany for her own sake than favoring the combinations of a financial consortium whose mouthpiece he was. He had not the excuse of serving, like a good British

Minister, the traditional selfishness of his nation. He served as an accomplice the selfishness of an international syndicate.

At the moment France was exhausted. Her finances were at their last gasp. Her factories and industrial equipment were destroyed. Far from being able to provide goods for export, which alone would have improved her exchange, France was not even in a position to take care of her internal market, nor to provide for the needs of a diminished population. What competition had Mr. Lloyd George and his masters to fear from this unhappy country? Their greed was implacable. They counted on checking the economic recovery of France just as the Germans had counted on her ruin. The Germans destroyed, Mr. Lloyd George and his international syndicate hampered the work of reconstruction. The means were different — the effect the same.

We have struggled for four years to secure our rights. Despairing of success, we have made a decision to work alone, to demand direct from Germany