

OFFICE OF COMMERCIAL ATTACHÉ  
51 CANTON ROAD  
SHANGHAI, CHINA

General Files  
MAR - 4 1941

SHANGHAI

February 17, 1939

DEPARTMENT OF STATE  
LIAISON OFFICER  
MAR 17 1939  
FORWARDED

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BU. FOR. & DOM. COM.  
MAR 20 1939  
FOREIGN MAIL

RECEIVED  
MAR 25 1939  
FAR EASTERN SECTION

To: Foreign Commerce Service  
From: Shanghai Office  
Subject: Annual Economic Report - Instruction as to Length

This will acknowledge receipt on January 18 of the Bureau's radio No. 88, reading as follows:

"Limit 1938 Annual Economic Review from 5 to 15 pages, cancelling previous instructions. If exhaustive study already made and report complete, this instruction does not apply. Relay to Tokyo by cable"

We promptly forwarded to Tokyo a message in the above sense.

Regional annual reviews from our Consuls in China as well as short summaries of specific lines of business as contributed by American business contacts were still coming in at the time the above instruction was received. These reviews and summaries were prepared at our request.

We were actually not very far along in our study at that time, particularly as 1938 final trade statistics could not be expected to be in hand until the end of January. We had begun, however, on January 12 to cable brief notes taken from the letters from American business houses, and continued this, the messages transmitted being as follows:

No. 163, January 12, 4 sections (printing ink, printers machinery, automotive equipment, engineering equipment, light engineering supplies, industrial machinery).

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- No. 166, January 14, 4 sections (lumber, canned fruits and vegetables, dried fruits).
- No. 172, January 20, 4 sections (raw cotton, cigarette distribution).
- No. 176, January 23, 8 sections (iron and steel products, petroleum products, cosmetics and toileteries, toilet soap, dyestuffs and related chemicals, business of general importing house, paper, paint).
- No. 182, January 28, 2 sections (motion picture distribution, electric incandescent lamps).

The foregoing 22 sections (about 3,500 words) of condensed reactions from business men give much of the intimate background of conditions with which American business in China had to contend during the year.

As soon as the December and annual foreign trade statistics became available we immediately began to analyse them and transmitted messages as follows, giving our findings:

No. 186, February 4 - 3 sections.

No. 188, February 6 - 3 sections.

At the time the Bureau's message as to cutting the annual review short was received, we were already started on material for a general introduction to an exhaustive annual report. We completed that and sent it forward as a Special Report, No. S-34, dated January 24, under the entitlement "Resume of Military and Political Events in China in 1938" as essential to an understanding of trade and economic developments. This report was 15 pages in length.

As we have majored in our radio reporting on the financial situation we had already begun a study of the financial, currency and banking situation for 1938, so we completed this, forwarding it as a Special Report No. S-37, on February 6, - title - "Finance, Currency and Banking in China in 1938", - 33 pages.

In the meantime, from approximately 350 pages of consular regional annual reviews, from reports of the Agricultural Commissioner, and from our own grist of weekly economic radios, and from the background of my own observations and study, during the year, I worked up approximately 70 triple spaced pages of semi-condensed material, the job representing a culling, from the various sources mentioned, of essential material for the usual annual review which comprises our February 15 China Monthly Trade Report, a compilation which we could not very well avoid making, in



keeping with our past schedules in this category of reporting, - an issue which the subscribers look forward to, year by year.

By picking out highlights from these 70 pages of semi-condensed material and making further detailed studies of trends from the annual trade statistics, I was able to work up our annual summary by radio, which we despatched as follows:

Our No. 196 - 9 sections, transmitted Feb. 13.

Our No. 196 - 9 sections, transmitted Feb. 14.

Our No. 197 - 5 CODED sections, annual conclusions and outlook, Confidential, transmitted February 15.

The "China Annual Economic Report for 1938" simply constitutes a rewriting in running English of the text of those three radio messages, without amplification, the length of the written report being 15 pages and, therefore, coming within the Bureau's specifications. We sent off two copies of this report last night to Hong Kong for air mailing via London to the Bureau, and further copies will go out in the next mail, February 23. Though dated January 30, 1939 (our clerical staff apparently following custom in this respect) the report was not actually completed, mimeographed and forwarded until the evening of February 16, 1939.

The only remaining chore in completing our annual reporting (except for some commodity reviews which I hope we can find time for shortly) will be to work out from the 70 pages of semi-condensed text possibly a 25 page treatment of the subjects to constitute our February 15 China Monthly Trade Review, comprising a review for 1938. This work necessitates rather more elaborate statistical tables than ordinarily submitted in Monthly Reports, and we are now working up these tables. We plan to forward this issue on February 23 or soon thereafter.

