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GENERAL RESUME

In the Chinese controlled areas the industrial cooperatives program, designed to produce consumer goods for war time self sufficiency, is progressing and modern industries set up in Szechwan with machinery moved from Hankow are getting into production. Work on the Yunnan-Burma and Yunnan-Szechwan railways and on important new highways is proceeding. Pack-animal and hand cart transportation is coming into greater use as war emergency measure to supplement increased motor truck transport. A commercial air service from Chungking to Soviet Russia began March 24. The Chinese Government began world wide broadcasting March 15. Inter-city telephone services have been expanded. Two new yuan 600 million loans are announced to help finance a yuan 2.8 billion 1939 budget. The Chinese controlled areas supplied more than 40% of China's total exports in February.

In Manchuria, the conservation of available foreign exchange for imports of heavy industrial equipment and war materials generally continues to restrict severely imports of other categories from countries other than Japan. The Manchurian authorities have recruited over half a million out of a contemplated 900,000 Chinese laborers from North China for 1939, are enlisting the services of 2,300 technicians from Japan, and expect among numerous objectives to supply 700 thousand tons of iron and steel to Japan this year. The Manchurian budget has been nearly trebled to carry out the war industries developmental scheme. Japanese investors have put more than yen 1 billion into Manchuria in the past three years.

In North China the Japanese authorities plan to rush the cotton production program by making cotton planting compulsory and prohibiting the planting of cereals, counting on Manchuria to supply the latter to North China, but it remains to be seen whether these objectives may succeed in light of tactics in the guerrilla controlled regions designed to defeat such aims. At the Tsingtao docks three berths for non-Japanese ships were made available as of March 25 but the restrictions and limitations are such as still to relegate non-Japanese ships pretty much to the outer harbor. Up to the present the Export Exchange Control system introduced by the "Federal Reserve Bank" in North China in early March and abolition of use of Chinese legal tender currency have been only partially successful.

Agriculture is suffering in Central China from the Japanese occupation. The Wuhan cities (including Hankow), where 1,000 Japanese operated retail stores have opened up, remain dead to other than Japanese trade. Industry, except for cigarette manufacture, continues dormant. Japanese military scrip is being introduced increasingly as currency.

Shanghai still struggles with the problem of caring for 20,000 Chinese refugees, while 6,500 Jewish refugees from Germany have arrived with more to come. A congestion of self-supporting Chinese refugees has upped department store sales and amusement enterprise receipts. However, Shanghai export trade is declining due to the cutting of trade with the interior through the Chekiang ports, while large imports for consumptive requirements and the dumping of yen and North China currency here for requirement of foreign exchange is placing a strain on the recently created Sino-British £10 million stabilization fund.

Canton remains without rail services. Very little incentive for reconstruction is in evidence. Japanese interests are beginning to rehabilitate certain of the partially destroyed Kwangtung provincial industrial plants (sugar mill, cement mill, brewery).

Hong Kong continues to flourish despite having been cut off more than 5 months from direct contact through Canton with the interior.

REGIONAL TRADE CONDITIONS

Trade Conditions in Manchuria during March, 1939

(Digested from reports of Charles S. Millet, Vice Consul at Harbin; Wm. R. Langdon, Consul at Mukden; and William T. Turner, Consul at Dairen)

Agriculture and Crops: The wheat situation in Manchuria is acute; stocks of wheat and wheat flour expected to be exhausted by May. The authorities are exhorting farmers to increase wheat planting. Strong soy bean market in North Manchuria will probably be offset by a larger carry over from last year. Mitsui reports perilla seed contracts for first six months of 1939 totalling 3,000 tons, being greater than banner year 1935. The Manchuria Livestock Company has been entrusted with all business related to livestock and animal by-products. On January 12 the Government fixed prices of lumber for 1939 and on February 14 announced that 140 million cubic feet of timber would be needed in 1939, (75% more than felled in 1938), deficiency to be imported from Japan.

Transportation and Communications: Sixty-six kilometers of new railway lines have been opened to traffic since January. Freight traffic on Manchurian railroads broke all records in 1938, rising to 47 million metric tons as compared with 38 million in 1937. Yen 18 million is provided in the 1939 budget for improvement of airports. A tri-weekly passenger air service commenced during February between Hsinking and Peking; a bi-weekly service opened over the 410 kilometer route connecting Hsinking with Chosen border points. The South Manchuria Railway Company's bus system on March 31 covered 14,176 kilometers. The current budget provides Yen 250,000 for surveying in 1939 a 7 meter wide highway between Dairen and Harbin. Commencing April 1 the Manchuria Telegraph and Telephone Company plan an expenditure of 30 million yen on an extensive expansion program.

