

Brown

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REVIEW OF TRADE AND ECONOMIC CONDITIONS IN CHINA

(INCLUDING MANCHURIA AND HONG KONG)

FROM MID-JULY TO MID-AUGUST, 1941

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With the cooperation of other
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~~CONFIDENTIAL~~

Agriculture: ^{the} Manchurian authorities expect to collect one half million metric tons of wheat this year or about eleven percent ^{more than} ~~higher than~~ last year. Press reports indicate that the Manchurian authorities have obtained 140 million square yards of cotton piece goods from Japan of which 80 million square yards are to be distributed among farmers who will receive almost three times as much per capita as dwellers in ^{the} Urban districts. This move is apparently for the purpose of inducing farmers to deliver their crops to the authorities as hitherto farmers have been unable to secure an adequate return in manufactured goods for products marketed. Traders estimate ^{the} areas for soy-bean planting this year in Manchuria at about 10 percent below last year when it was 45 percent below previously normal acreage. Weather conditions in Manchuria continue to be favorable. The Manchuria Agricultural Produce Corporation was formally inaugurated on July 21 to take over other corporations now controlling staple goods and vegetable-oil bearing products. ^P The Japanese press reports that the cotton crop in North China is expected to yield about 18 percent ^{more} ~~greater~~ than last year ^{which is still} ~~but~~ only one half of pre-hostilities level. ^P Crop conditions in Shantung Province are favorable ^{and the} peanut output is expected to equal last year. The tobacco crop is estimated to yield between 35 and 40 million pounds or somewhat less than last year. ^{Production} ~~The~~ wheat crop in East Central China, harvested in June, is

estimated above normal but, ^{still} below last year, and other crops are much less favorable than originally expected with rice about 10 percent below last year and cotton 30 percent below normal. Prospects in the Hankow region for rice, wheat, ~~and wheat flour~~ tobacco, and sesamum seeds are good, resulting in lower rice, wheat and wheat flour prices. ^{the} Yunnan Provincial Government has launched a campaign to increase winter crops, troops, ^{having been} instructed to assist farmers in increasing agricultural production.

Industry, Mining, Labor: Soy-bean mills at the end of July in Harbin were idle and there was great stringency of flour with the ration further reduced. ^{the} acute labor shortage, ^{still} obtains as ^{the} influx workers from North China are insufficient though, ^{present} wages ~~paid~~ are higher than the official ^{the} fixed scale. ^{the} Manchurian authorities began in July an emergency recruitment of domestic labor for coal, ^{and} iron mining and civil engineering projects as ^{the} labor shortage has resulted in ^a curtailment of production by 30 to 50 percent. The Yalu River Hydroelectric Generating Company's first generator at Suifeng is expected to be put into operation in August with planned output of 400,000 kilowatts, ^{and} ~~three~~ three additional generators, ^{are} to be installed later at the same plant. A plant at Kirin has begun production of paper for cement bags, the annual capacity being 5,000 metric tons. South Manchuria Railway Company continues its plans to double shale

oil production. ^P Cotton and flour mills in Tientsin continued to suffer shortage of raw materials and ^{all} plants are working less than half capacity. ^{by} Decreased export demand ^{caused a reduction} ~~reduced~~ in North China output of carpets and rugs. The North China Development Company plans an FRB yuan 50,000,000 subsidiary to operate various Shansi Province industrial enterprises hitherto controlled by the Japanese Military. ^{that} Press reports, the Shansi Iron Works at Taiyuan has begun production of steel in its open hearth furnace. ^P The large British American cigarette factory in Tsingtao continued to operate at ^a reduced capacity but ^{it} is prohibited from making further sales from stocks on hand. Press reports that Chinese factory owners in North China are instructed to make application to the North China Political Council for ^{the} return of factories still under Japanese management. ^P Many Shanghai industrial enterprises have been hard hit since the end of July because of prohibitions by the local Japanese authorities on ^{without special licenses,} the export, of range of commodities comprising mostly metal and and chemical products, ~~without special licenses.~~ While Chinese cotton mills in Shanghai have continued to operate at about three quarters capacity and Japanese mills at less than half capacity, the rising cotton prices abroad, shipping shortage, lower exchange rates and higher production costs have caused difficulties for mills as present yarn prices though higher than previously are still below ^{the} replacement

