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Mr. Walter S. Rogers
Institute of Current World Affairs
522 Fifth Avenue
New York 18, New York

Dear Mr. Rogers:

This report is a long one. I will not apologize for its length, however, because I believe all the details are relevant to the general picture I have described. It is a report on existing conditions in Shansi Province.

On March 14 I flew from Peiping to Taiyuan, capital of Shansi, with a close friend of mine who is one of the younger members of the U.S. consulate in Peiping. Exactly one week later, on March 21, we returned to Peiping. The week which we spent in Shansi was a busy one, and I believe we obtained an accurate picture of many of the unusual aspects of Governor Yen Hsi-shan's regime. Before going we had interviewed a number of people in Peiping who are familiar with Shansi, and consequently we had some idea of significant things to watch for.

The first few days were spent interviewing top officials in the provincial government. We had long interviews with Governor Yen Hsi-shan; Kuo Tsung-fen, Yen's Chief of Staff; Liang Hua-chih, Provincial Commissioner; Po Yü-hsiang, chief of the Land Bureau; Wang Ch'ien, head of the Economic Control Bureau; P'eng Shih-hung, Director of the Northwest Industrial Company, and others. From Taiyuan we made an overnight trip to the smaller city of Taiku, a few miles to the south. On the advice of many people in Peiping, we stayed with foreign missionaries in both Taiyuan and Taiku. This was fortunate. Through the help of these missionaries, and the introductions of people in Peiping, we contacted and talked with persons who gave us a very different picture of real conditions from that obtained from the officials. We also saw for ourselves some of the things going on in Taiyuan and Taiku and the countryside between the two cities. Before we left we also were able to make a short trip into the suburbs of Taiyuan to visit refugee camps there.

This letter is a report of conditions as I saw and heard about them. To give some perspective to present conditions I have added a certain amount of general background material from various written sources.

In a few days I leave Peiping, and I will keep you informed of my subsequent moves.

Sincerely yours,
Doak Barnett
Doak Barnett

Notes on Shansi

Thirty-seven years ago, on October 29, 1911, the wave of revolt stirred by the Nationalist Revolution in Central China reached the city of Taiyuan in Shansi Province. On that day a young colonel named Yen Hsi-shan made an important decision; he went over to the revolutionists with all the Imperial troops under his command. Since that day the career of Yen Hsi-shan and the history of Shansi Province have been virtually inseparable. Yen is a living myth in China, and he still rules in Taiyuan, the capital city of Shansi.

Shansi is a distinct geographical entity in the heart of North China. It is a part of the extensive highlands of China's north and northwest which are distinguished by their thick covering of yellow, wind-blown, loess soil, but Shansi has natural boundaries which delimit the province rather distinctly. Mountains such as the Taihang Shan and Wutai Shan cover most of the province except for the Tatung plain in the north, the Fen River valley south of Taiyuan, and the Chiehchow plain in the southern part of the province. Plateaus intersperse the mountain ranges, but they are cut by deep gorges and valleys which lie between vertical walls of loess, and the plateaus are almost as rugged as the mountains themselves. To the east the mountains drop abruptly to the North China plain, and the Shansi border follows this terrain line. The province's western boundary is clearly defined by the north-south course of the Yellow River. The Yellow River curves and forms most of the southern boundary of the province as well. The inner loop of the Great Wall forms the northern limit of the province, and a special southern branch of the wall separates Shansi from Hopei.

The mountainous terrain of Shansi sets the province off from surrounding areas, and tends to isolate it topographically. This isolation has resulted in distinct Shansi dialects and customs. Isolation has also made it possible for a leader such as Yen Hsi-shan to set up and control a provincial regime which has maintained a large degree of political independence. There have been times during the past thirty-seven years when the inclusion of Shansi within Nationalist China has been more nominal than real.

Present-day Shansi cannot be understood without some knowledge of the background of its dominating personality, Marshal Yen. Yen Hsi-shan was born in the Wutai district of northern Shansi in 1883. His basic education was completed in a military institution in Taiyuan, and from there he went on to take infantry courses in the Military Cadets' Academy in Tokyo from 1908 until 1910. While in Japan he joined the T'ung Meng Hui, forerunner of the Kuomintang, and made his first contacts with revolutionary Chinese leaders. After returning to Taiyuan he started to build up a model brigade in the province. Then, in 1911, the spark lit by the Nationalist Revolution presented him with the opportunity to seize power. He quickly achieved military control of the province and gained the recognition of the Nationalist leaders. In March 1912 he was appointed Military Governor of Shansi. In June 1914 he was made a general with a special title of "Tung-Wu". In September 1917 he was

appointed acting Civil Governor of Shansi. Over the years came a succession of additional titles and honors. In the Autumn of 1918 he was officially designated the "Model Governor" of China by the current National Government in Peking. In January 1920 he was awarded the "First Order of Merit". In February 1923 he was made a full general, and in November of the same year he became a Marshal. These titles and appointments, however, were merely belated recognition by successive national authorities of Yen's unshakeable position in his home province. National regimes rose and fell, and other local leaders came and went, during this chaotic period of China's history, but Yen remained in control of Shansi.

Yen focused his attention at home, but he did not refrain completely from participating in national politics. He was shrewd in making opportunistic political alliances with other Chinese leaders to strengthen his own position. From 1912 to 1915 he gave moral support to President Yuan Shih-kai, only to desert him when he was losing his power. During the next four years, until 1919, he supported Tuan Chijui's Anfu Clique. When that clique lost its position of power, Yen sided with the anti-Anfu warlord Wu Pei-fu, and even helped Wu to fight a former subordinate, Feng Yu-hsiang. In 1925 Yen formed a new political alliance, this time with the Manchurian warlord Chang Tso-lin, who had defeated Wu Pei-fu. Then when the Kuomintang successfully fought its way northward and set up its capital in Nanking in 1927 Yen came to terms with Chiang Kai-shek.

These maneuvers enabled Yen to maintain his own power and to protect Shansi Province. As a result, Shansi experienced an unusual degree of peace and stability, while much of the rest of North China was engulfed by civil wars between numerous warlords. During this period Yen carried out extensive reforms in Shansi. He reorganized the provincial administration from the villages up, reformed the school system, built roads, launched campaigns against queue-wearing and foot-binding, and encouraged irrigation development and agricultural improvement. Accounts written by visitors to the province during those years indicate that much progress was made, and evidently his popularity among the Shansi people was real. Shansi had previously been considered an area of unusual backwardness in Chinese folklore - one explanation undoubtedly being its mountain isolation. Confucious is reputed to have traveled to a point a few miles west of Taiyuan and then to have turned back in disgust at the ignorance of the people. Into this area Yen introduced many reforms, particularly emphasizing the development of schools and roads.