Industry and Construction: The Labor Control Law, effective February 20, requires the registration of all laborers in 43 trades and the formation of labor control agreements among employers. The official Tatung Kungssu recruiting agency announced on January 28 that 502,000 coolies had been recruited from North China, while on January 14 the Government stated that it planned to bring in 900,000 coolies into Manchuria in 1939; of which 670,000 were for industry and 230,000 for agriculture. Japan insists that Manchuria's Five Year Plan be subordinated to Japan's industrial program, according to a statement of Director Hoshino of the General Affairs Board of the State Council upon his recent return from Japan. It is agreed that the Empire's pig iron, coal, chemical fertilizer, soda and light metals industries be centered in Manchuria, and further that there shall be transferred to Manchuria plants in Japan which are idle or suffering loss because of raw material restrictions and war-time economy, including transfer of Japan's surplus fire-generated electricity plant. Japan has undertaken to supply 2,300 technicians to Manchuria in 1939. The Manchuria Coal Liquefaction Company's first plant (10,000 metric tons liquid fuel annual capacity), came into full time production in March. The Manchuria Petroleum Company during 1938 showed a net profit of Yen 2.5 million, and paid a 7% dividend. On February 16 the law of the Mukden Arsenal Company, Ltd., was revised raising the capital from Yen 4.6 million to Yen 25 million, to increase munitions output for the Japanese Army and Navy on the Continent. The Tungpientao Development Company has contracted with Japanese engineering firms for the erection of an iron smelter. A report from Tokyo states that in the

REGIONAL TRADE CONDITIONS (CONT'D)

Trade Conditions in Manchuria (Cont'd):

year ended March 31, 1939, an estimated 600,000 metric tons of pig iron and 100,000 tons of semi-manufactured iron will have been imported from the Showa Steel Works in Manchuria into Japan, as compared with 100,000 tons of pig iron and 210,000 tons of the half finished goods the year before. Two 700 ton furnaces already in operation are to be augmented by two additional ones to be put in blast in March. The Manchuria Light Metals Company has completed its main plant at Fushun and selected a site at Antung for the erection of a second aluminum plant by the end of 1940. Equipment orders have been placed with German, British and American suppliers. Mukden now has a total of 191 up-to-date power factories of which 45 are metal industries, 34 chemical, 33 machinery and tool making, and 68 foodstuffs, brewery, nitrogen, lumber and miscellaneous manufactures; all 100% Japanese-owned and controlled. The Government aims at producing Yen 25 million of gold this year, two and a half times the production of 1938. In 1939, the S.M.R. and Government plan to build 2,500 homes for their Mukden employees. The current Government budget provides Yen 8 million for the development of Hulutao and harbor.

Finance and Banking, Exchange Control: The Manchurian budget balances at Yen 1,692 million as compared with Yen 672 million last year. To meet the deficit in revenue to cover these heavy outlays the budget contemplates loans to the extent of Yen 397 million. On February 9 the Law of Bonds for investment in enterprises was revised authorizing the Government to incur obligations up to one billion Yen for investment in enterprises. The Manchurian Affairs Board of the Japanese Cabinet announced on February 8 that Yen 1,035 million of Japanese money had been invested in Manchuria in the years 1936-1938, mostly in the purchase of state company bonds and shares. Government obligations incurred during February totalled Yen 55 million. Postal Savings Deposits on December 31, 1938 totalled Yen 51.5 million. Life insurance in force totalled Yen 34.4 million. The Kwantung Government gazetted new tax laws effective April 1, increasing taxation on excess profits, corporation dividends, interest on bonds and debentures, former untaxed consumer commodities (especially all that have at any time been imported from foreign countries, except Japan), and introducing various other taxes. The Kwantung exchange control authorities have tightened up measures to prohibit export of commodities when not accompanied by export exchange bills productive of urgently needed foreign currency. At the end of February, 1939, deposits in banks in the Kwantung Leased Territory were Yen 242 million, loans Yen 294 million, comparing favorably with February, 1938.

Foreign Trade: Imports from "third" countries (excluding Germany and Italy which have barter agreements) have become more difficult as foreign exchange balances declined because of dull exports to gold bloc countries and as available exchange was conserved by the Government for imports of capital goods and war materials. Imports of 5 million bags of foreign flour for 1938-1939 are estimated as required in North Manchuria as a result of 15% shortage in past year's wheat crop. Flour dealers are petitioning authorities to abolish the 36 sen per bag import duty on flour. Stable exports were dull because of weak markets and high local prices. A Finance Department order issued on February 15 requires the establishment of associations to control the import or export of designated articles under the Trade Control Law, under which traders in hog skins, raw hides, tannin, and furs and skins, were required to join their respective control associations, all officered by Japanese competitors. Figures released by the Government for the period January 1 to February 20 give the gross trade as Imports: Yen 222.5 million compared with 141.6 million last year; Exports: Yen 160.6 million compared with 131.7 million last year. The increase in imports was entirely from Japan.

REGIONAL TRADE CONDITIONS (CONT'D)

Trade Conditions in North China during March, 1939
(Digested from reports of Frederick W. Hinke, Consul at Tientsin and Richard M. Service, Vice Consul at Tsingtao, and from other sources.)

