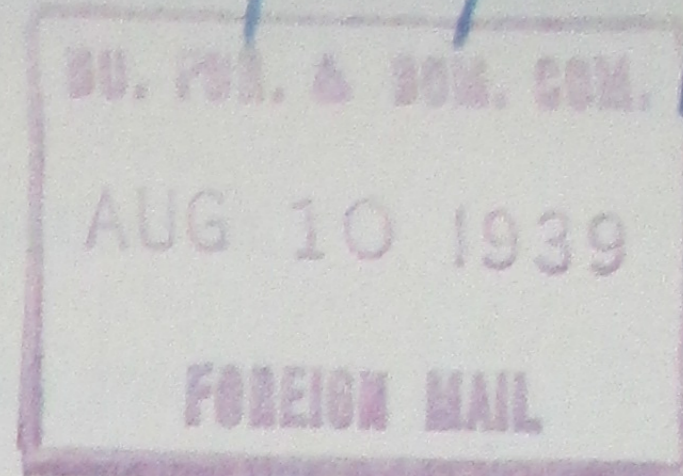


Shanghai, China, July 12, 1939

Subject: Financial Notes

Submitted by: A. Bland Calder, Acting Commercial Attache.

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China's Balance of International Payments, 1938: Mr. E. Kann publishes his estimates of China's Balance of International Payments for 1938 in the July 5 issue of the "Finance and Commerce." A clipping of his estimate reprinted in the July 5 copy of the Shanghai Evening Post and Mercury, is attached to the original of this report.

In my Special Report S-37 dated February 6, 1939, under the title "Finance, Currency and Banking in China in 1938", pages 12-16 I attempted to make estimates of China's balances of payments for 1938. Please note that my estimates provided separate items for the yen bloc countries and the gold exchange countries, whereas Mr. Kann does not make this difference. It is our contention that, for the year 1938, such division should be made.

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Mr. Kann does not allow a sufficient amount for arms and munitions imported by the Chinese Government, though possibly his items "Import Adjustment" and "Smuggled Imports" are sufficiently large to cover the arms. He also mentions yuan 200 million of unsold silver held abroad unsold but actually such an amount belongs in a statement of monetary reserves and not in a "balance of payments" statement, unless the amounts represent actual shipments during 1938, but our information does not indicate that shipments were so large. His figures for remittances from Chinese abroad, yuan 600 million, are taken from Chinese Government releases, but we did not use that figure in our statement, suspecting the Government of having converted the foreign currency remittances into Chinese yuan at open market rates, so we used rather the stabilization rate equivalent to keep the statement uniform.

Please note that my figures can be converted into foreign currencies at official stabilization rates (i.e. about 30¢ U.S. Currency to the yuan). The subject of "balance of payments" under such circumstances as obtain under war conditions with China partly occupied is a difficult one, but it is of interest to note that Mr. Kann's total figures correspond to the total of my estimates for the two areas.

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