During the period after 1927 when the Nanking Government consolidated its power Yen Hsi-shan was drawn more closely into its orbit. In the Spring of 1928 he was appointed Commander-in-Chief of the Third Group Nationalist Armies in North China; in the Summer he was appointed Garrison Commander of the Peiping-Tientsin Area; in September he was elected to membership in the Kuomintang Central Executive Committee and in the Central Political Council; and in October he was made a

member of the State Council in Nanking.

Soon thereafter, however, Yen's independence reasserted itself. He was elected Minister of Interior, but he did not take up the post. Then in the following two years, 1929-1930, Yen became the leader of a revolt of northern generals directed against Chiang Kai-shek. After a quarrel with Chiang in the Summer of 1929, Feng Yu-hsiang (whom Yen had previously fought on two occasions) sought sanctuary in Shansi. Yen soon became involved in the quarrel, and open revolt broke out with Yen, Feng, Wang Ch'ing-wei, and others united against the Central Government. Over ten provinces "elected" Yen Commander-in-Chief of the "National Army, Navy, and Air Forces", and from May to September 1930 these northern forces fought Chiang. Yen was even "elected" President of China by an "Enlarged Committee of the Kuomintang" which tried to establish a new government. These northern forces were soon defeated, however, and Yen went into temporary exile in Dairen. But the very next year, 1931, he returned to Shansi.

During the early 1930's Yen again concentrated his efforts on reforms and the internal development of Shansi, emphasizing this time a policy of "building up industries for the salvation of China." An extensive industrial program was launched in 1932 under a provincial Ten-Year Plan.

When the Japanese in 1937 reopened their undeclared war against China, however, Shansi was not exempted. Yen retreated into a mountain position near Chihhsien in southwest Shansi. There he set up a headquarters called "K'e Nan P'o" ("Hillside of Conquering All Difficulties"), and there he remained during most of the war. The facts of what happened in much of North China from 1938 to 1945 are not indisputably established, but it is claimed that active opposition to the Japanese in Shansi was carried on mainly by the Communists, while Yen delicately maintained a buffer position between the Nationalist, Communist, and Japanese forces. There is no doubt that during much of this period Yen and the Communists were in constant opposition, and that some of his troops, in particular the so-called "New Army", left him and joined forces with the Communists' Eighth Route Army.

When V-J Day arrived, Yen raced back into Taiyuan with his remaining troops. The Communists already held much of Shansi, however, and Yen was able to reestablish his control only over certain parts of the province. Since then a bitter struggle has been going on between Yen and the Communists. This struggle is part of the general civil war now in progress in China, but as one might expect from the historical background of the region there are many features about the situation in Shansi which are unique. One recent observer described Shansi as a "foreign country". He was exaggerating, but the contrasts between Yen's province and the rest of the country are numerous and striking.

At present the territory under the Nationalists, or to be more specific under Yen, in Shansi comprises thirty-six hsien (counties) out of a total of 105 in the province. Eight hsien are in the Tatung area in northern Shansi and border the Suiyuan military region. The

Tatung area is under General Yu Chen Ho, one of Yen's men, but in reality military authority there appears to be divided in a rather vaguely-defined way between Yen and General Fu Tso-yi, who is Nationalist commander for all of North China. Two hsien are in the immediate vicinity of Linfen, south of Taiyuan. Linfen, under the command of General Liang Pai Huang, is a small besieged pocket. Sixteen hsien are in the immediate vicinity of Taiyuan, in central Shansi, and this area, which is Yen's remaining stronghold, is also completely surrounded by the Communists. Until recently a fairly large section of southwest Shansi was occupied by non-Shansi Nationalist troops under the command of General Hu Tsung-nan. The local commander was Hsü Hsiang-ch'ien. This territory has recently been almost completely abandoned by the Nationalists, however, since Communist threats to Sian and other Shensi cities have forced Hu Tsung-nan to transfer his troops to protect Shensi, his own military bailiwick. Shansi troops, furthermore, appear to be replacing all other Nationalist troops in the Linfen area.

In a strict sense it is incorrect to make a distinction between General Yen's Shansi troops and other Nationalist troops. His military forces are part of the National Army, and he is the Nationalist commander of what is called the Taiyuan Pacification Area under the Ministry of National Defense. In reality, however, the distinction is justified. Yen's soldiers make up what is essentially a personal provincial army, which at present is merged with the Central Government armies by virtue of the existing political relationship between Yen and the Central Government. In contrast to most Nationalist military forces, Yen's troops are almost entirely recruited within Shansi and are kept within the province.

Theoretically, Marshal Yen is under the over-all command of General Fu Tso-yi's North China Communist Suppression Headquarters in Peiping. Actually, however, he follows an independent course. As General Kuo Tsung-fen, Chief of Staff of the Taiyuan Pacification Area, carefully explains, Fu was formerly a subordinate of Yen, and this creates a special relationship between the two men. This special relationship apparently amounts to permission for Yen to go his own way as he pleases. Although General Kuo claims that relations between Yen and Fu are all that could be desired, he goes on to explain that liaison is maintained entirely by wireless, and that there is no exchange of liaison officers by the two headquarters. In short, there is no effective military liaison at all. In the military sphere as in other spheres (as I will point out later), a facade of normal good relations is maintained between Shansi authorities and Central Government authorities, but in reality special and unique arrangements are made by which Shansi is exempted to a large extent from Central Government regulation and control. Relations between Marshal Yen and the Central Government appear to be neither cordial nor antagonistic. The two are loosely allied in opposition to a common enemy, the Communists.

By far the largest part of Shansi Province is under Communist control, and has been for some years. This Communist territory falls

into several "Liberated Areas" which reportedly have been consolidated, reorganized, and reformed according to the Communist pattern. Militarily the territory comes under several well-known Communist commanders, Ho Lung in the northwest, Nieh Jung-chen in the northeast, Liu Po-cheng in the southeast, and Chen Keng in the south. The main military command headquarters, however, is said to be Hsinghsien in the northwestern part of the province. This is the town to which the top Communist leaders such as Mao Tse-tung and Chu Teh were reported to have moved after the fall of Yen-an, and military leaders in Taiyuan claim that they are still there and that Hsinghsien is the Communist capital in China.

