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(Covering Trade and Economic Conditions during May, 1939) -

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GENERAL RESUME

In the vast Chinese controlled areas, trade, general economic, and financial policies are still being shaped to fit the purposes of long continuing resistance. Further handicaps to import and export trade were apparent in the interference with shipping traffic between Shanghai and the contact ports on the Chokiang coast. Communications and transportation conditions in West China show improvements. The Burma-Yunnan highway was actively in use for Government transport purposes in May. Suspension of service on Chinese Government domestic bonds, announced in mid-June, is apparently part of the scheme to protect the foreign exchange market by keeping the supply of cash to the occupied areas, especially Shanghai, low.

In Manchuria ambitious Government plans for augmenting coal and lumber production, increasing electric power installations, developing water supply, extending farm acreage by apportioning land to Japanese and Korean colonists, and for pushing railway, highway and industrial construction, continue to be announced for completion by 1941, last year of the five year plan, many of the plans seeming to have the purpose of serving military ends. Tighter restrictions on trade are in evidence.

In North China serious crop reductions threaten over wide areas due to spring drought conditions. The North China Development Company (Japanese) is shelving ambitious plans for iron and steel plant installations at the Lung Yen Iron Mines near Kalgan. An estimated 29 billion ton coal deposit below the veins now being worked in the Tatung field in North Shansi has been discovered raising estimated reserves to 40 billion tons. Currency complications and war economy measures continue to restrict trade.

In Central China crop conditions are favorable and farmers are receiving treatment calculated to encourage their return to the land in occupied areas lately affected by hostilities. Hankow industry is almost at a standstill and foreign trade is entirely in Japanese hands because of control of the Yangtze. Some export cargo is moving down river.

At Shanghai under steady exchange conditions, business continued good in May, but still on an unsound basis in view of the heavy drain on exchange resources due to abnormally heavy imports, flight of capital into foreign currencies and flight from the yuan into goods. Temporary suspension of support of open market rates June 7 by the Stabilization Committee resulted in a quick decline of about 20% in the exchange value of the yuan and precipitated a sharp advance in commodity prices. Factory and housing construction continued active. Outlook is uncertain and troubled in view of trends arising out of the Tientsin situation.

Canton and the small occupied region surrounding it continue cut off from tributary areas and from commercial relations with Hong Kong, but Japanese merchandise still comes in as "military supplies". Japanese are having difficulty in purchasing cocoons with military scrip. There is no basis for any noteworthy improvement in business.

Hong Kong continued to enjoy local prosperity from the presence of the large self-supporting refugee population, but its foreign trade and trade with South China, due to cutting off of direct trade routes, showed a bad falling off compared with normal levels. Foreign trade generally declined below the high levels of a year ago.

REGIONAL TRADE CONDITIONS

Trade Conditions in Manchuria during May, 1939

(Condensed from the reports of Consul George R. Merrell, Harbin; and Vice Consul Maurice Pasquet, Dairen)

Agriculture and Crops: It is expected that wheat acreage will be considerably increased. Production of perilla and hemp are to be encouraged. Special attention is being paid to the extension of farming in North Manchuria, 370,000 hectares of arable land to be apportioned to Japanese and Korean colonists and some to Chinese farmers moving from South Manchuria. Yuan 8 million is to be devoted to the development of animal husbandry in North Manchuria. Weather conditions have been favorable and the general crop outlook is good. A total of 3,930 families comprising over 30,000 people have been transplanted from Korea to North Manchuria as part of the 1939 official program. About one-half million laborers from North China have entered Manchuria so far this year a large proportion of whom will do farm work.

Transportation and Communications: Ambitious official plans involving the expenditure of yuan 1 billion by the end of 1941 in North Manchuria include the construction of new railways at a cost of yuan 600 million, construction of 7,000 kilometers of new roads and improvements on 5,800 kilometers of now existing roads, construction of numerous service stations for motor vehicles, the replacement of overhead wires by subterranean cables, the extension of telephone lines, the establishment of new broadcasting stations and the distribution of loud speakers and receivers for public use, improvements in postal and aviation services, etc., etc. The Dairen Kisen Kaisha which operates freight services from Dairen to Japan and North China is reported to have ordered 14 new vessels to cost Yen 30,000,000, total tonnage 75,800 to be completed in 1941.