Agriculture and Crops: Orders prohibiting the growing of tall crops such as kaoliang and millet, which afford cover to Chinese guerrilla troops, have been re-issued along the Japanese controlled railways. The planting of cotton in areas under Japanese domination is to be compulsory, while farmers will be simultaneously prohibited from planting cereals which are expected to be supplied from Manchuria. However, negotiations for a barter exchange of North China cotton for Manchurian cereals have thus far failed. Hence, foodstuffs are being ordered from Shansi to relieve the present Peking shortage. A total of 180,000 acres of cotton is to be planted in Hopei Province in 1939. Selected seed is being distributed in North China by Japanese interests. In Eastern Shantung alone they expect to distribute some 4 million pounds to Chinese farmers. Thus, Japanese cotton interests through an aggressive promotion program hope immediately to accomplish their objective to develop North China as a highly important source of supply of raw cotton for Japan. Latest reports indicate that through a 9-year program, the Japanese plan to increase the annual production of raw cotton in North China from the present 1.28 million bales (500 lbs.) to 2.67 million bales.

Transportation and Communications: The Sino-Japanese Chung Hua Aviation Company commenced a daily Peking-Dairen passenger service on March 1, enabling passengers to reach Tokyo from Tientsin in a day. On March 14, the same company inaugurated a Peking-Shanghai service via Tientsin, Tsinan, Hsuechow and Nanking, with 4 trips weekly each way. A twice-weekly service from Peking to Tatung via Kalgan was also started March 15. No progress has been made to link telephones in the British and French Concessions at Tientsin with the facilities of the "North China Telephone Administration". It is planned that uniform freight and passenger rates on all North China railways will become applicable after April 1.

On March 25 the inner harbor at Tsingtao was partially opened to foreign flag shipping. Two berths for general cargo and one berth for the discharge of oil products, were placed at the disposal of foreign shipping firms. These berths are not provided with sheds hence cargo must be piled on the wharf with only tarpaulin protection. It is judged that at least 5 or 6 wharves are necessary efficiently to handle coastwise and ocean shipping. Because of these inadequate facilities, foreign shipping companies still continue to use the off-shore anchorage. Use of the "Dangerous Goods" berth is limited to products which the Japanese military have particularly classified as dangerous, and tankers may not unload lubricating oil, wax, candles, and installation supplies there. There is little improvement in the serious shortage of freight cars on the Tsingtao-Tsinan railway.

Industry and Building Construction: A large British concern at Tientsin producing frozen egg products settled exchange for £200,000 to cover current year operations, indicating that it plans to operate normally this season despite exchange control. Cotton mills in the Tientsin area have sharply curtailed operations due to Japanese military requirements and shipments to Japan of raw materials. Press reports state that the yuan 1 million Peihai Petroleum Co. (Sino-Japanese) is to be established during April. A "National Match Corporation" to include 85 Chinese and 11 Japanese match factories is shortly to be formed in Tientsin to monopolize sales and fix prices. Annual production is forecast at 1.5 million cases of which Chinese factories will be permitted to produce 60%. A Sino-Japanese North China Salt Co., capitalized at yuan 30 million ($\frac{1}{4}$ paid-up), has been established to control the Changlu and Shantung salt fields. A salt refinery and warehouses costing yuan 600,000 are reported completed at Changlu.

REGIONAL TRADE CONDITIONS (CONT'D)

Trade Conditions in Central China during March, 1939
(Digested from report of Vice Consul Franklin Hawly at Hankow)

Agriculture and Crops: Crop plantings suffered somewhat from unfavorable weather; spring wheat, barley and beans were most affected. Planted areas for all crops are considerably less than in previous years in the provinces of Hupeh, Hunan, Honan and Kiangsi, this being particularly true in regions accessible to Japanese troops. Japanese army requisitions of produce, conditions near Japanese garrisons, the practice by which cavalry horses are allowed to feed in rice and grain fields, do not encourage a more abundant rural life.

Transportation and Communications: Except for Japanese goods, which now enjoy distribution in approximately 1,000 Japanese-operated retail stores in the Wuhan area, the Yangtze and Han Rivers remained closed to commercial and passenger traffic. Railways in Japanese controlled territory continued to be utilized for military purposes only.

Industry: The almost complete inactivity which has characterized Hankow's industrial life since its occupation by Japanese troops continued throughout March, the only notable exception being a British-owned cigarette factory which continues to operate 6 days per week, with an output of about 5 million cigarettes per day. Large portions of the city are still without, or with only partial, electrical and water facilities due to lack of coal for power production. The Tayeh iron mines are expected to resume operation in April or May. These mines are located 15 miles inland from Shihhweiyao (50 miles east of Hankow) on the Yangtze. The railway to the mines was destroyed prior to the occupation of the area by Japanese forces, but has now been reconstructed including the assembly of 2 locomotives from the parts of 6 originally running. Additional locomotives are expected to be shipped from Japan.

