inaccuracies occur in the text. For instance, on page 179 reference is made to the *Quarterly Review of Economics* instead of *Quarterly Journal of Economics*, and D. L. Gordon's and R. Dangerfield's, *The Hidden Weapon: The Story of Economic Warfare*, was published by Harpers in 1947 and not in 1937 as stated in the text (p. 215). With these exceptions, this stimulating volume represents an unconventional account of conventional notions about war potential. Knorr sees clearly that war potential and recuperative, i.e., peaceful potential are essentially the same (p. 306).

In the immediate postwar years, from 1945 up to mid-1948, problems relating to German and Japanese war potentials were ineptly handled. In this period the advice of scholars was not heeded and surprisingly little emerged by way of clarification of the nature of war potential. However, in more recent years, the disintegration of the wartime Alliance, the subsiding of wartime passions, and the emergence of the protagonistic East-West nuclear worlds, have contributed greatly to the revival of discussion and research on the problem. This volume evidences concrete fruits of the renewed interest. It is written in the best scholarly tradition, revealing painstaking source research and constitutes a further step toward developing what Professor K. Boulding would call a general theory of conflict.

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Foreign Trade and Industrial Development of China. By YU-KWEI CHENG. (Washington: University Press of Washington, D.C., 1956. Pp. xi+278. Price $7.00.)
An Economic Survey of Communist China. By YUAN-LI WU. (New York: Bookman Associates, 1956. Pp. x+566. Price $12.50.)

BEFORE THE Opium War of the 1840's, the Manchu regime in China had followed a highly restrictive trade policy towards the Western commercial powers: exchange was limited to the southern port of Canton, and all foreign economic contacts were controlled by the Co-Hong, a monopolistic merchant guild. The authorities' persistent refusal of British demands for free trade and increased opium imports eventually led to armed conflict. The resultant Treaty of Nanking (1842) shattered the traditional policy—five Chinese ports were now thrown open, the Co-Hong was liquidated, and the island of Hong Kong was ceded to Britain. During the next half century the Chinese were pushed more and more by external pressures into the international commercial arena as French, Germans, Japanese, and Russians began to follow the British example of demanding "settlements" and "concessions". By the turn of the present century, this scramble for preferential rights had led—in spite of American demands for an "open door" policy—to the virtual partition of China by the Great Powers.

Under the safeguards afforded by the Treaty of Shimonoseki (1895), foreign capital began to pour in, and the high returns on government loans restrained but did not prevent some of these investments from finding their way into Chinese industrial and communication enterprises. With extensive foreign trade foisted on a country whose vast territory and diverse resources made it almost self-sufficient in daily necessities, the nature and character of its economy was bound to undergo many changes. As industrial manufacturing began to flourish and foreign investments increased, opium was ousted by cotton piece goods as the chief import, while silk and silk products displaced tea as the leading export. By the late 1920's foreign-owned cotton textile, tobacco, and food processing industries topped the list of manufacturing enterprises in China, foreign-owned mines were responsible for more than 50 per cent of the country's coal output, while the bulk of the railways were directly or indirectly controlled by foreign interests.

The effects of the restoration of China's tariff autonomy in 1929 and the subsequent upward revisions of the customs rates were just beginning to be felt when the full-scale Japanese invasion of 1937 was launched. By the end of that year the preponderantly important industrial triangle of Shanghai-Nanking-Hangchow had been abandoned, and, now deprived of all major revenue sources, the Kuomintang was forced to meet its increasing war expenditures by indiscriminate taxation and tampering with the coinage; after 1940, as a result of Japan's tight blockade which cut off China from further external assistance, a ruinous inflation was set in motion. It is not very surprising, therefore, that when China emerged as one of the victors on V-J Day, it was on the brink of total economic disintegration: industrial production had been brought to a standstill through the complete disruption of transportation links between sources of raw materials and manufacturing and marketing centres, the prolonged inflation had reached a point of utter monetary confusion, and the balance of international payments was in a most precarious position. Thus, when the Communists took over in 1949, the economy they inherited—to say the least—left a great deal to be desired.

