

TRANSPORTATION DIVISION

# WEEKLY CONFIDENTIAL REPORT

BUREAU OF FOREIGN AND DOMESTIC COMMERCE  
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FILE NO. China

For the Information of Officers of the Bureau only, and not to be Published under any Circumstances

Post Shanghai, China.

Date December 19, 1938.

Submitted by Trade Commissioner A. Viola Smith  
Temporarily in Charge

for the week ending

December 17, 1938.

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## Aircraft Manufacture in China: The policy of operation of the Central

Aircraft Company, Federal Inc. U.S.A. since the outbreak of the Sino-Japanese hostilities has been one of keeping a jump ahead of the invaders. The factory and school, originally established at Hangchow, 150 miles south of Shanghai, which had been successfully operating for about five years, was hastily removed during August, 1937, to Hankow. Land was subsequently purchased at Hankow, machinery installed and factory production begun, supplies and materials being brought in over the Canton-Hankow Railway line. The plant had an annual capacity of about 60 military planes.

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Shortly before the fall of Hankow in October, 1938, upon the urgent re-

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quest of the Chinese Government, this factory was again dismantled and its highly specialized equipment removed further inland to safer centers. Hasty plans were devised for the re-erection of a plant at Kunning, the capital of Yunnan Province.

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A recent trip to Chungking and Kunning by American officials connected with this concern has shown the Kunning site to be impractical for three reasons: (1) Present capacity of the narrow gauge French controlled railway line from Haiphong, French Indo-China, to Kunning, Yunnan, is but

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30,000 tons a year. If efficiently handled by American railway operators it might conceivably be stepped up to 130,000 tons per year, but under its present French management, there is little likelihood that its capacity will be materially increased. Its rolling stock is far overtaxed, and a congestion of some 10,000 tons of cargo has already developed at Haiphong, the port of entry. (2) The most hazardous portion of the railway line lies in

Chinese territory through the very high mountain ranges of southern Yunnan Province. A well placed Japanese bomb on any one of the numerous bridges in this region could put the line out of commission for six months or more.

(3) The close proximity of the Japanese Navy off Hainan Island represents a barbed threat behind Japanese protests to the French Government relative to the use of French-Indo-China for carrying supplies to China. Japanese protests have been sufficient to cause French Indo-China officials to prohibit the use of the port of Haiphong, and the railway line, for carrying raw materials and war supplies into China.

The disadvantages of getting materials and supplies into Kunning through French Indo-China have been considered so great by the Central Aircraft Manufacturing Company that a decision has recently been made to abandon the plans for a plant at Kunning, and instead a site on a high plateau at the extreme southwestern point on the Yunnan-Burma boundary has been chosen. Rangoon will be used as a port of entry. Cargo will

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Yunnan-Luzon Highway: Various press dispatches of recent weeks have go up the Irrawaddy River, either in 1500 ton steamers or by lighters, to Bhamo, some 700 miles distant. From this point a 60 mile stretch of highway running to the southeast to Manken, connecting with a four mile British Military Road, will bring the unassembled planes and parts to the chosen factory site. The new location is about 350 miles from Kunning -- direct by air.

The factory agreement between the company and the Chinese Government has been extended for an additional three years with a few minor changes but no essential modifications from the American viewpoint. The capacity of the new plant is to be increased from 60 planes to between 250 and 300 planes per year. As the site is so remote, a complete new community must be built, for which purposes the company is buying fabricated steel buildings in the United States to be used as dormitories, staff residences, office and factory buildings.