The present balance of military forces in Shansi is summarized as follows by Yen's Chief of Staff, who appears to be an unusually frank and forthright person. Marshal Yen has 200,000 regular troops in the Taiyuan area, 12,000 in the Tatung area, and 20,000 in the Linfen area. In addition, all able-bodied men not on active military duty are organized as militiamen in the Soldier-Farmer Unification program. These able-bodied men are members of the People's Self-Defense Army (Min Wei Chün or Tzu Wei Chün), and miscellaneous other groups, such as old men, young boys, and some women, are included in the People's Self-Defense Corps (Tzu Wei Twei). The organizational intricacies of the military set-up are too complicated to describe in detail, but the guiding principle is mobilization of all possible groups. It is claimed that there are 300,000 members of the People's Self-Defense Army who are able to use a rifle. They are trained by about 5000 regular troops, but theoretically at least they can elect their own officers. Some of these men buy their own arms; others are loaned arms by the government; while some do not possess any weapons. The Self-Defense Corps is much more loosely organized, their numerical strength is vague, and only a few get training of any sort. In addition to the regular army and the militia, there are also other military organizations in the Taiyuan area. These include troops under the Taiyuan Garrison Commander (Ching Pei Szu Ling), who is responsible for local protection and order, the Peace Preservation Commander (Pao An Szu Ling), whose duties involve military enforcement of political policies, the Military Control Headquarters Commander (Chün Kwan Ch'ü Szu Ling), who handles conscription, and so on. In addition, there is a large regular police force, under joint military-civil control of the Garrison Commander and the Board of Civil Affairs. All of these added together form the active and reserve military potential available to Yen. On the other side, Kuo says, the Communists have between 150,000 and 200,000 regular troops in Shansi, or slightly less than Yen has. They too, however, have trained and organized the people as militia (Min Ping), the numbers of which are probably considerably larger than in Yen's territory, since the Communists have a larger population to draw from. According to Kuo, out of a total Shansi population of fifteen million (the 1939 China Year Book lists the population at 11,601,026, so Kuo's figures may not be as significant as the general comparison or proportion they indicate), approximately eleven million are under Communist control and four million under Yen's control.

It is not easy to judge the quality and morale of troops simply

from their appearance, but certain inferences can be drawn from their general appearance and behavior. The troops which I saw in Taiyuan and Taiku, in Yen's territory, do not make a good impression. The streets are filled with them, some marching or carrying out duties of various sorts, but most simply loafing. The majority of them look dirty, unkempt, and sloppy. They do not show much spirit. The impression they make is very different from that made, for example, by the clean, smart, spirited troops of Fu Tso-yi. My observations tended to confirm the opinion of a competent foreign military observer who recently told me that Yen's troops are about as poor as they come, even in China.

The situation regarding military supply and materiel is different, however. In the relatively small Taiyuan area there is an amazing light and heavy industry concentration which contains the largest and best industries now operating in North China. I will describe Yen's industrial assets in more detail later. Suffice it to say here that these industries are said to produce eighty percent of his military needs. (The most important gap is certain types of ammunition which must be brought in from the outside.) It is claimed that every month they produce the following: 8 75mm guns, 60 7.9mm machine guns, 3000 rifles, over 300 light machine guns, 2000 5cm mortars, as well as grenades, bayonets, swords, ammunition, and so on. (These figures are higher than those contained in a fairly comprehensive, four-month-old confidential report of a survey by foreign technician-observers. Production may have increased in the interim, or the Shansi officials may have exaggerated in their claims to me.) By contrast, the Communists have small military industries in local areas in southeast and northwest Shansi, but no large-scale industry in the province. The situation regarding food is reversed, however. The food situation in Yen's territory is critical, as I will describe later. First priority on existing food stocks goes to the military, and it seems likely that the troops will be well fed even if it is at the expense of the civil population, but the general shortage is a definite weakness. The Communists, on the other hand, hold the best food-producing region in the lower valley of the Fen River, and they are reported to be in a much more favorable position in regard to food.

The general military balance of power in Shansi is as I have described it. Relatively speaking, however, there is not much active fighting going on at present. It is true that Yen's small pocket at Linfen is currently under severe Communist attack and siege, but military activity on the fringes of Yen's main stronghold around Taiyuan is confined for the most part to small-scale foraging or testing thrusts by both sides. Nearby large cities such as Paoing in Hopei, Loyang in Honan, and Sian in Shensi are at present the objects of Communist attacks or threats, but the situation around Taiyuan is relatively quiescent.

Taiyuan and its environs, surrounded by Communist territory, present the spectacle of a region under siege. Military personnel

and activities are evident everywhere. Thousands of concrete, stone, & brick pillboxes dot the landscape. (One official states that there are two thousand immediately around Taiyuan and seven thousand in the surrounding countryside.) The pillboxes are awkward, tall structures about thirty feet high. They appear to have been built with almost no regard for the "field of fire" requirements of the terrain, and they would be completely vulnerable to any sort of artillery, but undoubtedly they have a certain effectiveness. In addition, there are many wide, moat-like ditches protecting railway stations and the like. Building and digging activities are going on in a great many places. Occasionally, one can see troops going through training exercises in the countryside. The final touch, perhaps, is an armoured train which makes daily runs around the city of Taiyuan on a special military railway encircling the city.

Within the framework of the military situation described the provincial government is carrying out drastic economic and political policies which affect the entire population under Yen's control. These policies are the product of Yen's active mind and imagination.

Yen's motives and objectives are not simple to analyse, but the policies which he has instituted in Shansi are proclaimed to be radical and progressive reform policies. He is familiar in a vague and incomplete way with the issues involved in the ideological struggle between Capitalism and Communism as economic systems, and his writings (he is prolific) are full of pseudo-intellectual discussion of these issues. In these writings his lack of information and understanding is obvious, but his inadequacies do not prevent him from formulating a "new system" of his own. He accepts the thesis that Capitalism should be abolished because of its weaknesses and injustices. He asserts, furthermore, that Communism is the best substitute which has been developed to-date. The principal trouble with Communism, he says, is that its methods are wrong. As a result, he sponsors a program which has much in common with what he believes Communism to be but which in its details is something he has worked out independently. The manner in which Yen's policies are implemented and enforced leads one to believe that the ideological glamour in which he tries to clothe them is mere camouflage, but he lays much emphasis on the ideological angle. It is difficult to tell whether these policies are temporary war measures or long-range policies in his mind, because in conversation he will assert in one breath that the policies are designed to meet specific current conditions in Shansi while in the next breath he will suggest somewhat coyly that they possibly would be the solution to China's, and even the world's, present problems. He is not a modest man.

In many respects, Yen's policies appear to be merely an effort to fight the Communists by using their own methods, slogans, and catch-phrases. He has borrowed freely from them, and admits that he has done so. He is shrewd in recognizing and sizing up the popular appeal of a radical reform program such as that of the Chinese Communists, and unlike some Chinese he does not underestimate its

power and appeal.

The People's Economy (Ping Min Ching Chi) and the Soldier-Farmer Unification (Ping-Nung Ho Yi) are two programs which embody the major elements of Yen's economic policies. The former is designed for and applied to Taiyuan's urban conditions, whereas the latter is the program for rural areas.

