



## December 24, 1949 Report, Kovalev to Stalin

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### Summary:

Kovalev discusses several questions on the policy and practice of the CCP CC. Topics include: data on the economic situation in the country, the Chinese working class, the Chinese peasantry and the land reform, the CCP, the Chinese press, the Chinese state apparatus, the Chinese army, the Chinese intelligentsia, the Chinese attitude toward the national bourgeoisie, the Chinese attitude toward foreign capital, the class struggle in China, and Chinese foreign policy.

### Original Language:

Russian

### Contents:

Translation - English

To Comrade I. V. Stalin

Reporting to you on some questions of policy and practice of the CC of the Chinese Communist Party.

1. Some data on the economic situation in the country.

You advised the Chinese comrades to "pay special attention to the restoration and development of the national industry, including the industry which is in the hands of the national bourgeoisie."

One should note that in this respect substantial results have not been achieved, with the exception of Manchuria, and the country is undergoing great economic difficulties.

The volume of production in the main branches of industry is still sharply behind the level, reached in the years of maximum production output. So, for instance, coal production in 1949 will amount only to 33.5 million tons as against 58.7 million tons in the year of maximum production (1942) or 57%.

At the metallurgical plants of Manchuria, which comprise the main metallurgical base of China, production of pig iron will not surpass 150-170 thousand tons or no more than 7% of the plant capacity at the maximum production level (1942), and of steel production 120-150 thousand tons accordingly, or no more than 11% of the steel-making machine capacity.

Production of electrical power at Manchuria's electricity stations, the ratio of which to China's determined capacity is over 50%, in 1949 will not exceed 1400 million kilowatt-hours, or 31% of the maximum electrical energy production in 1944.

The situation in other branches of the industry is no better.

Newly created industrial ministries still have not taken into their hands the management of state enterprises, do not know the plants' capacities, the character and the volume of products which they manufacture, have not ascertained [the whereabouts of the] unused equipment, located in the ports and warehouses and numbering several thousand machines (cities of Shanghai, Canton, Hankou etc.), and have not taken any measures to establish state control over the work of private capitalist enterprises.

In agriculture in 1949 40% of the harvest was destroyed as a result of drought and floods, which creates great food difficulties with regard to the provision of foodstuff to the population, especially in the cities, and which sharply reduced export possibilities.

A better situation materialized with the railroad transport, where in 1949 some 2,650 km of the tracks and 1,355 bridges amounting to 13,550 meters were restored, which allowed to provide for the movement of trains on the roads of northern, central and southern China, along the length of 9,700 km, to restore movement on the most important lines of advance of the People's Liberation Army, as well as to connect northern regions of China with central and southern China.

Wholesale and retail trade, with the exception of Manchuria, is almost fully in the hands of the private trader, which takes away the state's ability to exert any kind of influence on the condition of the market and on the market prices, leads to serious difficulties with the supply of the population with some goods, especially grain, and

creates favorable conditions for speculation.

The ratio of state and cooperative trade in the general turnover is appraised at merely 5-8%.

No serious measures to widen and take over by the state of the wholesale trade, as well as to widen state and cooperative trade in the retail turnover, are yet being taken.

In the sphere of external trade the state merely established control over the import and export of goods.

State finances and monetary circulation are in a completely unsatisfactory state.

At the present time there is still no all-state financial, credit and monetary system. There is no unified state budget of China, and there were no unified budgets for separate economic regions. There were merely separate budgets of each local organ of the state power. The aforementioned budgets had large deficits, which were covered by the emission of paper money.

For example, in the 9 months of 1949 the budgetary deficit amounted to: 11% in Manchuria, 35.1% in northern China as a ratio of the total income.

Budgetary deficit for 1949 was determined as being, for central China—29.2%, and for northwestern China—43.2%.