The Central Aircraft Manufacturing Company, Federal Inc. U.S.A. is capitalized at US\$10,000 fully paid up; 64 shares of US\$6,400 are held in the name of the Curtiss-Wright Corporation and 36 shares of US\$3,600 in the name of The Intercontinent Corporation.

of extensive facilities which it was estimated would take six weeks to

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Yunnan-Burma Highway:

Various press despatches of recent weeks have

reported the opening of a newly constructed highway between Kunning, the provincial capital of Yunnan, and Lashio, the railway head in Burma. A strictly confidential report dated November 25, 1938, from Consul Meyer at Kunning, based upon the experiences of G. W. Hunter, of the Central Aircraft Manufacturing Company, gives a first hand account of the condition and potentialities of this road in early November. Hunter on November 2 left Kunning with two Chinese staff members and two chauffeurs with a Ford sedan and Ford truck carrying gasoline supplies, provisions, bedding and other equipment. The first day's run was made over the best stretch of the road, despite which they traversed only 117 miles. The road between Kunning and Taliu, some 235 miles, is about 50% gravelled. From Taliu southward the road goes through very mountainous regions some passes reaching 8,000 feet altitude. Long stretches of the route are unsurfaced and passable only in dry weather. Innumerable bridges are crossed; many of which are of a temporary nature, while permanent structures are in course of construction about 70% complete. Sharp hairpin curves and constant landslides are a continuous peril. When 480 miles from Kunning and within some 30 or 40 miles of the Burma border, the expedition was obliged to turn back because of extensive landslides which it was estimated would take six weeks to remove.

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The engineering on the Yunnan-Burma road is regarded as well done. Grades are very well selected and curves wide, except in those places where, due to natural topography, it has been impossible to build a wide radius into the curve. The main difficulty will continue to be the slides above and below the roadbed, especially during the six months rainy season of the year.

Many miles of the existing route are so narrow in width that only one way traffic is possible and the control of traffic will be a very serious problem once the road is put into good condition. The Provincial Chief of the Construction Bureau, however, estimates that the road will be cleared, bridges completed and in full operation by January 1, 1939, though Turner is of the opinion that it will take much longer.

The Central Government is organizing a Maintenance and Operations Commission to maintain road and bridges, and to operate trucks and tractors for hauling government materials. Plans call for the use of 3 and 6 cylinder Diesel tractors capable of drawing a series of 4-wheel trailers of two tons each. Turner feels that the turns in the mountains are far too sharp and of too small radius of curvature to permit this kind of transport. Thousands of coolies are working on the road, mostly conscript laborers receiving food but no pay for their work. The amount

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of work being done per man is very small. He concludes that obviously the road is of such character as to continue to require for a period of several years a tremendous amount of engineering attention and maintenance labor, without which, for practical haulage purposes, the road will be useless for many months to come.

Another commentary upon the use of the Burma-Yunnan highway is found in an article in the December 17 issue of the "China Weekly Review" from a Rangoon correspondent, who reports that immediately after the announced opening of the highway, a British owned ship, the "Stan Hall", carrying 6,000 tons of arms and ammunition docked in Rangoon. The ship, according to a telegram from Tokyo, came from Odessa. A Japanese official spokesman is said to have stated that if permission were given by the British Government to transport the arms and ammunition from the "Stan Hall" to Yunnan it would be considered as an "unfriendly act" and that Burma would be but inviting possible air raids.

Notwithstanding objections and threats by Japanese spokesmen, the 6,000 tons of arms and ammunition were discharged at Rangoon and the cargo taken to the Government salt godown. The first cargo-boat, heavily guarded by military police, was unloaded and 61 field guns placed in one of the godowns. Four other steamers are expected to arrive in Rangoon by December 31. It is stated that their cargoes of munitions will be transhipped by

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the Irrawaddy River to Mandalay, from where they will be carried inland to Yunnan via Rhano or Lashio and Muse.

With the French Indo-China route virtually closed to the Chinese for the movement of raw materials and war supplies because of Japanese pressure, the rapid improvement and conditioning of the Yunnan-Burma highway becomes imperative as it is the one remaining route (aside from the Russian route to the north, through Sinkiang Province) open to the Chinese Government.

A. Viola Smith,  
Trade Commissioner,  
Temporarily in Charge.

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