The Soldier-Farmer Unification, at present directed by Po Yü-hsiang, admittedly was begun in 1943 as a method of increasing the number of men available for active military service. This seems to be at least one of its major objectives at present. The essence of the program in theory is as follows. All agricultural land is redistributed. The government neither buys nor expropriates it. Land owners keep the title to their land but lose any right to till it, decide how it will be used, or fix rents. In short, all land is indirectly nationalized by a not very indirect method. The basis for distribution is an arbitrary land unit (Yi Fen Ti) which is theoretically large enough to support eight persons and would normally require two men to till. (The average size of such a unit is said to be about forty mou. One mou is roughly one-sixth of an acre.) Six of these units are combined into one large unit (Yi Ta Fen Ti), and a large unit is assigned to six able-bodied men, who must be between the ages of 18 and 47 and physically able to farm. These six men form a mutual aid organization (Hu Chu Hsiao Tsu). One of the six goes on active duty into the army. Another is a reservist on call, but since war is in progress he too must join the regular army at present. The remaining four men are members of the People's Self-Defense Army and are responsible for farming the whole large land unit, in a semi-collective manner and for supporting all six families. In this way one-third of all able-bodied men are drafted and the other two-thirds are made militiamen. (Po Yü-hsiang, incidentally, thinks that the system should be used in peacetime also - with compulsory industrial service to the state substituted for compulsory military service.) The men on active duty must serve three years (four years in certain cases, depending on the type of military service), after which they are replaced by two others, and cultivation of the land unit is thus rotated among the six. Since the large unit is theoretically of a size which would require twelve men to farm, and there are only four men to farm it, these men must rely on the assistance of their family members and on men above or below the 18-47 age limits who in theory are scattered among the land units as they are needed. The distribution process is supposed to be accomplished as much as possible in accordance with the needs and decisions of local villagers. Provision is made in the program as officially outlined for continued payment of government-fixed rents to the landowners. Land is divided into seven grades, and rents are supposed to be paid in kind on the basis of rates fixed for each grade, the highest being under one-tenth of the land's produce and the lowest about one-fortieth. Both rent and taxes are theoretically based on the estimated total produce of the land minus the amount necessary to sustain eight persons. This is arbitrarily set, and a family (that is, all those comprising a producing-consuming

farm unit) with over eight persons must rely on government relief.

Special administrative bodies are required to carry out the Soldier-Farmer Unification. A mass meeting in each village is supposed to elect a nine-member Soldier-Farmer Committee (Ping-Nung Wei Yuan Hui) responsible for carrying out the program. The responsibilities of these nine members are defined as follows: head of the village, head of political organization of the people, head of all mutual aid organizations, head of the local self-defense corps, representative of all families whose men are in the army, judge of land value, agricultural technician, educational advisor, and relief advisor. In addition, provision is made for one non-voting woman member.

The People's Economy, which was put into effect last May 21 during an economic crisis in Taiyuan and at present is directed by Wang Ch'ien, chief of the provincial Economic Control Bureau, is an equally comprehensive program for Taiyuan and its suburbs. It includes rationing of basic necessities, price control, establishment of cooperatives, regulation of consumption, limitation of profits and interest, prohibition of speculation, and control of housing and rents. A separate, special, organizational set-up has been established for this program as well. At the base are consultative conferences (Tsuo T'ian Hui) composed of family heads in the basic geographical districts, assisted by representatives of higher authorities. They are supposed to meet weekly to discuss proposals sent to them and to make suggestions. They also elect a People's Mobilization Committee (Jen Min Tung Yuan Wei Yuan Hui) as their liaison with higher authorities. The main responsibility of this body, which has scheduled monthly meetings, is to help enforce policies. The top body is the People's Economics Executive Committee (P'ing Min Ching Chi Chih Hsing Wei Yuan Hui). Presided over by the Mayor of Taiyuan, it has eighteen members, four elected by administrative districts inside the city wall, two by districts outside the wall, and two each by various population groups - merchants, laborers, farmers, factory workers, self-defense bodies, and women. Under the Executive Committee are a Standing Committee of ten members, a Secretariat, and sub-committees or bureaux of Investigation and Control, Cooperatives, Price Control, Labor Distribution, Housing and Building Control, People's Mobilization, and others. In theory the bureaux heads are elected by a representative body called the People's Representative Assembly, and then they themselves appoint all bureau employees. These bureaux administer the various aspects of the comprehensive program.

The cooperatives established under the People's Economics are all consumers' cooperatives. Ninety-three cooperatives in the city sell food, cloth, salt, and coal, and sixteen in the suburbs sell the same necessities except for food. In addition there are eight Supply and Demand Stores in the city which sell miscellaneous goods such as soap, handkerchiefs, and so on. These cooperatives buy from the government (or in the case of food occasionally they buy directly from the farmers) and theoretically sell at cost. Membership is optional and at present costs about CNC\$12,000,000 (set in terms of

Yuan Fapi - see below) a share. A person over twelve years of age can buy one share; children from six to twelve can buy one-half share, and children under six can buy one-fourth of a share - and the amount of goods which can be purchased is fixed for each category. A person can belong to only one cooperative, and furthermore a cooperative member is theoretically not entitled to the card which legally entitles one to buy on the open market. The basic necessities handled by cooperatives are also supposed to be rationed and subject to maximum price limits on the open market (where prices can only be raised if the government consents to requests by merchant groups), and only "reasonable" profits (considered to be ten percent) are allowed. Officials privately admit, however, that the open market is not controlled with complete strictness.

For rationing purposes, food is divided into two categories, military and non-military. Military personnel get the first-grade ration, and all others get the second-grade. The kind and amount of food for each grade is prescribed on the basis of daily quotas.

A unique rent system is established as a part of the program. All buildings are divided into two categories, residential and commercial, and each of these is sub-divided into seven grades. Rents are fixed by the government in terms of Yuan Fapi ("original legal tender"), a hypothetical, non-circulating, monetary unit devised by Yen. It was originally designed for wide application, but it has now been abandoned except for use in fixing rents. The Yuan Fapi is based on the 1937 value of a bolt of No. 3 cotton cloth in Taiyuan. Such a bolt in 1937 cost \$7.00 and at present costs CNC\$4,200,000, so the Yuan Fapi should be the equivalent of CNC\$600,000 now. Actually, however, the government has arbitrarily departed from their own formula and has set it at CNC\$200,000, thereby in a single stroke eliminating two thirds of the rent received by the building owners. According to the rents set by the government, the monthly rate per room for residential housing is \$0.40 for the highest grade and \$0.10 for the lowest grade, and for commercial housing it is \$2.00 for the highest and \$0.80 for the lowest. All rents are collected by the government directly from the building occupants, and the government then keeps eighty percent of commercial rents and forty percent of residential rents. The government theoretically uses this money for constructing new mass housing projects (of which five hundred units are said to have been built so far). On the remaining rent, a five percent tax is imposed for the relief of poor landlords and house owners (!). The balance is supposed to be returned to the owners. This means that a property owner is legally entitled to a maximum of fifteen percent (on commercial buildings) or fifty-five percent (on residential buildings) of a government-fixed rent, and he must accept that at a greatly undervalued exchange rate based on a fictitious monetary unit.