cost. Mills are netting handsome profits on yarns of fine counts as prices are up but are not doing well on lower counts. ^{the} Uncertainty as to export shipments and large hoarded stocks tend to prevent yarn prices from firming. ^P An increased consolidated tax on cigarettes went into effect on August first and prices of cigarettes by mid-August were about fifty percent higher than ^{they were} one month ago. Shanghai cigarette factories are not anxious to increase production under ^{the} present outlook, ^{their} output has been mainly for limited local consumption and the higher prices are due in part to speculative and hoarding activities and increased tax. ^P The shortage of industrial raw materials, particularly metals and chemicals, is felt more acutely at Shanghai as hoarders continue to buy up these materials at rising prices. Shanghai commodity prices generally soared upward during the first half of August as a result of ^{the} American and British freezing orders, many items reaching new record highs. The cost of living is steadily rising and more labor disputes are in evidence. The various official restrictions and counter restrictions since the freezing orders have confused industrialists and traders whose outlook is very gloomy. ^P Industrial activities in Hankow during July were low due to ^{the} shortage of supplies. Three Japanese egg packing plants were worked at 30 percent capacity in June and toward ^{the} end of July all ^{were} closed down.

Japanese oil-seed mills in Hanyang were shut down in July. Flour production was small as only one Japanese mill operated producing 1200 bags of flour daily. The Japanese freezing order prevented the British cigarette factory in Hankow from moving stocks from its warehouses and from withdrawing ^{to} funds from banks except for payment of wages. However, some basis for continuance of operation of this British factory is expected shortly to be found. ^{At the} HongKong Labor Office was obliged to settle many labor disputes involving demands for higher wages on account of the higher cost of living. ^{The} local supply of electric current at Kunming was curtailed by ^{the} collapse of a dam at the hydroelectric plant which furnishes ^a large portion of the city's power, ~~at~~ the situation being aggravated by further damages, by bombing, to the plant in early July. Five thousand ^{workers} ~~women~~ are reported to have been conscripted to repair the plant. A provincially sponsored paper mill ^{at Kunming} is scheduled to begin operations in August. *[Signature]*

Construction: Despite shortage and higher cost of construction materials, particularly metals, building of residential quarters was active in Tientsin in July. Considerable building at Peiping and Kalgan is also reported. The construction of the largest department store in Tientsin which was gutted by fire last year was completed in June and the store reopened. Lumber prices in Shanghai have registered

steady increases since the freezing orders at the end of July and construction activity has somewhat slackened due to the higher costs approximately ten times the levels prevailing in early nineteen thirty seven. Property prices have continued to rise mainly due to hedging purchases against ^{the} currency uncertainties. ^P No new major constructions ^{were} undertaken at Hankow in July ^{and} work on some larger Japanese buildings lagged considerably. ^P A 10,000 ton freighter was launched at Hong Kong. ^{and} A Hong Kong firm was awarded a contract for completing the outer harbor reclamation project at Macao. ~~TEXT~~

Transportation and Communications: (Railways) ^{the} Manchurian railway traffic ^{was} considerably disorganized toward ^{the} end of July and services on ^{the} lines operating out of Harbin ^{was} curtailed and on several lines in the north cancelled, passengers on other lines were ~~limited~~ limited as to baggage and temporary suspension of parcel post ^{was put into} effect, ~~the~~ results ^{from} heavy use of the railways for military purposes. ^{the} North China Railway Company announced ^{that} its lines, in June, handled 2,000,000 tons of freight of which three quarters consisted of coal and other minerals, total about five percent higher than June ^{that of} last year. ^{the} Central China Railway Company announced ^{that} its lines in July carried 458,000 tons of freight, ~~1.3 million~~ 1.3 million passengers and collected about military scrip yen 5,000,000 in revenues.