Finance and Banking: Inactivity in industry and in all but retail sales left little scope for financial and banking operations. Despite Japanese pressure, all modern-style Chinese banks located in the French Concession of Hankow were open for business. Chinese national currency continued in circulation but was at par with army Yen notes. The latter are used for all payments made by the Japanese military and naval forces for export goods, for supplies obtained for local use, for labor and for army and navy payrolls. Taxes imposed by the Japanese sponsored government continue to be paid in Chinese currency. The Japanese military scrip is issued at the official rate of yuan 1.25 equals Yen 1.00, but only on a one-way basis whereby no Chinese currency can be obtained for Yen. This system enables Japanese banks to withdraw Chinese notes from circulation and send them to Shanghai where they can be converted into foreign exchange at a premium of from 12% to 14% above the rates prevailing at Hankow.

Foreign Trade: Other than Japanese, there has been no commercial activity at Hankow since the occupation of the Wuhan area by armed forces in October 1938. No foreign owned cargo has moved either in or out of the city. No figures are available as to the quantity of Japanese freight brought in as it is handled as military supplies and does not pass through Customs. However, a wide variety of Nippon-made goods are in evidence in the Japanese-operated retail stores.

REGIONAL TRADE CONDITIONS (CONT'D)

Trade Conditions in North China (Cont'd):

At Tsingtao, reconstruction of cotton mills continued. There has been another three months extension, to May 31, of duty exemption on imported reconstruction materials. The "Shantung Coal Production and Sales Association" is to be reorganized so as to control the entire industry in the Tsingtao and Northern Shantung areas. Coal prices during the winter ranged from yuan 23.00, obtainable by Japanese and a few foreigners, to yuan 48.00 per ton. Most non-Japanese had to pay the latter figure.

Finance and Banking: "Federal Reserve Bank" authorities at Tientsin announced that for the time being exports not on the "controlled" list (including furs, sausage casing, bristles, etc.) can be freely exported at "open market" exchange rates, but that eventually it is the intention of the "Provisional" regime to put all North China exports on a controlled basis. Exporters of carpets, rugs, egg products and strawbraid, were generally given until July 11 to ship merchandise sold but unshipped prior to March 3 for which exchange had been settled by that date; exporters of other "controlled" articles were given until April 11 to ship cargo for which exchange was settled. On March 2, the "Federal Reserve Bank" announced that it would sell exchange to cover "preferred" imports at approximately the same rate and to the exact value of export bills negotiated through it at the "official" rates but that import exchange would only be made available after export bills were collected. Temporarily the Bank agreed to permit exporters of "controlled" articles to "link" their exchange to "preferred" imports, the importers compensating exporters for exchange losses incurred by buying merchandise at "open market" prices and shipping at "official rates". The most important "preferred" imports are: rice, wheat flour, iron, steel, tin ingots, machinery, machine tools, motor trucks, petroleum products, railway materials, paper, rubber, certain dyes and chemicals. Imports of other commodities must be financed on the "open exchange" market. Thus far, non-Japanese foreign banks have not cooperated in the exchange control scheme. At the close of March, Chinese national currency in Tsingtao was at a premium of about 2% over "Federal Reserve Bank" currency, signifying the failure of the "Provisional" government to force through to practical ends its decree announcing the invalidation of national currency after March 10, 1939. Furthering its endeavors to strengthen circulation of its banknotes, the "Federal Reserve Bank" announced that subsidiary local banks will be established in North China.

Foreign Trade: Demand for import exchange continued heavy, especially to finance wheat flour shipments from Australia. Importers estimate flour stocks on hand and orders placed during the past 6 weeks as equivalent to a 4 to 6 months supply. Little new business was done in "controlled" exports as exporters encountered difficulties in "linking" their exchange to imports. Fur and bristle exporters reported active interest after March 11, when overseas buyers became aware that these articles were not "controlled". Exchange orders on hand but unfilled on March 11 were between US\$500,000 and US\$750,000. The Tientsin Consulate General has warned importers in the United States to require Tientsin exporters of uncontrolled commodities to settle exchange on receipt of orders and has advised United States exporters to restrict sale to this market to a fully secured exchange basis. At Tsingtao it was announced that imports would be restricted to articles specified by the "Provisional" regime as necessary for daily use, and that the "Federal Reserve Bank" would not supply foreign exchange cover under the "link" system for other commodities.

REGIONAL TRADE CONDITIONS (CONT'D)

Trade Conditions in East Central China (including Shanghai) during March, 1939
(Prepared in the office of the American Commercial Attache, Shanghai)

General: Ninety thousand destitute Chinese refugees are still being cared for in camps in Shanghai. The relief problem has been complicated by the addition of 6,500 Jewish refugees from Germany and Austria, with several thousand more expected in the near future. Department store sales in Shanghai in the March quarter were 75% above the totals for the comparable period of 1936 and 63% above the first quarter of 1937 (active period prior to hostilities), an indication of the presence in Shanghai of hundreds of thousands of well to do refugees. The cost of living for all categories of society continued to rise. Rents in some cases have been raised 75%.

Agriculture and Crops: Weather has been favorable but the outlook is for a smaller winter wheat crop in East Central China due to smaller acreage planted. In the region South of the lower Yangtze cotton planting is expected to be normal, but north of the river it is expected to be curtailed due to unsettled conditions, poor return on last year's crop, and to exorbitant transportation costs and levies.