Interest rates are also controlled. At present the maximum rate allowed is two percent interest a day!

This comprehensive economic program is unique in Shansi and could only be carried out by a special body with unusual powers. The Shansi

Economic Control Bureau is just such a body, added to the provincial administration. It has been recognized and authorized by the Central Government, and in effect this gives Shansi economic autonomy which other provinces are not allowed. It is another example of the special relationship existing between Yen and the Central Government and of de jure recognition of de facto autonomy.

In addition to the Economic Control Bureau, and other special Shansi bodies which have no exact counterparts elsewhere in the country, the city of Taiyuan is the seat of more conventional administrative bodies which comprise the provincial and municipal governments. In general these bodies are the same as those in other provinces and cities in China, but even here Yen's individuality asserts itself. The Pao-Chia System is the standard administrative system adopted by the Central Government for the whole country, but Yen has another system which is similar in many ways but different in specific details. Until recently Shansi was given special dispensation for its peculiarities in this regard as in others, but last year the province theoretically changed to conform to the general pattern. Yen's own system actually is still in effect, however.

Yen started the Ts'un-lü System in 1922. It is the basis of administrative organization in the rural areas of the province. The smallest administrative unit is the lin, composed of five families. the next largest is the lü, composed of twenty-five families or five lin. The ts'un is a village. Everything to and including this level is organized from the bottom up, and the ts'un is a self-governing unit. Above that, however, are the hsiang, embracing one thousand families, and the hsien, or county, which are administrative units of some power and real importance, filled by provincial government appointees. In the city of Taiyuan itself the system is a little different. The smallest unit is the yuan, or courtyard. Above this are the lin, lü, and chieh (literally, "street"), the latter being the equivalent of the hsiang. The largest unit is the ch'ü, or district, of which there are sixteen, eight inside the city wall and eight in the suburbs.

The more conventional top-level provincial bodies are headed by men "appointed by" and "responsible to" the Executive Yuan in Nanking (I am not clear on the details of actual practice in these cases, but they are all Yen's men). These include the Governor (Yen himself) and eight commissioners who form the Provincial Commission of nine. Four of these men are heads of the Boards (T'ing) of Civil Affairs, Finance, Education, and Reconstruction. Below this are the Ch'u (Secretariat, Police, Treasurer, Auditor, Statistics, Social, Health) and Chü (Highways, Opium Prohibition, Water Conservancy), the former chosen by the Governor and appointed by Nanking, and the latter purely provincial officers responsible to the Governor (and in the case of water conservancy to the Board of Reconstruction).

Some of the numerous special bodies which Yen has set up to carry out his own programs are not officially recognized by Nanking, and

this fact makes necessary a certain amount of financial chicanery on Yen's part. He depends for his bank notes and for considerable financial support upon the Central Government. Because of this he has allowed a branch of the Central Bank of China to be established in Taiyuan (which he did not allow before the war). In many parts of China this bank is looked upon as a stronghold of conservative, or even reactionary, supporters of the government. In Taiyuan, however, because it is an important (and it is tolerated because it is important) Central Government agency, it is eyed suspiciously as being almost subversive. Its officials feel uncomfortable and unwanted. Practically its sole function, however, is to siphon bank notes into Yen's Shansi Provincial Bank which handles all of the province's monetary affairs. Every month the Central Bank of China brings in by air a large sum of money (recently about CNC\$400 to \$500 billion a month) which is given as a sort of Central Government subsidy to pay the troops and the salaries of officials and employees in the provincial government bodies which are recognized by the Central Government. The current basis for computing the monthly total is a salary index of 85,000 (government salaries in China now are adjusted periodically according to a cost of living index, and the salary index figure is multiplied by a basic, pre-war salary figure to get that actual salary) for everyone except civil officials and employees within the city of Taiyuan itself, the index for the latter being 200,000 because of the high cost of living. Yen, however, actually pays everyone on the basis of the 85,000 figure and uses the money thereby saved to pay the employees unrecognized by the Central Government. The Central Bank of China, incidentally, does not send any money out of the province. The CNC\$2 to \$3 billion which is all that the Central Government Direct Tax Bureau office in Taiyuan currently is able to collect each month in income and commodity taxes is hardly worth bothering about, and Shansi Province doesn't give the Central Government a share of its land tax receipts as specified in the national statutes.

My description so far of the theoretical policies of the Shansi government and the various bodies which administer them does not give any indication of how they really work and how the people of the province are affected by them. That is another, and a very different, story. On paper, much of what is being done sounds fairly progressive, but there is a terrible chasm between theory and practice. Most of the major policies such as redistribution of the land have been put into effect, but in ways disastrous to the average people. Yen's Shansi is actually a police state, ruled with an iron hand. It is a place of near-starvation, fear, and despair.

These assertions need supporting evidence. There is plenty of it, and even a visitor can collect it if he has contacts with non-official people. Interviews with such people usually have to be made in a conspiratorial atmosphere, however, to avoid exposing them to undue personal risk. I will not cite specific examples and sources for all the facts I am about to describe, but the facts came from sources which

are reliable.

The Soldier-Farmer Unification (together with the type of taxation which accompanies it) has imposed a terrible burden on the farmers in Yen's territory, and they are reported to be in almost universal opposition to it. There are many reasons for the system's unpopularity. The assigned land units often are not capable of providing support for the total number of people who must depend on them. The levying of taxes in many cases is based on an overestimate of the probable production of the land and/or an underestimate of the probable food needs of those who depend on the land. Persons outside the 18-47 age group are deprived of their means of existence, and these persons are often farmers who are still able to work the land and in many cases actually have land which is taken away from them. Farmers dislike being shifted arbitrarily from one piece of land to another. The local villagers often do not have any real voice in how the land is divided and apportioned. Furthermore, the natural conservativeness of most farmers makes them disapprove on principle of a system which disorganizes their existing life, prevents them from acquiring land which they can call their own, and forces them to move every few years. This is perhaps more true of Shansi than it might be elsewhere, for the percentage of tenancy has been relatively low in the past.

Despite these objections, however, the system might be bearable if the government's taxation policies were not so ruinous. Officially it is claimed that land taxation is based on Central Government regulations. The tax which these regulations (as described by Shansi officials) permit is not light in itself. For every twelve mou of "good land" (adjustments are provided for different qualities of land) provincial authorities may levy seven ^{of grain} tou (one tou is about sixteen and a half pounds) in a direct tax, seven tou in forced loans (on which payment is indefinitely deferred), and twenty-one tou for CNC payments by the authorities (which may be temporarily deferred - and thereby paid in depreciated currency). Of the straight direct tax, thirty percent is supposed to go to the Central Government, fifty percent to the hsien government, and twenty percent to the provincial government. The chief of the Shansi Land Bureau admits that under this system what a farmer receives in CNC amounts to the value of about eight tou when he receives it, so the real taxes amount to twenty tou. This is not too unreasonable, however. In practice, though, the whole system is ignored, and everything except the food necessary for bare existence is taxed away. In many cases even this limit is exceeded. The hsien authorities forcefully carry out the decisions of the provincial Board of Finance and the various tax collecting agencies, and the farmers have no recourse. If a farmer cannot meet the tax demanded, he has to sell personal possessions so that he can buy grain to turn over to the government. If a farmer has a surplus after regular payment of his own taxes, various methods are used to deprive him of it. One method is to make him pay the taxes of a neighboring farmer who cannot pay in full. Another is to give him payment in bolts of cloth, matches, or cigarettes and force him to "sell". When this is done the grain is usually undervalued and the exchange commodities

overvalued, and the farmers have difficulty converting the commodities into food or even money with which to buy food. Sometimes a farmer's grain surplus is simply requisitioned without such niceties.