At the present time China does not have unified money. 10 various types of money are in the circulation on the liberated territory (yuan of the People's Bank of China, yuan of the Northeastern Bank, money emitted by the former banks of some liberated regions, yuan of the Inner Mongolia and Kwantung area banks, Xinjiang dollars, Guomindang money, the exchange of which is not over yet).

No measures are being taken to regulate money circulation. Large-scale emission of money continues. As of 1 November 1949 there were 1401 billion yuan of the People's Bank of China and 9972 billion yuan of the Bank of the Northeast in circulation, while only in October 1949 664 billion yuan of the People's bank and 1120 yuan of the Bank of the Northeast were put in the circulation. There was also emission of money on substantial scale in November 1949.

Increase in the circulation of money, emitted to cover budgetary deficit, resulted in the systemic increase of goods prices, in the drop of the purchasing power of money, and in the depreciation of its rates in relation to foreign currencies.

The price of one jin of foxtail millet increased by 1 November 1949 in comparison with 1 April 1949 15.3 times in Beijing, 14 times in Tianjin, and the price of rice, accordingly, 13.8 times and 11.5 times. Large increase of prices took place for all other foodstuff and industrial goods in the aforementioned and other cities of China.

In November, in comparison with the end of October 1949 prices again increased 3-4 times for foodstuff and 2-3 times for industrial goods.

The official rate of the People's Bank of China yuan in relation to the American dollar on 25 November 1949 fell 16 times in Beijing and Tianjin in comparison with 18 April 1949, the day the rate was first established.

The Central People's government adopted a budget with a large deficit for 1950, equal to 5623.8 tons of foxtail millet, or 18.9% to the total volume of expenditure. A part of this deficit in the amount of 2150 thousand tons of grain is supposed to be covered by the emission of internal debt, and the rest of the sum by additional emission of money.

One's attention is drawn to the excessively large ratio of allocations for military expenditures—38.8%, and for administrative-management expenditures—21.4% from the total sum of budget expenditure. It is characteristic that the Central People's government does not intend to reduce the military forces in 1950, and the state apparatus, which is already very overblown at the present time, is supposed to be increased by 1.5 million people, this being motivated by the aim of not allowing the increase in the number of the unemployed.

Therefore, the data provided testify to the fact that in 1950 the Central government will still not create necessary economic prerequisites for serious normalization of monetary circulation.

With regard to the work of the banks, no serious measures are being taken to limit the activities of private banks, including foreign ones.

## 2. On the working class

You advised in January 1949 to “win over to the side of the Chinese Com[munist] Party the majority of the working class,” and drew special attention to the necessity of “strengthening political work among the Chinese working class and creation of material and other conditions, under which the working class would feel that it is the ruling class and possesses the power.”

Since then the CCP CC has not taken any kind of radical measures in this direction.

The situation for the workers has improved somewhat merely at some state enterprises, the railroad transport, mines and metallurgical plants, located on Manchuria's territory.

In other regions the working class, having obtained political freedom as a result of the defeat of the Jiang Jieshi regime, does not feel the improvement of its material circumstances and as before remains in the conditions of semi-hungry existence. Suffice it to say that in the law provisions on labor published in the beginning of December 1949 the length of the working day is set at 12 hours. The same law provisions indicate that “...In the newly liberated regions businessmen must maintain former rates of pay, which existed three months before the liberation of a city, workers cannot demand a pay raise at the low-profit enterprises.” Therefore, the salary of the workers also remained without change and as before maintains a semicolonial character. So, for example, the lowest, literally beggar's salary, exists in the mining and metallurgical industry, and the highest—for postal officials and textile workers.

No laws have been passed yet about the protection of labor of workers and on social security. As for the “Rules, regulating relations between labor and capital” approved by the All-China Federation of Labor in January 1949, they not only fail to develop the main principles, established by the general program of the Political Consultative Meeting but in essence reduce them to naught.

Necessary measures are not being taken to attract workers to study at secondary and higher educational institutions and to prepare engineer and technical cadres

from among workers. Leading circles of the Chinese Communist Party as before underestimate the role of the working class in the revolutionary transformation of the country.