Transportation and Communications: Railways in the region are operated by the Japanese authorities mainly for military purposes, using, a limited amount of rolling stock brought from Japan and Manchuria. A daily express service is operated between Shanghai and Nanking, six hours being required for the trip. Travel for foreigners is exceedingly restricted and permitted only on military passes. Except for access to the few ports near the mouth of the Yangtze served by small foreign craft from Shanghai, the Yangtze River remains closed to non-Japanese shipping, but a fairly active trade between Japan and Yangtze ports as far as Hankow is apparent though unrecorded in trade statistics. The fall of Nanchang, capital of Kiangsi Province, and the cutting of the Chokiang-Kiangsi Railway at that point stopped an important through highway-rail traffic between Central China and the Chokiang coastal ports, necessitating deviation of traffic to highway routes south of Nanchang. Interference on the part of the Japanese naval authorities with small coastal craft which formed the link for a fairly direct trade between Shanghai and interior China via the Chekiang ports has cut off a flow of both foreign and domestic trade important to Shanghai.

Industry and Construction: The congestion of an estimated four million people in the relatively small foreign controlled area of Shanghai serves to keep public utilities operating at high levels and to stimulate the continued construction of housing and small factory units, warehouses, etc. Reduced production of staples such as cotton, wheat and tobacco, together with heavy takings by Japan of available supplies from the accessible interior, continue to make abnormally heavy imports of these items necessary for the supply of Shanghai mills and factories. Silk filatures in Shanghai are suffering from a dearth of supply of cocoons which are monopolized by Japanese interests in the producing areas.

Finance and Banking: The foreign exchange rate for the yuan in the Shanghai open market firmed a little during the month due to the establishment of the £10 million Sino-British Stabilization Fund, but abnormal demands for cover for imports, decreasing exports and the drain caused by the unloading of yen and displaced North China currency in the Shanghai market appear to be making inroads on this fund, though rates for the immediate future are expected to remain firm.

REGIONAL TRADE CONDITIONS (CONT'D)

Developments in the Chinese Controlled Areas

(Prepared in the office of the American Commercial Attache, Shanghai, from various sources including a report of Vice Consul Stephen C. Brown, Kunming, Yunnan.)

Agriculture and Crops: The National Government has ruled against applications for import of 1.2 million hectolitres of foreign rice to supply the food deficiency in Kwangtung Province, maintaining that domestic supplies should be moved from producing areas to avoid drain on foreign exchange resources. The National Agricultural Research Bureau announced that experiments have been successful in growing flue cured leaf tobacco in Kweichow Province, plants reaching 5' height with leaf spread 15" x 17". Kweichow farmers are being trained in methods of curing.

Transportation and Communications: Tunneling operations on the projected Yunnan-Burma Railway and earth work on the Yunnan-Szechwan line are proceeding. The indications are that work on the trans-Kwangsi railway from Kweilin to the French Indo-China border has been suspended. Additional rolling stock is reported to have been ordered for the French Indo-China-Yunnan railway but it is not expected that the congestion will be relieved for some time. At Haiphong congestion of China-bound cargo is so heavy that the French authorities there have prohibited vessels from discharging there for the time being. The disruption of the Chekiang-Kiangsi Railway as a result of the fall of Nanchang hampers through transportation from Hunan, Kwangsi and northern Kwangtung Province by the rail-highway route to the Chekiang ports, and thus adversely affects the economy of the Chinese controlled areas. The unoccupied sections of the rail line continue to function, and highway services form a connecting loop south of the Japanese occupied section. It is reported that hundreds of hand carts are being used in Chekiang Province to transport goods between the rail terminal at Kienhwa and the coastal ports. The port of Ningpo is now closed, leaving only Wenchow open.

Highway bridges on the Chengtu-Sian road (1,000 kilometers) in Northwest China have been strengthened to take a load of 7 tons. A direct Chungking-Tachienlu highway (300 miles) is under construction, to be finished by the end of the year. Pack animal caravans in addition to motor trucks are now in extensive use between Szechwan Province and the rail head at Kunming, Yunnan.

On March 24 the Eurasia Aviation Corporation (Sino-German) inaugurated a passenger-mail air service between Chungking and Hami in Sinkiang (distance 2,318 kilometers - time 2 days) to connect with services to Moscow and Western Europe. The Chungking-Rangoon service of the China National Aviation Corporation, owing to technical difficulties, has not yet been inaugurated though trial flights continue to be successfully made.

The 35 KW Chinese Government broadcasting station at Chungking began world wide broadcasting on March 15. Inter-city long distance telephone services between Chungking-Chongtu-Kweiyang and Kunming were opened on March 16.