Industry and Building Construction: Because of the wheat shortage at Harbin, local flour mills were inactive in May. Bean oil mills also worked below capacity due to the decline in demand for the product and due to transportation difficulties caused by a shortage in railway rolling stock. The production of the Haokang coal mines is to be raised to 1 million tons for 1939 and to 2 million tons in 1941, the last year of the 5 year plan. Lumber output from the 6 producing regions is to be increased 53% over 1938 to meet demand occasioned by the extensive construction program drawn up by the Government. The plans embrace also construction work in the nature of preventive measures against floods in the Hailar district and other regions at a cost of yuan 13 million. The construction of 30 new electric power stations at a cost of yuan 100,000,000 is embraced in the Government's plans. Yuan 9,000,000 is to be expended for improvement and extension of water supply in North Manchuria. Many of these plans appear to be designed to serve military ends. Expansion of the facilities of the harbor of Dairen involving a total expenditure of Yen 85 million is progressing. A Yen 10 million land development company is being formed at Dairen for the purpose of reclaiming shore properties for industrial developments. **Power** is to be drawn from the projected hydro-electric plant on the upper Yalu River. The new Dairen water supply,

REGIONAL TRADE CONDITIONS (CONT'D)

Trade Conditions in Manchuria (Cont'd):

under construction at an estimated outlay of Yen 53,000,000, is expected to furnish 300,000 tons daily for drinking and industrial purposes.

Finance and Banking: With a view to increasing foreign currency credits abroad, the Manchurian authorities promulgated a law on May 25 placing additional export commodities under the restrictions of the Trade Control Law. The commodities affected are soy beans, peanuts, perilla seeds, bean oil, peanut oil, perilla oil, castor oil, wild silk yarn and cocoons, Hessian cloth, flax yarn, thread, twine and rope. Exports of beans to Japan and China will be placed under limitations and exports of many other products to China will be entirely prohibited while export quotas will be established for Japan. Harbin native banks have made considerable loans and advances at 14% interest. The rising cost of living index there has moved the Government to impose obligatory retail prices on a considerable range of prepared foodstuffs as well as upon meat, oil, peanuts, etc. Special measures are to be taken for the control of rice and sugar prices. Retail prices at Dairen are 21.4% above those prevailing in April, 1938 while wholesale prices in general are up 25.7% as compared with those prevailing a year ago. Both deposits and loans are reported by Dairen banks as on the increase and are attributed in part to the rising prices. Dairen banks are charging rates between $5\frac{1}{2}$ and 7% for 60 and 90 day loans. The financing of foreign trade, particularly imports, is becoming increasingly difficult as even when exchange permits are issued for import shipments, the exchange often does not become available until 6 months after the import permit is granted. In some cases exchange permits are not negotiable before a specified date several months after the date of issue.

Foreign Trade: Wild silk yarn and waste export trade is expected to be controlled by the projected "Manchukuo" Wild Silk Company capitalized at Yen 5 million, while imports into Japan and distribution in that country are to be controlled by the Japan Wild Silk Company which is expected to be capitalized at Yen 10 million. The reason for placing Hessian cloth and hemp under trade control is to preserve the domestic supply for the manufacture of gunny bags, thus to avoid the importation of these from countries requiring foreign exchange in payment. Limitations on the export of certain seeds and oils to China and Japan are for the purpose of insuring their export to countries which will produce foreign exchange credit. The signing of a renewal and extension of the 1938 trade agreement between Manchuria and Germany was announced on May 31st. In 11 months ending April, 1939, imports into Manchuria of German machinery totalled Yen 29 million in value while iron and steel products, dyestuffs and miscellaneous articles totalled Yen 14 million. Exports to Germany in the same period comprised soy beans to the value of Yen 110 million bean oil Yen 4.5 million and miscellaneous articles Yen 11.5 million. The figures represent some inflation of values. The foregoing figure for machinery imports indicates a trebling of this item over the previous year.

REGIONAL TRADE CONDITIONS (CONT'D)

Trade Conditions in North China during May, 1939

(Digested from the reports of Consul Frederick W. Hinke, Tientsin; and Vice Consul Richard M. Service, Tsingtao)

Agriculture and Crops: Crop failures in North China are in prospect. Serious drought conditions are observable along all rail lines. The wheat crop in Hopei Province is expected to be 5 to 10% below that of last year. Cotton farmers are reported to have been unable to plant more than 50% of the seed received from the Japanese sponsored North China Cotton Improvement Association and it appears likely that the Japanese will fall far short of their expectations to secure about 350,000 bales (or 500 pounds) this year from Hopei Province. The production of wheat, cotton and tobacco in Shantung Province is likely to be affected seriously by the drought conditions. Some experts believe that the 1939 Shantung flue cured leaf tobacco crop will not be greater than 40 to 50 million pounds unless the drought is soon relieved, in which case it might run to 75 million pounds.