(Highways) ^{the} Japanese press reports ^{that} highway traffic between Peiping

and Kalgan via ^{the} Nankow pass was opened in July. Three other short highways were opened in North China ^{and the} construction of sixteen new motor roads in the Peiping-Hankow Railway zone totalling 951 kilometers was reported to have been started in July. The Tsingtao-Chefoo motor road is now being broadened and repaired, the work ^{being} scheduled for completion in October. In Eastern Hupeh Province of Central China two short distance bus lines were inaugurated in June. ^R The control of highway traffic on the Yunnan-Burma, Yunnan-Kweichow and Yunnan-Szechwan highways has been centralized under the National Transport Control Bureau, ^t the Yunnan Provincial Highway Bureau retaining control of ^{the} local highway traffic. The national control allocates all trucks and government agencies are forbidden to deal directly with private trucking companies ^{and} effective ⁱⁿ August all commercial trucks are required to transport government cargo at yuan 2.50 per ton kilometer on the Wanting-Kinming section and yuan 2.90 on the Kunming-Chungking section. A party of American transportation experts are reported to have arrived from the United States to study traffic problems on the Yunnan-Burma Highway.

(Shipping) It is extremely difficult for most occidentals to obtain passage from D_airen to Shanghai or Tientsin and no accommodations are sold to British and Americans for travel from Dairen to Japan.

Third power ships were unable to load or unload cargo at Tsingtao after the freezing orders ^{were} announced on July 26. ^{and} For the present, British ships are no longer making Tsingtao a port of call. Japanese Commercial and military vessels continued to ply freely between Shanghai and Hankow on The Yangtze River ^{and} a Japanese shipping concern has inaugurated ^a steam-launch service between Hankow and nearby points on ^{the} Han and Yangtze rivers. A British shipping concern increased as of August 1 ^{and} freight rates by 15 percent between HongKong and North China ports.

FINANCE: ^{the} Manchuria state debt on June '30 was Manchurian Yuan 1,969 million of which Manchurian yuan 1,2⁰⁰ ^{million} ~~million~~ was owed within the country. ^{the} Total bank deposits were 2.26 billion. ^{the} Exchange control law was revised August 1 subsequent to the freezing orders and British and American assets in Harbin totalling Manchurian yuan 5 million were frozen, exceptions ^{being} ~~were~~ made for two local British concerns and for payment of taxes and of salaries to Japanese and Chinese employees of British and American nationals. The Japanese sponsored North China authorities froze ^{the} assets of American, British, and Netherlands nationals and foreign trade was brought to a complete standstill, but traders are awaiting clarification. ^{the freezing order} Line exchange rates were around 11 US cents prior to freezing. ^{the} North China Federal Reserve bank note issue at the end of June was FRB yuan 680 million

compared with 750 million at the end of last year. The Mengchiang bank note issue at the end of June totalled M.C. yuan 66.4 million compared with 92 million at the end of last year. The contraction was the result of official action taken to check rising prices and to enhance the value of currencies in terms of the displaced Chinese currency. The National City Bank of New York closed its Peiping branch in July, transferring its business to the Tientsin branch.

The consolidated tax collections in North China for the first half year were FRB yuan 64 million or 60 percent over ~~sapely~~, the greatest increase being in collections on cigarettes. The FRB and Yokohama Specie Bank at Tsingtao ceased all financing of Foreign trade after the freezing orders ~~xxxx~~ in late July. The Shanghai open market foreign exchange rates fluctuated narrowly around ~~5 5/16~~ 5 5/16 US cents in July up to the time of ^{the} American freezing order following which rates began to decline reaching a low of 4 11/16 cents in early August with sterling touching an all time record low of 2 13/16 pence as a result of the market being cut off from repatriation of funds and from remittances by overseas Chinese. Thus there was a dearth of ~~an~~ available exchange to cover import trade. Fourteen American, British, Netherlands and Soviet banking institutions as well as three Chinese Government banks were given special licenses by the American and