Finance and Currency: Chinese Government expenditures, officially announced, in 1937 totalled yuan 2.1 billion, in 1938 yuan 2.4 billion, and are estimated for 1939 at yuan 2.8 billion. To meet the current year's deficit resulting from loss of revenue producing areas, two loans were announced in mid-April, viz: the 1939 Construction Loan, yuan 600 million, to be redeemed over 25 years ending in 1966; interest 6%, secured on surplus profits of new national enterprises in the Southwest, and salt surtax

REGIONAL TRADE CONDITIONS (CONT'D)

Developments in the Chinese Controlled Areas (Cont'd):

revenues, and the 1939 6% Military Loan, yuan 600 million, with similar redemption schedule, secured on the Consolidated Tax and Wine and Tobacco Tax. From July 1, 1937 to date the Chinese Government has floated 9 domestic loans totalling yuan 2.9 billion, bringing total domestic loan obligations up to a figure of yuan 5.6 billion, an increase of 107% over the pre-hostilities level. Foreign loans outstanding on July 1, 1937, were estimated at yuan 1.8 billion or £106 million or US\$500 million (at present London-New York cross rate parity). New foreign obligations cannot now be estimated but represent some considerable increase.

From July 1, 1937 to March 31, 1939, the Chinese Government according to official announcements paid out yuan 530.4 million on loan services yuan 331.65 million being for domestic and yuan 198.76 million (or about US\$66.4 million) on foreign obligations. The Ministry of Finance has announced that owing to interference by the Japanese with salt revenues collected in the occupied areas, the Chinese Government is obliged to suspend the servicing of foreign loans secured on salt revenues, this on the same basis as with Customs secured loans as announced in mid-January, - the Chinese Government to meet only the portion of such payments as represent collections in areas remaining under its control. The Chinese Government, however, has indicated its readiness to enter into negotiations for continuous servicing of these loans so far as practicable under present difficult conditions.

In order to facilitate inter-provincial trade, the Ministry of Finance has announced that Kwangsi Provincial notes are to be acceptable throughout China at the official conversion rate of yuan 1 equal to Kwangsi \$2. Copper coins in the interior are to be all treated as token coins with 1¢ valuation regardless of nominal face value. The Ministry of Finance has taken over the provincial mint in Yunnan for coining standardized copper and nickel subsidiary currency.

Restrictions on remittances from the interior to the occupied areas including Shanghai, to prevent flight of capital, have slackened somewhat, the present charge for remittances from Chungking for cash payments in Shanghai being about 10%.

Industry and Construction: It is officially reported from the interior that the movement to develop industrial cooperatives for production of consumer goods in a program designed for war time self sufficiency is progressing favorably, with 500 such cooperatives expected to be in operation by the end of April. The four Government banks at Kunming have formed a joint committee for extending loans to the cooperatives. Two cotton mills with machinery moved from Hankow began operation in Szechwan Province in early March. A large paper mill enterprise which was to have been established in Chekiang Province before the hostilities began is now to be established in Szechwan Province under joint government and private auspices.

Foreign Trade: Imports into the Chinese controlled areas in February as calculated from Customs statistics were valued at about US\$3.3 million and constitute only 15% of the total imports into China. Direct exports abroad from Chinese controlled territory in February were valued at about US\$5.3 million, constituting about 30.4% of China's total export movement. If estimated shipments to Shanghai for re-export are counted in, the figure for February exports from Chinese controlled territory would equal US\$8.3 million or nearly 43% of China's total exports.

REGIONAL TRADE CONDITIONS (CONT'D)

Trade Conditions in Canton during March, 1939
(Condensed from the report of Vice Consul Walter Smith)

The rice shortage continued, forcing prices to a point 49% above the 1938 average. Spring acreage is smaller due to non-return of farmers and continued hostilities in the region. Anticipations are favorable for the first silk crop - yield is forecast at 4,000 bales.

Except for limited passenger and mail service the Pearl River continues closed and Canton remains without rail services, though towing and launch traffic on local waterways in the occupied district is improving somewhat. The Sunning Railway as well as highways leading from the Toishan district to Kwangsi are reported destroyed, and work on the trans-Kwangsi railway to the French Indo-China border suspended. A Formosan company resumed operation of the Canton municipal radio station XGOK on April 10.

Very little incentive is in evidence for reconstructing devastated areas of Canton, but the provincially owned sugar mill at Tungku (100 tons daily capacity) has been reopened by the Japanese authorities who plan also to re-open the cement mill and brewery.

The Canton dollar (nominally quoted) remained firm at about 2.40 to HK\$1.00. The use of Japanese military notes became more general. The market continued to be flooded with Japanese goods. A monthly police tax, levied on the value of buildings, has been instituted.

The Canton Chamber, and the Reconstruction Bureau, have ruled that local firms must resume business within three months from March 21 or be required to observe regulations for bankrupt firms. Business is, however, exceedingly sluggish and only about 40% of the population of the city has returned.