One result of these taxation policies is that a considerable number of farmers have abandoned their land because it is not profitable to till it for returns which are too small to support them. Tracts of such abandoned land can be seen between Taiyuan and Taiku, and they exist elsewhere.

Partly as a result of all of these facts, the food situation for civilians in the Taiyuan region of Shansi under Yen is extremely critical. There is a threat of famine, and if it really develops it will in some respects be an "artificial famine". Even now many farmers are known to be subsisting on things such as husks of Kaoliang, wheat chaff, and ground up corn cobs. The food shortage is not entirely artificially created by the government's taxation policies, because there was a severe drought in the province last year which reduced the crop in some areas by fifty percent. Total rainfall was under ten inches, which is about five-eighths of normal, and even that came too late. But the tax policy is largely responsible for the plight of the farmers. Officials admit that military requirements come first and must be met regardless of other considerations. Yen's Chief of Staff says that military food stocks will not last out the army's grain year (which ends September 30) without replenishment from the new harvest, but non-official estimates of how long such stocks will last vary from one to nine years. Some people believe Yen is stripping the countryside to prevent the Communists from getting anything. Others think he is piling up food stocks at all cost for a long siege. A few people believe he is cornering all grain to make a huge profit by selling it at a later date. It is impossible, however, to find out what his actual stocks are. Efforts are being made, though, to bring in grain by air for civilian use, and some has been obtained - although it is completely inadequate to meet civilian needs.

Although people are not yet actually starving to death, local doctors say that dangerous signs of widespread malnutrition are increasing. Whether or not people do starve will depend on the size of this Spring's crops and the government's taxation policies in the future. The new crops, due in April-June, so far have prospects of being unusually good due to timely March snows which brought much-needed moisture at a good time, but the farmers are very much afraid that the tax collectors will arrive at the same time as the harvest. In regard to the critical food situation, General Yen made a radio address to the people on the day that I arrived in Taiyuan. He announced that no one in his territory needs to worry about starvation. Spring will soon arrive, he said, and there will be tree leaves and grass to satisfy all. This diet, however, does not seem to hold any great attraction for the farmers who see their wheat, kaoliang, millet, and corn beginning to come up in their fields, but there are already known cases of people who have been reduced to eating this diet.

The People's Economy has not been such a complete failure from the point of view of Shansi's citizens as the Soldier-Farmer Unification, but its results have been a mixture of both good and bad. The cooperatives do sell at prices below the open market price level. For example, in March, the price of millet and kaoliang are exactly one-half of the open market price. The March cooperative ration, however, only provides for fifteen days' food supply, and cooperative members must somehow obtain the remainder of their needs elsewhere by various means. One fear in regard to the cooperatives, furthermore, is that as soon as a complete retail sales monopoly has been achieved and private competition has been eliminated the government will be able to manipulate prices at will. This fear indicates the sort of attitude people have toward the government.

General price control has been completely unsuccessful, however. Prices of most commodities in the Taiyuan area are two to three times as high as in Peiping. They are probably the highest in North China. Actual interest rates are far above the theoretical maximum. The average rate on loans is about four percent a day! The existence of a black market of considerable proportions destroys the effectiveness of rationing in distributing existing supplies of commodities equitably.

Private monied classes have been almost wiped out by Yen's policies. In practice, owners of agricultural land receive no rent. Owners of city property sometimes receive rent, but it is almost nothing when they get it. Business men have to compete unequally with government monopolies and contend with government controls and restrictions. Taiyuan still has considerable general economic activity because it is the center of government-owned industry, but outlying towns are stagnating. Taiku, the home of H.H. Kung, is one example. It formerly was the banking center of Shansi, and Shansi had the reputation of providing most of China with bankers. It was a rich city. Today, shuttered business establishments line its dead main streets. Buildings, streets, in fact almost everything, not only in Taiku but in Taiyuan itself, look run-down and in need of repair. Private entrepreneurs aren't making money under these conditions. Nonetheless, they are periodically "requested" to "contribute" specified sums of money to the government. Because of all these things, many of those who can do so are leaving the province.

All of these economic facts give only a partial picture of the way in which the people are affected by Yen's regime. Government controls and interference reach almost everything they do, and the practices of a police state are accompanied by police state trappings. Everywhere one sees groups of men, women, and boys being publicly, lectured, drilled, and given political indoctrination. Passes are required for almost any activity, and they make travel difficult almost to the point of being impossible for most people. For example a person not only needs a special pass to enter the city of Taiyuan

but he must also have guarantors willing to attest to his political reliability and he must have an additional pass to buy foodstuffs once he enters the city. Every household must make complete and detailed reports to the police about any visitors. Political slogans, many of which the people have to memorize, have almost displaced commercial advertising on walls and buildings. Political meetings with compulsory attendance are held frequently. People are subject to all sorts of forced labor without recompense. Groups of laborers of this sort can be seen building pillboxes, digging trenches, or working on the new airfield Yen is building closer to the city wall than the existing one. Sometimes the entire population of a village or city must perform forced labor. Practically the only activity I saw in or near Taiku, apart from trench digging by labor gangs near the railway station, was brick-carrying by men, women, and children. An order had just been issued that everyone in the city had to carry two hundred bricks within a ten-day period from certain brick piles to specified sites where new pillboxes were to be built. This work was not counted as a part of the twenty days unpaid labor which everyone is legally required to perform for the government each year. Arrests of people suspected of political disloyalty are frequent and arbitrary. And a much-dreaded secret police force reaches into the privacy of virtually every individual's life. Freedom of speech does not exist, because any grumbling or criticism leads to suspicion of political motives. Thought control is the objective of government propaganda. Teachers in schools are gradually being given special indoctrination. And Central Government textbooks have been replaced by provincial textbooks in which even language lessons are based on readings about the People's Economy and the Soldier-Farmer Unification. Shansi University, theoretically a national institution, has a bad reputation even within the province. When student political demonstrations sweep the country, Shansi University students are conspicuously quiet. The academic standards of the institution are said to be very low.