### 3. On the peasantry and the land reform

In 1926 you said that "...Among the Guomindang and even among the Chinese communists there are people, who do not consider it possible to unveil revolution in the countryside, fearing that involving the peasantry into the revolution will undermine the united anti-imperialist front. This is the deepest delusion, comrades. The sooner and more fundamentally the peasantry is involved in the revolution the stronger and more powerful the anti-imperialist front will be."

Relying for many years on the peasantry as the main force, by which the People's Liberation Army was created, and as a source of material supply of the army, the communist party of China at the same time manifests indecisiveness and apprehension in the conduct of revolutionary activities in the countryside.

By the present time land reform had been conducted merely on Manchuria's territory and some long liberated regions of Northern China with a population of slightly higher than 100 million.

On other territory not only has agrarian reform not been implemented but even the high land rental rates, still charged by the landholders from the peasants, have not been cut back.

The leading organs intend to begin organizational conduct of the land reform in 2-3 years.

In connection with this, peasants in the localities frequently begin re-division of land in spite of the central authorities, without waiting for permission. This lowers the authority of the Chinese Com[munist] Party and the government among the peasantry.

A fallacious "theory" became widespread among a certain part of the communists and in the leading circles of the com[munist] party that new kulaks, who appear after the conduct of the land reform in the previously liberated regions, are a revolutionary force, supporting the com[munist] party and the new government.

### 4. On the party

You advised "...by means of strengthening mass political work in the cities to widen the ranks of the communist party by drawing on the working class, to create strong party organizations at factories and railroads."

However, the growth of the party in the working class has been inconsequential up to now. No active work is being conducted to attract workers into the ranks of the party. Party organizations to a considerable extent are polluted by landlord-kulak and bourgeois elements; party recruitment in a number of regions is conducted in an indiscriminate manner.

According to the data of the CCP CC 80% of the entire party membership is made up of peasants. In eastern China only 414 of 34835 party cells are factory-plant party cells. In northern China only 4.1% of party members are workers, and 85% are peasants. In the party organization of Shandong province alone there are more than

10,000 landlords, kulaks and merchants.

As for party tenure, more than a half of CCP members are young communists, who joined its ranks after the defeat and capitulation of Japan. In northern China 54% of all members of the party joined its ranks after 1946.

General educational level of the majority of the CCP members is exceedingly low. In Northern China 60.9% of all communists are completely illiterate, 13.6% are poorly literate, and only 19.7% graduated from the elementary school.

In the ranks of the party, including the members of the CC, there are people who were formerly disposed in a pro-American and anti-Soviet way, whom the leadership of the CC now supports. Thus, for example, Peng Zhen, member of the CCP CC, secretary of the Beijing party committee and deputy chairman of the political-legal government committee, Lin Feng, member of the CCP CC, deputy chairman of the Manchurian government and a member of the Central People's government, Li Fuchun, deputy chairman of the Manchurian government, Li Lisan, minister of labor and member of the Central People's government, Bo Yibo, minister of finance, member of the CCP CC and deputy chairman of the financial-economic committee under the government and others. At the same time, the chairman of the Manchurian government, member of the CCP CC Gao Gang, under whose leadership undeniable successes were achieved in the economic and cultural development of Manchuria, suffers from unjustified criticism, and an unhealthy environment had been created around him. This criticism is spearheaded and organized by CCP CC secretary Liu Shaoqi.

It deserves attention, for example, that Bo Yibo, as the minister of finance, voluntarily (Zhou Enlai told me about this with indignation), without the knowledge and permission of the CC, allowed in October 1949 the emission of 664 billion paper money (in yuan), which led to a sharp drop in the rate of the yuan, a 3-4 times increase of prices for all kinds of goods, lowering of real wages and caused sharp discontent of workers, peasants and cadres.