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Trade Conditions in Hong Kong during March, 1939
(Condensed from the report of Consul Howard Donovan)

The severe slump anticipated from the Japanese invasion of South China last October has failed to show perceptible materialization. Despite the fact that direct communications routes with nearby South China territory have been cut off for more than five months, practically all lines of business in Hong Kong continue to operate at capacity with the exception of insurance. War risk insurance rates have increased 25%. European developments retarded the share market. The Colonial Government's revenues continue to exceed those for the comparable period of 1938. The Hong Kong dollar declined from US\$0.28 15/16 to 0.28 9/16, but is to be stabilized under £10 million fund established in Great Britain and administered from Hong Kong. Imports into Hong Kong in the first two months of 1939 were valued at HK\$7.1 million, a decrease of 53.7% compared with the same period of 1938. (The drop may be attributed partly to the fact that Jan-Feb imports in 1938 were up nearly 32% over the same period of the previous year - 1937 - because of heavy shipments from abroad destined for interior China which were still being diverted from Shanghai and were being routed through Hong Kong, whereas the situation in this respect has changed in the past year. The cutting of direct trade routes and undoubted smaller purchases by interior China are in part responsible for the smaller transshipments.) Exports from Hong Kong to the United States in January-February, 1939, amounted to HK\$7 million, or only 5.8% below the same period of 1938, indicating that Chinese produce of various categories still finds its way to Hong Kong for transshipment despite the disruption to normal transportation routes.

Principal Items of China's Imports in January & February, 1938 and 1939, in which America's trade is a factor, were as follows:

Commodity	Unit	Jan.-Feb. 1938		Jan.-Feb. 1939	
		Total	Am. Share	Total	Am. Share
Cotton, raw - - - - -	Quintals	10,778	1	167,785	41,671
Brass & Copper - - - - -	Gold Units	396,256	58,677	319,244	156,776
Iron & Steel Tubes, ungalv. -	Quintals	14,864	137	12,104	29
" " " Rails, " -	"	36,063	---	8,697	1
" " " Plates & Sheets -	"	29,633	17,785	51,427	7,036
" " " Tin Plates - - -	"	52,924	35,670	33,126	25,612
" " " Tubes, gal. - - -	"	8,266	99	12,328	27
Prime Movers & Parts - - -	Gold Units	303,455	17,996	185,143	12,772
Machinery & Parts (n.o.r.) -	"	1,174,192	139,385	995,516	76,643
Machine Tools - - - - -	"	125,786	64,627	90,105	10,112
Aircraft & Accessories - -	"	31,668	---	9,081	612
Motor Tractors, Trailers and Trucks - - - - -	Pieces	1,439	1,066	413	371
Motor Cars & Busses - - - -	"	119	78	341	227
Motor Accessories - - - - -	Gold Units	224,410	190,610	225,762	109,787
Scientific Apparatus - - -	"	202,268	35,298	209,172	34,374
Electrical Fittings (n.o.r.)	"	111,242	24,529	189,376	12,626
Téléphone & Tel. Material -	"	339,031	22,994	135,601	988
Radio - Sets & Parts - - -	"	81,847	74,808	197,911	91,232
Salt Herrings - - - - -	Quintals	11,742	1,232	3,075	967
Shrimps & Prawns, Dried - -	Kilograms	95,105	5,603	104,722	34,096
Milk, condensed, evaporated and Milk Food - - - - -	Gold Units	155,697	16,963	100,949	12,036
Wheat - - - - -	Quintals	---	---	250,459	172,891
Wheat Flour - - - - -	"	166,081	30,602	229,136	94,435
Cigarettes - - - - -	Case 500's	149,697	4,441	117,548	9,633
Leaf Tobacco - - - - -	Kilograms	2,756,248	2,743,906	5,642,958	4,846,366
Aniline Dyes - - - - -	Gold Units	172,936	41,344	606,652	25,313
Artificial Indigo - - - - -	Kilograms	276,212	92,010	185,583	14,624
Printing Ink - - - - -	Quintals	778	560	1,852	14
Sulphur Black - - - - -	"	1,049	12	15,207	25
Paint & Varnish - - - - -	Gold Units	106,363	22,825	219,703	39,927
Gasoline, Naptha & Benzine -	Liters	19,370,469	11,823,931	22,473,358	5,908,189
Liquid Fuel - - - - -	Metric Tons	24,646	9,375	30,846	8,716
Kerosene - - - - -	Liters	40,862,135	14,112,828	66,164,840	25,815,113
Lubricating Oil - - - - -	"	5,687,811	4,335,055	4,301,082	2,014,033
Paraffine Wax - - - - -	Quintals	39,255	4,278	67,057	9,627
Soap, Toilet & Fancy - - -	Gold Units	4,624	343	70,148	5,668
Books & Music - - - - -	"	312,025	96,778	388,752	195,421
Paper, Newsprint - - - - -	Quintals	51,642	1,952	67,218	17
Paper, drawing, document, banknote, bond - - - - -	Gold Units	21,322	11,577	490,404	4,327
Paper & Paperware (n.o.r.) -	"	190,889	59,860	344,338	11,383
Leather - - - - -	"	46,438	9,070	129,957	28,575
Timber, softwood - - - - -	Cu. Meters	12,098	5,042	84,764	35,363
Asphalt - - - - -	Quintals	1,813	1,653	17,051	9,943
Motor Vehicle Tires & Tubes.	Pieces	18,004	9,394	17,489	6,496
Photographic Material - - -	Gold Units	168,278	57,875	259,223	61,698

April 15, 1939.