British Governments to provide exchange for normal trade requirements. The American freezing order did not prescribe regulations for the local US Dollar accounts of the licensing banks hence trading in these local accounts has been more or less unrestricted. ^{However,} The British freezing order forbade free transactions in local sterling accounts. The Chinese Stabilization Committee at Chungking on August 18, in an attempt to arrest ^{the} decline in rates, authorized licensing banks in Shanghai to sell exchange at $5 \frac{5}{16}$ US cents and $3 \frac{5}{32}$ pence to merchants to cover certain qualified essential imports from United States ^{South America,} and sterling areas not on the banned list proclaimed by the Chungking authorities on July 1, 1939. Following this action a "black" market began to develop for disposition of export bills and sales of local exchange holdings by the public thus providing for ^{the} imports of articles on the banned list and all imports from other than American or British sources. Black market rates on August 20 were $4 \frac{13}{16}$ US cents and $2 \frac{31}{32}$ pence. ^R The Nanking Regime decreed freezing orders in late July thus preventing the disposition of American and British assets in areas under its control, though the orders do not apply to the foreign controlled areas of Shanghai. As a further action following the American freezing the Nanking Regime also announced that beginning on September 1 all customs, salt, consolidated

and local taxes must be paid in the Central Reserve Bank Currency except in localities where the new currency is not yet in general circulation or where the bank has not yet established branches, an action calculated to increase the prestige and circulation of the new currency. However, the new tax payment order does not indicate that the arbitrary parity between the new currency and the Chinese National currency is abandoned. The Central Reserve Bank's note~~s~~ issue on August 16 was CRB yuan 87 million. The Japanese sponsored authorities at Hankow issued ^a freezing order affecting American and British assets but most foreign assets in Hankow have long since been retired or transferred. Withdrawals from yen accounts in Japanese banks by American and British nationals require permits ~~and~~ the Japanese authorities inspected the books of Chinese banks to record the very limited accounts of American and British depositors. No attempt has so far been made to control foreign banks and their transactions in Chinese currency continued freely. However there was a short run on Hankow banks after the freezing order causing a temporary shortage of Chinese currency. The HongKong dollar has been officially made a sterling currency, hence it is subject to the British freezing order. Chinese residents in Hong Kong can ~~only~~ remit only Hong Kong dollars fifteen hundred per person per month

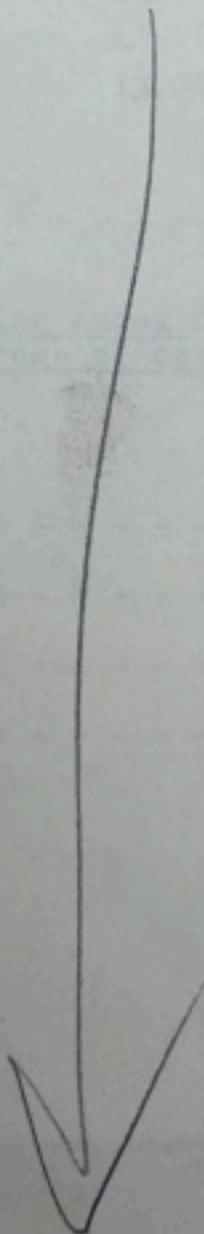
Shanghai and elsewhere for necessary purposes. The Freezing order caused confusion in the Kunming ~~and~~ black markets in late July, with nominal rates of Chinese yuan much strengthened. ~~Foreign~~
~~trade~~

Foreign Trade: A new Manchuria trade federation is to be organized September 1 to replace the present foreign trade control organizations for drafting import plans, issuance of trade permits, improving control technique, drafting plans for better exchange of goods between Manchuria and Kwantung Leased Territory, et cetera. Eighteen Manchurian products were exempted from import duty upon entering Japan. New barter arrangements between Manchuria and North China are planned ^{but} as a result of the German-Soviet war Manchurian trade with Germany via Siberia has come to a complete standstill. Tsingtao foreign trade reached ^a very low level in July even before the freezing orders. Bristle and peanut oil shipments to United States were handicapped by shipping shortages ^{and} the freezing order ^{in Hankow a} has since resulted in complete suspension of foreign trade. ~~Situation~~
~~situation still continues in which no non-Japanese shipments can be made but~~
~~in which no non-Japanese shipments are made to or from Hankow continues.~~