Besides, Bo Yibo twice sanctioned the increase of the railroad tariff for cargo shipments (each time by 200%), which led to a situation when 12 types of cargos, from the 20 transported by the railroad, including basic foodstuffs and consumer goods, became unprofitable to transport; transport became underused, food problems emerged in the cities, prices rose again.

Minister of Labor Li Lisan, known in the past for his Trotskyist activities, proposed in June 1949 to create the league of entrepreneurs for organized protection of their interests in connection with the massive demands by the workers about improving conditions of labor.

In November 1949 during the work of the conference of professional unions of Asian countries, in the presence of Liu Shaoqi, secretary of the VTsSPS (All-Union Central Union of Professional Unions of the USSR) Solov'ev, and my own [presence], Li Lisan spoke out against the creation of a liaison bureau of Asia's professional organizations.

Serving as the deputy chairman of the All-Chinese Federation of Labor Li Lisan was one of the initiators of adoption and publication in the newspapers of the "rules, regulating relations between labor and capital," which go against the general program of the political consultative meeting and worsen the conditions of workers at private enterprises.

5. On the press

From September 1949 there has been a sharp decrease in the publication in the press of materials, shedding light on the party life, work of party organizations to involve workers in the party, struggle of the party for the strengthening of the people's democratic dictatorship and the implementation of revolutionary reforms.

This is done to appease the bourgeois capitalist elements inside the country and abroad.

## 6. On the state apparatus

You advised in June 1949 "not to delay any longer the formation of the Central government... China is left without a government. And this is dangerous from the point of view of internal politics, and also dangerous from the point of view of the international situation."

In September 1949 the Central people's government was formed at the political consultative meeting, which amounts to a coalition of various democratic parties and groups.

In October 1949 central government organs were formed composed of 37 ministries and other central government institutions. Of these 22 are headed by communists, and 15—by representatives of other parties and non-party bourgeois democrats, including such reactionary elements as former Guomindang generals Fu Zuoyi and Chen Jian.

Communists head main leading ministries and central institutions: the State Administrative Council, People's Military-Revolutionary committee, Financial-Economic Committee, Political-Legal Committee; ministries—of Foreign Affairs, State Security, Internal Affairs, Finances, Trade, Heavy Industry, Fuel Industry, Textile Industry, Foodstuff Industry, Railroads, Labor; Supreme People's Prosecutor's Office, Main Directorate of Information, Main Directorate of Press Affairs, People's Bank, Main Customs Directorate, Nationalities Committee and Legal Drafting Committee.

Representatives of the Guomindang Revolutionary Committee head: Ministries of Post and Telegraph, Ministry of Health, Committee for Chinese Emigrants Abroad.

Representatives of the Democratic League head: Ministry of Transport, Ministry of Justice, Supreme People's Court, Main Directorate for Publishing Houses' Affairs. Committee for People's Control is headed by a representative of the Association of Three Principles of the People, Ministry of Enlightenment—by a representative of the Society for Democratic Movement, Ministry of Light Industry—by a representative of the Society for Democratic State Building. The five remaining ministries—of Agriculture, Forestry, Culture, Irrigation and the Committee for Enlightenment and Culture are headed by formally non-party progressive politicians.

Among the deputy ministers and heads of central government institutions there are 57 communists and 35 representatives of other parties and non-party persons.

Filling vacancies in the government apparatus is taking place exceedingly slowly. In the majority of ministries and central institutions apparatus is less than half full, and in some ministries, for example those of light industry, textile industry, forestry, [and] labor, there are no officials at all except for the ministers and their deputies.

Creation of organs of state power in the localities almost has not been embarked upon yet. These activities are continued by either frontline military-administrative

organs, or administration is carried out by the apparatus of the former power, consisting in the overwhelming majority of cases of the Guomintang-ists.

Therefore the apparatus of executive power has not been created yet, as a result of which the central government does not carry out centralized management of the whole country, and many of its decisions still remain merely declarations.