Miss Smith has already prepared and forwarded under date of January 30 an 80 page review of the "Chemical Trade of China for 1938" which treats many of the aspects of the situation as affecting general trade.

I feel that we are now over the hurdle and on the home stretch, as it were, as regards our annual or year end reporting. When completed it will have represented an aggregate of 50 sections of radio messages of about 170 words each, and 63 pages of written (general) annual review material, about 25 pages in addition plus statistics constituting the February 15 China Monthly Trade Report, plus Miss Smith's 80 page chemical review. In view of the strategic times and of the character of the material we have been able to submit, I trust our efforts will not have been in vain. It would seem an easy matter to toss off a 5 page annual review of China trade and economic developments for the year and to "call it a day" but after going through the process of pro-



ducing a 15 page report I am not so sure that it did not constitute possibly more effort than the preparation of a 100 page exhaustive summary would have entailed, except for the saving in mechanical work of production. China is an immense country, the technique by which we are being run out of this market is involved and intricate, and the complications of the war situation which creates two major areas (the Japanese "occupied" region and the Chinese controlled territory), besides Manchuria as a special situation, all make for a rather greater effort than would be the case under quiet political conditions in a smaller country. If there is any dissatisfaction with the manner in which we have handled the situation I trust the Bureau will advise us on the specific points in order that we may "mend our ways" before another annual reporting season rolls around.

While no letter has been received from the Bureau amplifying the instruction by radio, I take it that the instruction probably applied to all our foreign offices and represents a decision to reduce the chore of annual reporting to rather smaller proportions than envisaged in the instructions which came out some years ago, so that greater effort (more time) can be expended in direct help to business. Actually there is little we can do to promote immediate trade in China under present conditions. We can help firms to lay the ground for future trade if the present Far Eastern melee is settled in a manner which will permit American business to resume its former promising trend. But most of the effort on the part of governmental agencies now appears to be in the nature of trade protection and of sounding a warning as to what we may expect here if the Japanese aims are successful. This, in brief, will account for the very pessimistic conclusions reached in my annual report on the basis of observations of events and study of trends already well defined and advanced.

If an annual report on China would permit me to venture farther from the realm of specific trade and economy into politics and away from the confines of the "map of China", I would have been forced to conclude my annual report with the warning that if America, Great Britain and France, do not take steps at a very early date to thwart the Japanese designs in the Western Pacific (no less), by whatsoever means may now be necessary, the Japanese will shortly have proceeded so far with their program as to be well dug in, - a situation which will involve far greater effort on the part of the three democracies, if they are to salvage their positions, than would have been the case if the problem had had timely and effective consideration and action. In short, I fear it will not be long before it will be necessary to dynamite the Japanese out of their position if the democracies are to keep Eastern Asia from becoming a Japanese preserve or monopoly. In view of the fact that the United States alone in its good years of industrial activity bought up to two billion dollars worth of goods annually from the region upon which the Japanese are now trying to erect a large "Keep off the Grass" sign, it would seem that we should be justified in efforts to keep the right to do direct trading, buying and selling, rather than permitting the Japanese to "hi-jack" us out of our rights.

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While public opinion in America seems to be moving slowly in what we would describe as the "right direction", there seems to be a great hesitancy to face the issue, and a strong tendency to assume that "the situation will take care of itself", that Japan will collapse economically and go bankrupt before it can realize its aims, that Japan has bitten off more than it can chew, that Japan will sink from the weight of its own plans, that a revolution will occur in Japan shortly thus overthrowing the military gangster overlords, that Soviet-Russia will do the job for us, - in short, that all we in the United States have to do is to fold our hands and wait complacently for these things to happen, and then reassume our position in the Far East. I am convinced that there is no easy way out for us now. The Japanese, knowing us better than we know ourselves, and employing all our lethargic weaknesses and vulnerabilities to their own quick advantage, have been "making hay" while we were asleep at the switch.

In doing our annual reporting, however, we were not trying to see how much "hay" we could manufacture but rather to give adequate coverage to the situation arising from the fast moving 1938 scene. Under the circumstances I trust our efforts will be approved, even though in the aggregate we have done much more in the way of annual report production than envisaged in the Bureau's instruction, which, I take it, was a blanket instruction sent to all offices abroad and may not have been designed to fit our particular situation.

*A. Bland Calder*

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Acting Commercial Attache.

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