Japanese vessels carried from Hankow in July 120,000 piculs of raw cotton and ⁺ quantity of iron and steel scrap salvaged from Hanyang Iron Works. ⁺ Hong Kong official statistics show that the colony's combined imports and exports in June totalled United States dollars 28.4 million an increase of three percent over ~~sapely~~. Reports indicate

that a shortage of automobiles in Hong Kong may necessitate the
lifting of ^{the} ban on imports of automobiles from non sterling countries
including Canada.

Change Trade



August 21, 1941.

Shanghai, China.

**Comparative Prices at Shanghai
of Consumers Staple Goods**
(Prices in yuan or Chinese National Dollars)

| <u>Commodity</u> | <u>Aug. 15 1941</u> | <u>July</u> | | <u>Record High</u> | |
|--|-------------------------|-------------------------|-------------------------|------------------------|-------------------------|
| | | <u>Aug. 15 1941</u> | <u>Aug. 15 1940</u> | | <u>July 15 1937</u> |
| Saigon Rice (178 lbs) | 135.50 | 130.00 | 57.30 | 11.50 | 161.00 |
| Edible Oil (Peanut oil 133-1/3 lbs) | 300.00 | 182.00 | 93.50 | 30.50 | 300.00 |
| Wheat Flour (49 lb bag) | 34.40 | 33.10 | 14.65 | 3.80 | 34.50 |
| Soap, laundry, 2nd grade, per case of 20 lbs. | 57.50 | 52.00 | 22.00 | 6.70 | 59.00 |
| Cotton Cloth, 16 lb. wt., coarse, per piece of 42 yds. | 60.00 | 48.50 | 38.00 | 10.90 | 60.00 |
| Coal Briquettes per 110 lbs. | 16.50 | 15.00 | 7.20 | .80 | 20.00 |
| Matches per 100 packets, parlor safety match type | 13.00 | 10.50 | 3.50 | .95 | 13.00 |

Cost of Living Index for Shanghai Industrial
Workers (Average prices of 1936 equal to 100.)

| <u>Month</u> | <u>Index</u> |
|----------------------|--------------|
| July, 1941 - - - - - | 800.32 |
| June, 1941 - - - - - | 772.82 |
| July, 1940 - - - - - | 438.22 |
| July, 1937 - - - - - | 104.26 |

*ask Miss Smith
Miss Brown*

Shanghai, China,

August 21, 1941.

EXCHANGE RATES FOR CONVERSION PURPOSES

For the purpose of conversion of the currencies mentioned in this report, the following exchange ~~rates~~ rates may be used:

| | July 1941 | |
|--|--------------|--|
| 1 yuan (or Chinese dollar) | US\$0.526 | (Open market interbank spot rates at Shanghai) |
| 1 yuan (or Chinese dollar) | US\$0.30 | (Official stabilization rates for export trade valuation on certain commodities for Chinese controlled areas) |
| 1 Customs Gold Unit | US\$0.6773 | (Shanghai Customs average for import trade valuations for non-yen bloc countries) |
| 1 Customs Gold Unit | US\$0.1424 | (For import duty payment to Customs at Chinese controlled ports) |
| 1 Customs Gold Unit | US\$0.2893 | (For duty payment at Shanghai) |
| 1 Customs Gold Unit | US\$0.66 | (Customs average for import trade valuation at Chinese controlled ports) |
| 1 Manchurian yuan (at virtual parity with 1 yen) | US\$0.2344 | (Selling rate -- American Consulate, Dairen) |
| 1 "Federal Reserve Bank" yuan | | (Inconvertible directly into foreign currencies but commanded an average premium of 5% over Chinese yuan for the month of June) |
| 1 Hong Kong dollar | US\$0.2425 | (American Consulate General, Hong Kong) |

note check

ask Brown check for HK report 86%

August 82%