#### 7. On the army

You advised not to cut back the size of the military for the time being. This advice of yours was implemented by the CCP CC. The People's Liberation Army at the present time has grown considerably and counts about 6 million of soldiers and officers.

However, one should note that a substantial part of soldiers and officers of the People's Liberation Army are former Guomintang-ists, who were either captured or voluntarily, in entire detachments, took the side of the People's Liberation Army.

The number of the Guomintang-ists, for example, in some military units of generals Chen Yi and Liu Bocheng reaches 70-80%, at the same time former Guomintang-ists are not dispersed among the tried cadre units of the People's Liberation Army, but are kept in their ranks almost in the same shape, in which they were captured. A small number of command-political workers from the cadres of the People's Liberation Army were appointed to these former Guomintang units. A situation like this conceals a serious danger from the point of view of stability and commitment of the military forces to the cause of the revolution.

#### 8. On the intelligentsia

You advised the Chinese communists to "create their own intelligentsia, so as to fully take control of the country. To teach in the schools, educate in the communist spirit the workers, peasants and democratically-inclined intelligentsia."

The Chinese intelligentsia by and large positively views the policy of the com[munist] party. However, after the declaration of the People's Republic many intellectuals took a wait-and-see position, watching the first steps of the new government. Such a position is partly explained by the fact that a part of the intelligentsia cannot yet find use for their knowledge, and elementary material conditions have not been created for those who work. The wages of specialists of high qualification are equal to the wages of low-qualified workers, or even less. There are instances when, because of material insecurity university professors and docents work as lifters and rickshaws at night, take up petty trade and commercial activities. Some intellectuals have a false impression that they will not find use for themselves and end up excluded from creative activities under the new regime. Slow attraction of the national intelligentsia to active creative work gives certain basis for such suppositions and creates a fertile ground for increasing the activities of reactionary elements and agents of Anglo-American imperialism hostile to the new regime.

The CCP CC has not yet taken a serious policy to prepare its own intelligentsia from among the workers. Workers are not drawn to the communist university, now being organized in Beijing since the leadership considers them insufficiently mature, illiterate, politically backward and allegedly not active participants in the revolution.

#### 9. On the attitude toward the national bourgeoisie.

You advised the Chinese communists "not to push away the national bourgeoisie but draw them to cooperation as a force, capable of aiding the struggle with the



imperialists. Advised to encourage trade activity of the national bourgeoisie both inside of China and on the outside.”

The CCP CC widely implements this advice of yours in its activity. However a considerable part of the national bourgeoisie eyes cautiously the activities of the new government and expresses doubts that its rights, declared by the political consultative meeting, will not be infringed, manifests caution in the use of their capital in the industry and trade, fearing nationalization. This finds its expression in a partial cut-back of production, the wrapping-up of trade and commercial activity, hiding of goods-material valuables. On the other hand, the lack of any kind of limiting measures with regard even to the big national bourgeoisie creates conditions for the intensification of its reactionary activity. Even the not so high a tax on the trade turnover, established for 1949, has not been collected for 10 months in all the newly-liberated regions, including Beijing. The state monopoly on salt, tobacco and alcoholic products across the entire territory of the country has not been introduced. No determined struggle with the reactionary and speculative elements is being conducted.

#### 10. On the attitude toward foreign capital

You gave advice that “one must not refuse trade with the capitalist countries on the condition, which would not place such economic and financial responsibilities upon, which could be used for limiting the national sovereignty and for strangling the Chinese national industry.”

It is necessary to report that the Chinese trade and industrial circles are prepared to conduct trade with any foreign merchants, for as long as it gives them profit. At the present time the Chinese government has not introduced any limitations on the international trade, as well as on trade by foreigners inside the country. Moreover, there is a policy of flirting with regard to foreign capitalist enterprises and trade companies. No kind of a tax regime or any other limiting measures are being implemented. Foreign enterprises in all respects are put in the same conditions as national trade and industrial enterprises. Foreigners conduct themselves differently in China.