The most recent innovation, however, is the Three "Self" (San Tzu) program, consisting of Self-Purification (literally, in Chinese, "self-whitening"), Self-Defense, and Self-Government. Self-Purification is the core of the program. It is handled by Liang Hua-chih, one of the nine provincial commissioners, who has the reputation of being Yen's strong-arm, secret police man. Every man, woman, and child over the age of thirteen within Yen's territory must go through the process. It consists of three stages and altogether takes three to four hours every day for a period of thirty days. There are slight variations in the number of days allotted to each stage, but generally they are about ten days each. The first stage is one of political indoctrination. The second stage is one of confession during which each individual must relate everything he or she has done, which might have any political significance, since the age of thirteen - or since the date when Communist activities in Shansi first began. The final stage is "Tou Cheng" or "Common Struggle" in

which the people accuse, sentence, and punish those guilty of collaboration with the Communists. The process is carried out in small groups, such as the members of a village or an administrative district. The objective of the meetings is to root out all Communist sympathizers, and collaboration with or sympathy for the Communists is the crime which the process is designed to uncover. A person who confesses and repents, however, is supposed to be forgiven, but must go through a special training course. The unrepenting criminals are sentenced by general agreement of the group. The sentence is usually slow death by beating with sticks. Liang, and other government officials including Yen himself, blandly explain that this is spontaneous enthusiasm on the part of the people and that popular justice cannot be interfered with by the government, even if it is somewhat crude. Actually, it is an indisputable fact that the meetings are planned, scheduled, directed, and manipulated by the government. Special authorities handle them. I myself was an uninvited spectator at one of the meetings (not a violent one) and saw it managed by men who were well identified by red ribbon badges and who explained to me their managerial duties.

This form of "popular justice", including the term "Tou Cheng", was borrowed directly from the Communists, as were other aspects of Yen's "reforms". I do not know how it works in Communist territories, but in Yen's region it is primitively medieval. In effect, it produces a reign of terror. A person never knows who might accuse him of disloyalty, or on what grounds, or for what motive. Not a few suicides and suicide attempts have resulted simply from the strain of the process - evidence of which I saw in local hospitals. The actual number of sentences and killings is probably relatively small when the number of people involved is considered, but it is large enough to impress the population as a whole. On one particular day this year, for example, over one hundred persons were beaten to death in several villages in the vicinity of Taiku. In some cases the brutality is heightened by the fact that the villagers (or other group members) are forced to do the beating themselves.

One explanation for this sort of policy undoubtedly is a real fear on the part of the government of Communist underground activities and infiltration. Yen himself apparently has almost no confidence now in the loyalty and support of his people. In a somewhat amazing way he sums up the reliability of his support as follows. In Communist territory, he says, about seventy percent of the people (the poor) actively support the Communists because they are offered material rewards and the other thirty percent (the well-to-do) support them because of coercion and fear. In his own territory, he adds, the seventy percent may be attracted by the Communists' bait, and the thirty percent may be politically apathetic. If this is true, it is difficult to see where it leaves Yen. He goes on to say that this situation can only be changed by a reawakening of the people, which his policies presumably are designed to bring about. It is true that many people in Yen's territory have had some past contact with the

Communists. This is not surprising. During the war against Japan much of Shansi was under the Communists. The population of Taiyuan, now estimated to be about 300,000, has grown by about two to three times its prewar size, and many of these newcomers were at one time in areas under Communist control. Furthermore, large numbers of refugees still come over from Communist territory. In one lü in Taiyuan, for example, out of 160 persons involved, 140 confessed some past connection with the Communists. In one refugee camp, out of a total of 597 refugees, 57 had at one time been members of the Communist Party, and over 200 others had held some sort of office under the Communists. The Three "Self" program is Yen's method of trying to uncover, suppress, or frighten away disloyal elements.

A regime such as Yen's does not evoke great popular support and enthusiasm. It is somewhat surprising that there are not many hints or indications of active underground opposition or pro-Communist tendencies. Persons with close contacts among the people explain that the people fear the Communists at least as much as they do Yen's regime and possibly more. One indication of this is the stream of refugees coming into the area. A relief representative in Taiyuan states that there are 37,000 refugees camped around the city wall of Taiyuan and perhaps as many as 700,000 in the whole area under Yen. Stories emanating from refugee groups (and from at least one foreign missionary who was recently released by the Communists) indicate that the Communist regime in Shansi presents no desirable alternative to Yen's rule. Their land policy as described to me by an ex-Communist Party member, now a refugee, seems to offer little to the average farmer. This particular man told me that his land was reduced from twenty mou (small for Shansi) to six mou, which can be compared to a probable average of forty mou distributed to able-bodied men under Yen's system. The anti-Communist propaganda put out by the Shansi government undoubtedly also has some effect on the people. It is strong stuff, often crudely pornographic in its representation of Communist tortures. The people in Shansi, in short, are caught between the devil and the deep blue sea. The lack of any real opposition group in Yen's territory seems to be due not only to the degree of police-state control, but also to the absence of any popular rallying point for opposition to Yen's regime.

Throughout this report I have constantly referred to Yen's area, Yen's government, and so on. One reason for this has been the necessity to distinguish the area under his control from the Communist areas in the province. Another reason, however, is the fact that the government and the territory under it are in many respects Yen's personal domain. The structure of power is that of a hierarchical pyramid, and Yen occupies the apex. The power of final decision is highly centralized, and persons who know Yen well say that he has a finger in every pie. Despite his age, he is robust and active and is said to make personal decisions on many matters of detail which in a different sort of government would be delegated by an executive to his lieutenants and subordinates. Despite this absolute supremacy, however, Yen does

rely on an important body of close supporters. Most of his supporters depend completely upon Yen for their livelihood, position, and whatever power they have. The broad base of Yen's support is his own political party. This party, organized in the city of Linfen in 1938 during the retreat from the Japanese, is called the People's Revolutionary Comrades' Party (Min Tsu Ke Ming T'ung Chih Hui). It is claimed to have had a total of 800,000 members, 200,000 of which are said to be in Yen's territory at present. Yen's top officials say that the party is connected with the Kuomintang, but the connection appears to be tenuous and not very important even though it is true that members of the Comrades' Party can be and sometimes are simultaneously members of the Kuomintang. The Kuomintang itself has branch party units in Yen's area, but its members are few, and it is really an orphan organization there without any real power.

Members of the bureaucracy and army form a numerically smaller and more closely-knit core of group support for Yen, because these men are dependents of Yen's in almost every way. The quality of this group of men is difficult to judge. A man close to government circles claims, however, that as a group they are certainly not free from the taint of corruption. This man claims that the small circle of top officials around Yen probably is fairly clean in this respect because they are under the vigilant surveillance of Yen, but he asserts that Yen himself has accumulated and is still accumulating personal wealth outside of the province and that many minor officials and bureaucrats are profiting from corruption on a small scale. It is significant that no complete provincial budget or accounting is made public.