China Monthly Trade Report

Principal Items of China's Exports in January & February, 1938 and 1939, in which America's trade is a factor, were as follows:

Commodity	Unit	Jan.-Feb.1938		Jan.-Feb.1939	
		Total	Am.Share	Total	Am.Share
Bristles - - - - -	Quintals	4,126	984	4,819	1,784
Egg Powder - - - - -	"	3,780	826	5,942	594
Feathers, Duck - - - - -	"	3,902	121	4,596	263
Sausage Casings - - - - -	"	2,455	440	3,104	734
Goat Skins, dressed & undr.- - -	Yuan	287,264	26,593	458,315	170,374
Lamb " " " " - - - - -	"	63,047	60,351	774,001	758,927
Weasel " " " " - - - - -	"	40,669	37,377	1,325,022	1,314,139
Walnuts, Kernels - - - - -	Quintals	3,002	1,536	15,376	6,635
Peanut Oil - - - - -	"	21,014	---	46,442	5,862
Wood Oil - - - - -	"	121,223	10,771	49,012	235
Oil, n.o.r. Tallow & Wax - - - -	"	670	3	9,615	5,227
Sesamum Seed & Pulp - - - - -	"	5,947	3	23,552	3,792
Tea - - - - -	"	35,263	6,402	34,590	673
Silk, Raw - - - - -	Kilograms	386,971	50,343	857,485	224,676
Cotton, Raw - - - - -	Quintals	109,096	9,101	39,428	511
Wool, Sheep's - - - - -	Kilograms	124,334	4,792	222,657	142,151
Drawn Thread & X-Stitch Work - -	Yuan	2,487,996	1,598,848	4,628,566	2,872,466
Lace & Trimmings - - - - -	"	1,023,259	740,654	2,176,257	1,678,085
Woolen Rugs - - - - -	Quintals	1,928	882	2,664	1,237
Tungsten - - - - -	"	21,321	750	12,917	---
Antimony - - - - -	"	3,766	---	449	---
Tin, Ingots & Slabs - - - - -	"	24,607	---	16,993	---
Hats, Buntal Fibre & Hemp - - -	Pieces	874,076	473,544	1,913,500	1,311,877
Fireworks - - - - -	Yuan	257,422	33	16,132	---
Hairnets - - - - -	Gross	86,817	28,761	162,249	40,039

Conversion Table to American Units of Measurements

1 Cubic Meter equals -----	423.7771 Board Feet
1 Imperial Gallon equals -----	1.2 American Gallons
1 Liter equals -----	1.0567 Quarts
1 Kilogram equals -----	2.2046 lbs.
1 Quintal equals -----	220.46 lbs.
1 Metric Ton equals -----	2204.6 lbs.
1 Ton (Long) equals -----	2240 lbs.
1 Ton (Short) equals -----	2000 lbs.
1 Pood equals -----	36 lbs.
1 Mow equals -----	1/6 Acre
1 Picul equals -----	133-1/3 lbs.
1 Kilometer equals -----	Approximately 5/8 Mile

The Foreign Trade of the China Region in February, 1939: China's recorded imports during the first two months of 1939 amounted in value to Gold Units 66.6 million, equivalent to US\$48 million, an increase of 15.7% over the same period of last year, a decrease of 6.1% from the same period in 1937, and an increase of 21.4% over the same period in 1936. China's exports during the first two months of 1939 amounted to yuan 125.7 million in value, equivalent to US\$41.9 million, an increase of 50% over the same period of last year, a decrease of 25% from the same period in 1937, and an increase of 7.4% over the same period in 1936. China's recorded imports in February amounted to G.U. 31.4 million, a decrease of 11% from the previous month; China's exports in February amounted to yuan 58.2 million, a decrease of 14% from the previous month. Of China's February imports, 40% (of which 68% was from the Japanese Empire) entered North China ports, 45% entered at Shanghai, and 15% entered the Chinese controlled areas direct. Of the February imports 38% were from the Japanese Empire, 22% from the United States and Philippines, and 16% from the British Empire. Of February exports 31% went to the United States and Philippines, 24% to the British Empire, and 13% to the Japanese Empire. The evidences are that there is a continued and substantial unrecorded trade movement between Japan and the "occupied" areas of China.

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Exchange Rates for Conversion Purposes

For the purpose of conversion of the four currencies mentioned in this report the following exchange rates for March, 1939, may be used:

	<u>1939</u> <u>March</u>	
1 yuan (or Chinese Dollar)	US\$0.1608	(Open market inter-bank spot rates)
1 " " " "	US\$0.3000	(Official stabilization rates for export trade valuation)
1 Customs Gold Unit	US\$0.7182	(Chinese Maritime Customs average for trade valuation)
1 " " "	US\$0.3850	(For import duty payment computation)
1 Manchurian yuan (at virtual parity with 1 yen)	US\$0.2731	(American Consulate General, Harbin)
1 Hong Kong Dollar	US\$0.2882	(American Consulate General, Hong Kong)

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A. Bland Calder

A. Bland Calder,
Acting Commercial Attache.