In Shanghai American firms, in whose hands are the energy enterprises, immediately after the transfer of power to the people's government doubled the prices for electrical energy, provided to the national Chinese enterprises, having left without a change prices for industrial and trade enterprises of foreign capital.

#### 11. On the class struggle

A serious danger for the cause of the revolution and the Chinese Communist Party is concealed in the views, which have gained currency recently among party members, to the effect that with the full victory at the fronts class struggle will not die out inasmuch as the new government will draw to economic cooperation all segments of the country's population, including the national bourgeoisie.

Liu Shaoqi, in particular, shares such a point of view. In reality many facts speak to the sudden sharpening of the class struggle in all areas.

Class struggle is currently unveiling with particular force on the economic front. Using the fact that the government lacks in its hands effective means of influence on market relations, class-hostile elements inflate the prices for goods, create an artificial goods deficit, buy up and hide grain thereby causing discontent in the population and undermining the authority of the new government.

Nothing else but economic sabotage was the emission in October 1949 of 664 billion yuan of paper money, which resulted in upsetting money circulation, sharp increase in prices for goods and worsening of the material conditions of workers first and foremost; one must count among similar enemy attacks the increase of the railroad tariff fourfold in a short period of time, which was aimed at the disorganization of railroad transport and normal cargo turnover.

In the month of September, just at the time of the work of the political consultative meeting, a powerful turbine at the state power plant in Beijing was put out of service. On the day of the Soviet Union's recognition of the People's Republic of China a turbine of 70,000 kilowatt capacity was put out of service at the country's largest Jilin power plant. On 1 May 1949 the tramway park of Beijing city was set on fire. In the meantime in Tianjin there was an explosion of ammunition warehouses. The desire of some Chinese comrades to look upon these facts as purely coincidental can only be explained by political blindness.

There is information about the reactionary elements' resort to terrorist acts. In the month of October specially prepared terrorist groups with weapons and poisons for killing of party and government workers were dispatched from Formosa to Central China; two public security workers were killed in Beijing; there is information about a series of murders of military-political workers of the People's Liberation Army, the poisoning of a platoon of soldiers through food.

Finally, already at the very recent time, when Mao Zedong was travelling to Moscow, several people were arrested at the Tianjin station, in whose bags were discovered bombs and other explosive substances.

12. On foreign policy You advised that the new government should not refuse establishing diplomatic relations with capitalist states, including America, if these states officially renounce military, economic and political support for Jiang Jieshi and the Guomindang regime as a whole.

Despite the fact that England and America have actively supported and [continue to] support Jiang Jieshi, the leadership of the CCP CC until November 1949 was infected with illusions of quick recognition of the People's Republic of China by these countries.

As a reflection of these sentiments, Liu Shaoqi and Li Lisan spoke out against participation in the conference of professional unions of Asian countries by Japan, India and other [countries] subordinate or connected to the Anglo-American bloc so as not to cause irritation on the part of America and England.

This also explains the silencing of the fact of Yugoslavia's approach to China with a proposal on the establishment of diplomatic relations and exchanging of ambassadors.

It is characteristic to note that in one of the conversations in Mao Zedong's presence Zhou Enlai stated that "...if we refuse Yugoslavia's proposal and openly censure its policy, then, one may ask, how are we supposed to act in case America, which is the master of Yugoslavia, approached us."

Among similar sentiments counts also Zhou Enlai's negative attitude toward the dispatch of groups of Soviet specialists to Shanghai and Tianjin because big economic interests of America and England are concentrated at these points.

Such sentiments are the result of pressure on the CC on the part of the bourgeois

democrats and other capitalist elements inside the country, who wished and wish the soonest recognition by America and England of new China so as to, relying on these imperialist states, the Chinese bourgeoisie could prevent further democratization of China and disallow strengthening and widening of friendship between China and the Soviet Union.