The inner circle of Yen's support is a somewhat mysterious group called the thirteen Kao Kan (which might be loosely translated as "top bosses"). This is an informal group which is said to advise Yen on all important policy matters. Its existence is secret (although it is somewhat of an open secret) and people do not talk about it. It is not mentioned by government officials, and it is difficult to get a list of its members. Some of the thirteen are said to be members of the group by virtue of their governmental position, while others hold jobs which sound rather unimportant but exercise real power behind the scenes. A few of the group have had affiliations of various sorts with the Communists in the past, which may be one explanation for Yen's eclecticism in regard to Communist methods. People in Shansi do not venture to name Yen's probable successor, because his present power eclipses that of all his subordinates, but if a successor is being groomed he is probably one of this group. Because these men bear watching in the future, I will list their names: Yang Ai-yuan, Deputy Commander of the Taiyuan Pacification Area; Wang Ching-kuo, Sun Ch'u, and Chao Ch'eng-huan, all three of whom are military commanders; Kuo Tsung-fen, Yen's Chief of Staff; Ch'u Hsi-ch'un, at present absent as Governor of Hopei Province; Wu Shau-chih, who holds a post in the Pacification Area office; Li Chiang, Shansi Commissioner of Civil Affairs; Wang P'ing, Shansi Commissioner of Finance; Liang Hua-chih, Shansi Commissioner without portfolio; Po Yü-hsiang, chief of the Land Bureau; Wang Huai-ming, Chairman

of the Provincial Council (which, like the Taiyuan City Council, is an elective body with purely consultative powers and not much practical importance); and Meng Chi-feng, an assistant of Liang Hua-chih. Some people apparently feel that Liang ranks closest to Yen in power and influence.

The future of Yen's regime is pretty much of a question mark. It is hard-pressed and seems to be built on sand in many respects, but it undoubtedly will not collapse by itself. Independent military observers whom I have talked with seem to feel that the Communists could take the Taiyuan area if they wanted to expend the necessary effort, but that the costs would be considerable in spite of the quality of Yen's troops. They feel that for this reason it stands low on the Communist priority list of objectives and probably will be by-passed for some time to come. This is the belief of Yen himself as well as many of his top officers and officials who frankly admit that they are not thinking at all in terms of offensive action against the Communists. Yen wants the U.S. to declare war on Russia immediately, and he doesn't mind saying so. Yen and his supporters openly assert that a third world war is inevitable, and they wish it would come soon. They believe such a war will defeat world Communism, and along with it Yen's enemies in Shansi Province.

If the Communists do decide to make a serious effort to take the Taiyuan area earlier than most people seem to expect at present, the lure will undoubtedly be the "industrial empire" located in and around the city of Taiyuan. This industrialization is the most impressive accomplishment of Yen's regime. It is almost unbelievable to see large factories going full blast and huge shops containing hundreds of machine tools turning out complicated metal products in an area surrounded by mountains and Communists.

Almost all industry in Yen's territory is a part of the Northwest Industrial Company, a government monopoly controlled by Yen himself through a board of directors and the company's head, P'eng Shih-hung. This company is an interesting organization started in 1932. It is supposed to be a "people's enterprise". The original capital of (prewar \$) CH\$30,000,000 theoretically was subscribed to in the following manner. Quotas of the 30,000 stock shares were assigned to each hsien in the province, and the people collectively purchased the stock and elected representatives (a total of 501) as stockholders. Even according to the company's charter and laws, however, no dividends were to be distributed on this stock for forty-two years! On the surface of it this is ridiculous, and a man who should know says that the capital came directly from government funds and there are no "stockholders" in reality. All profits are reinvested in the company - or at least none have been openly distributed.

The company was developed between 1932 and 1937, and at the end of that period it had fifty-one factories. During the war, however, the Japanese who occupied Taiyuan operated only a few of the industries and ultimately removed 3700 out of a total of 4000 machines.

At present thirty-six plants have been restored and are operating. They employ about 25,000 workers. Production is geared primarily to Yen's military requirements, but some consumer goods are produced. The company's products include the following: iron, steel, cement, chemicals, leather goods, paper, matches, cigarettes, alcohol, woolen goods, cotton goods, and flour. Amazingly enough, a full-size 2-4-2 locomotive has been completed. Although all the industry is impressive, it is the metals and heavy industry which are most astounding. Shansi has the richest coal deposits in China Proper, and all the necessary raw materials for a steel industry (except specialized steel alloys) lie within a radius of thirty kilometers of Taiyuan. At present the daily production of coke, pig iron, and steel is 180 tons, 50 tons, and 50 tons respectively. In addition, almost all of the machine tools at present being used in the Taiyuan area were produced there on the basis of Japanese, German, and U.S. models. The top technicians in the Northwest Industrial Company, incidentally, are Chinese, but there are six or seven fugitive Nazis serving as technical advisors and a fairly large number of Japanese technicians and mechanics. (As a footnote, I will add that one sees many Japanese, a few in uniforms with insignia, on the streets of Taiyuan. They appear to be completely accepted by the Chinese without resentment. There is even a Japanese newspaper for them. Officials deny rumors that Japanese are still serving as troops under Yen, but some non-official sources assert that they are.)

In connection with the Northwest Industrial Company's activities, a fantastic import-export trade is going on by air in commercial carriers between Taiyuan and other Nationalist areas. Imports include raw materials such as cotton, tobacco, and oil and specialized goods such as steel alloys and dyes. Exports include chemicals, steel products, and cement - shipped out by air!

The operating industrial center at Taiyuan could be an extremely valuable arsenal for the Communists, and this fact might inspire them to turn their attention toward Taiyuan sooner than some people expect - particularly if they are successful in their current military campaigns in surrounding areas.

For the present, however, Yen Hsi-shan still rules in Taiyuan. His character is a complex and many-sided one. In some respects he appears to be the most notable surviving relic of China's warlord era. In other respects, superficially at least, he shows surprising modernity. He professes to be a reformer, and it is possible that he has convinced himself that his reforms are progressive, even though he is not unaware of at least some of the tragic results of his policies. Personally he is witty, charming, and delightful.

If some aspects of his character are confusing, however, one thing is absolutely clear. He is an extremely shrewd old man. Some people suggest that he may come to terms with the Communists

when the time is ripe. Although this seems unlikely (the Communists would probably be wary of such an alliance, especially since the tide is now running in their favor, even if Yen were amenable), Yen's imagination does not seem to have disappeared, and he may have a trick or two up his sleeve yet.

A man who knows Marshal Yen well, and for many years was closely associated with him, says that his egotism and his lust for personal power have increased during the past few years. It doesn't seem likely that he will disappear from the Shansi stage if he can possibly hang on. Even if the curtain does fall on his thirty-seven year-long performance, he will not be soon forgotten, for the imprint and memory of his rule will be indelible for many years to come.

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