The full story of these vicissitudes in Chinese economic history from the beginnings of foreign penetration until just before the Communists seized power on the mainland, is now provided by Mr. Yu-Kwei Cheng, an eminent economist. He discusses the implications of the close statistical correlation between the "import excess" and foreign investments, and examines the fluctuations of the Haikwan (Customs) tael to illustrate the impact on both external and internal trade of the decline in the gold price of silver over seventy-odd years. In the later chapters, considerable new material is presented on Japanese industrialization in Manchuria and on conditions in the coastal provinces under Japanese occupation. The work closes with a detailed survey of "post-war hyper-inflation" during the 1946-48 period. By presenting information not readily available elsewhere and interpreting it in a commendably dispassionate manner, the author has provided Western readers with an authoritative background picture of the commercial and industrial inheritance upon which the Communists are building up a new economic power.

An exhaustive survey of the economic policies and undertakings of the Chinese Communists until 1955 is furnished by Dr. Yuan-li Wu, a product of the London School of Economics, in the second of the works under review. Inevitably, the bulk of the material here is drawn from Communist sources, but these appear to have been used with great caution. Full coverage is given to the goals of Communist economic planning in China, the problem of land redistribution and its implications, the socialization of industry, labour organization, and monetary control by the authorities. Less informative and correspondingly more speculative are the sections on transportation, internal trade, and foreign economic relations.

Dr. Wu makes no bones about the results of the first five-year plan: "There is no denying the fact that, economically, a great deal has been accomplished by Communist China. . . . Revolutionary changes have already taken place in the form and spirit of economic organization, the distribution of wealth, the division of the national product between consumption and investment, the geographical distribution of industry, and the re-orientation of the country's economic relations with the rest of the world". On the other hand, Mao Tse-Tung's economic programme has by no means managed to avoid completely some of the pitfalls which were characteristic of the Soviet Union's First Five-Year Plan, and the author speaks of "a ponderous, over-developed administrative machinery" which has stifled initiative in many directions and promoted inefficiency. Yet the Chinese worker, temporarily short of cheap consumer articles formerly imported from Japan and elsewhere, can console himself by contemplating the appearance of new steel mills and power plants which, his local Party organizers will have told him, will enable Red China to prevail over its "imperialist-capitalist" enemies.

As regards the viability of the new system, the writer stresses China's heavy dependence on the Soviet Union for machinery, petroleum, and, especially, technical assistance. In the case of large industrial plants recently established, such as the rolling mills at Anshan, complete sets of blueprints were provided by Moscow; Soviet advisers have played key rôles in all the principal water conservation projects, while Russian technicians have helped in railway building and in bridge construction. In addition to the provision of technical plans and advice, Soviet assistance has also taken the form of training skilled workers, not only in production techniques, but also in management methods. Although Dr. Wu naturally finds it difficult to establish the quantitative nature of Soviet capital investments and technical aid, he has collected sufficient data to show that, political considerations apart, such dependence on material and human assistance from Russia has made it essential for the Chinese to recast their traditional pattern of economic ties. It would seem, therefore, that a somewhat paradoxical consequence of the gradual whittling away of the United Nations embargo is likely to be a relaxation of the Soviet stranglehold on Communist China's industrialization programme; and in this process, the British free port of Hong Kong—which remains the principal transit point for Western commerce with the mainland—seems destined to play a part of growing significance.

With the activities of the Peking regime occupying the focal point of present-day interest in the Far East, these two books fill an important gap in the West's comprehension of China's present position and of the increasingly influential rôle which it is likely to play in future world affairs.

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The Federal Reserve System, 1945-1949. By J. S. FFORDE. (London: Geoffrey Cumberlege—Oxford University Press, 1954. Pp. ix+351. Price 35s.)

THE FAMOUS "Accord" reached between the Federal Reserve System and the United States Treasury in 1951, which endowed the former with greater freedom in its open-market operations and interest rate policy, has become a landmark in the post-war history of central banking. Indeed, as Professor J. K. Galbraith pointed out recently, to some supporters of monetary policy it has symbolised an advance towards enlightenment almost comparable with the Magna Carta and the Emancipation Proclamation. To many observers outside the United States, however, the finer points of monetary policy and debt management in that country *during the preceding six years*, i.e. during the period 1945-1950, have tended to remain something of a mystery, despite the unparalleled publicity to which central banking in the United States is subjected (in contrast with the extreme secrecy surrounding the operations of such institutions as the Bank of England).