

WEEKLY CONFIDENTIAL REPORT

For the Information of Officers of the Bureau only, and not to be Published under any Circumstances

OCT 5 1939
11-9184
TEXTILE DIVISION

Post Shanghai, China Date September 19, 1939

Submitted by Julian Arnold for the week ending September 16, 1939

Commercial Attache

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FOR THE BUREAU

WEEKLY ECONOMIC REPORT

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Independent China, America's Biggest Potential Market: One of the

grave mistakes which most of our people have made in their appraisal of our trade with China, has been in discounting its future potentialities. While it is true that our exports to China have not averaged much more than a hundred million dollars a year, and thus were only one-half or one-third of our trade with Japan, just prior to the Japanese invasion they gave definite promise of increasing by leaps and bounds during the next decade or two because of the vast modernization program upon which China had embarked. In fact, the outlook was so promising that one could, without an undue stretch of the imagination, visualize China forging to the front ranks among the nations of the world in the value of its imports from our country. The gratifying aspect of this trade was that it promised the sales by us of manufactured goods intended for constructive rather than destructive purposes, whereas there were no indications of Japan's purchase departing from the categories of the past ten years, which had mainly to do with materials for her war industries and actual munitions. In other words, so long as Japan continued to cherish her ambitions to set herself up as military master of Asia in preparation for complete dominance of the Pacific, how could we expect the character of our trade to change, except

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for those commodities which her conquest of China might make possible securing from a nearer and cheaper source of supply?

Our oft maligned American missionary, if properly understood by the American business men and the Japanese militarist, would be honored by a fitting statue in a place on the Pacific as conspicuous as that of the Statue of Liberty in New York harbor. A few months ago, the president of a Chinese university made the comment to me "You know this war in

China is in reality a war between the Mikado and Dr. F. L. Hawks Pett". He meant to infer that Japan's invasion is aimed at snuffing out the light of Western culture which has been carried to China mainly through the efforts of the American missionaries. Dr. Pett, the President of St. John's University at Shanghai, for the past forty or fifty years, symbolizes as well as any one individual could, the work of our vast army of American missionaries to China. Our missionaries as pioneers in modern education in China have played a significant role in preparing Chinese for leaders in China's modernization.

No one nation has more to gain from a prosperous China well on the road to complete modernization than has her near neighbor Japan. Just think what it should mean to Japan to have the economic levels of China's 450 millions raised from a purchasing power of two dollars a month to ten and twenty dollars and then to thirty possibly forty. When one multiplies

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these figures by twelve and then by 450 millions, the results are so staggering that we get dizzy trying to contemplate the volumes of trade which would flow therefrom. It doesn't take much calculating to arrive at figures which are vastly greater than the aggregate of the entire world's present foreign trade. In all events, it is patent to anyone who knows what China has to offer in natural resources and in her intelligent and industrious man power that China, once launched upon a nation wide program of modernization, would set the whole world agog in supplying the materials essential to meeting the ever accelerating pace of a rejuvenated China set upon tuning in with the modern world. Prior to the Japanese invasion, China had definitely embarked upon just such a vast program of modernization in practically every field of human activity. It was rapidly emerging from a society of domestic handicraft to one of mechanized industry. Factories had been springing up over the length and breadth of the land. Often when travelling during recent years in the interior in search of some of the old familiar landmarks, I rubbed my eyes in bewilderment as a factory chimney protruded itself upon the landscape where I had expected to shake hands with a pagoda. Never, before in the whole history of mankind has there been anything more tragic than Japan's present military invasion of the neighbor from whom she had borrowed her civilization. She is biting and even the little American flag on the speakers' desk here the

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the hand that fed her. China's modern economic advancement could have meant infinitely more to Japan's prosperity than to that of any other nation. But Japan's militarists have chosen instead to reduce the great Chinese populace to starvation rather than to see them advance from subsistence to comfort economic levels. (Arnold)

Common Fallacies Regarding Our Trade with Japan: A careful examination of the character of our trade with Japan would reveal several startling facts. Firstly, as pointed out by A. Bland Calder, Assistant Commercial Attache, in her balance of trade with us Japan has, since the beginning of the present century, enjoyed an estimated net profit of US\$3½ billion, or sufficient for defraying the cost of construction by her of about 100 super-battleships of 45,000 tons each. Thus our marvelous trade with Japan has gone a long way toward giving her the assets with which to build up her army, navy and air force.

Secondly, prior to the outbreak of the present Sino-Japanese war, while from 50% to 70% of our enormous purchases from Japan were of raw silk, among the balance were a flood of Japanese manufactured products so that every time the American housewife went out shopping for bargains, the label "Made in Japan" would pop up in the most unexpected places. In fact, a secretary at an anti-Japanese boycott meeting discovered that the stationery the organization was using for sending out its notices and even the little American flags on the speakers' desk bore the

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unmistakable "Made in Japan" marks. Just prior to the Japanese military invasion of Manchuria, I went about the shops of Harbin and Mukden trying to catalog the commodities bearing American labels. After listing 80 of the more important articles, I was convinced that the total numbers would run into several hundreds. Although Japan had constantly asserted that she would respect the open door in Manchuria, if one were to make a survey of the shops there today, he could probably count the numbers of articles bearing genuine "Made in U.S.A." labels on the fingers of his two hands. It is true that statistics show increases in American imports into Manchuria during the past few years, but these are almost entirely war materials and materials for building up war industries.

During the past few years, the vast bulk of our exports to Japan have consisted of munitions and commodities classifiable as essentials to the building up of war industries. In fact, America has furnished Japan with more munitions and war materials than the combined imports from all other countries. Is this a trade of which we may boast?

Among the more far-seeing Japanese there are those who sense the bigger issues in the present situation and realize that the military leaders are pursuing a policy which is bound to convert the Pacific into a huge military camp. As far back as January, 1939, that is before the Japanese armies walked into Manchuria, Mr. Seisaburo Saburi, then

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henceforth refuse outright to sell any cars, parts or accessories or to supply any services to German nationals. (A. Viola Smith)

Julian Arnold, Commercial Attache.

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