Transportation and Communications: Under Japanese auspices on May 4 a new railway line 106 kilometers in length connecting Sinhsiang north of the Yellow River on the Peking-Hankow line, and Kaifong on the Lunghai line, was completed and opened to traffic. The crossing of the Yellow River is negotiated, by means of a newly constructed wooden bridge. The "Provisional" Government at Peiping has announced that yuan 7.5 million is to be devoted to the improvement of inland waterways in Hopei Province this year, also that yuan 12.5 million will be expended on highway construction. An underground telephone cable connecting Tientsin and Peiping is reported to have been completed on May 16 at a cost of yuan 3.5 million.

Wharf accommodations for non-Japanese shipping in the inner harbor at Tsingtao continue to be inadequate and unsatisfactory. In view of the approaching rainy season the absence of godown facilities is causing increased concern. The collection of cargo measuring fees from foreign shippers is a source of growing irritation as the service is of no value to anyone concerned.

Industry and Construction: Tientsin cotton mills curtailed production to about 60% capacity during May owing to the cotton shortage. Chinese mills are reported to be using 40% foreign cotton in their operations. Arrivals of domestic cotton from the interior at Tsingtao have also been disappointing and cotton mills there are similarly affected. The period for free entry of materials for reconstruction of Japanese cotton mills at Tsingtao has been extended for an additional three months to August 31st. The Taiyuan cement works in Shansi is reported to be producing 150 tons of cement daily, mainly for local use. A coal deposit of 28 billion tons is reported to have been discovered below the veins now being worked by the Tatung coal mine in North Shansi, bringing total reserves of this mine up to 40 billion tons.

The Lung Yen Iron Mines located south and east of Kalgan in Southern Chahar (estimated by past Chinese reports as having an aggregate deposit of 49 million tons) aim at production of 700,000 tons of ore between April, 1939 and March, 1940. However, plans on the part of the North China Development Company for the construction of plants at the mine for an annual capacity of a million tons of pig iron and half a million tons of steel are reported to have been shelved. Japanese interests have begun the construction

REGIONAL TRADE CONDITIONS (CONT'D)

Trade Conditions in North China (Cont'd):

at Tsingtao of a large oil tank installation with a capacity estimated at 60% of the combined tank capacity of the three large foreign oil companies already operating there. While the tanks are evidently in part for the storing of official stocks of petroleum products, their erection presages efforts on the part of Japanese to enter into the petroleum products business in a larger way in the region.

The Tsingtao egg packing industry enjoyed a good month in May and contrary to usual practice expected to continue packing well into the summer.

The Toa Tobacco Company together with other interests are mentioned in the press as planning to invest yuan 10 to 15 million in cigarette factories at Tientsin and Peiping to produce 4 billion cigarettes annually.

Finance and Banking: At Tientsin in early May controlled exports were sold overseas on the "link basis" at exchange rates of 6½d (or 12½¢ U. S. currency) for FRB\$1.00 but by the middle of the month business was being done at around 7d. At this juncture the Federal Reserve Bank announced that after May 15 it would not confirm certificates for exchange to exporters of controlled commodities or supply exchange to importers of preferred goods to link their exchange at rates below 8½d (about 16½¢ U. S. currency). It was also indicated that the latter rate would be subject to upward revision. Business in the 12 controlled exports was virtually suspended for a fortnight following this announcement but later there were unofficial private indications that transactions were proceeding at lower rates than 8½d regardless of threatened penalties.

At Tsingtao violent fluctuations in the value of the Federal Reserve Bank currency were experienced during May, the discount as against Chinese National currency being as much as 40% at one stage but rates were firmer, the discount being but 12%, at the end of the month.

Foreign Trade: The total value of Tientsin controlled exports shipped in May for which exchange was settled with the Federal Reserve Bank was reliably reported at about US\$655,000. Tientsin declared exports to the United States in May totalled US\$860,000 as compared with US\$2,133,000 in May 1937 the last normal year. May exports from Tientsin to Japan included 35,000 tons of salt, 5,890 tons of iron ore and 1,685 press-packed bales of raw cotton. Customs notifications announced that special permits would be required for exports abroad or to ports south of Tsingtao of old used cotton wadding, cotton waste and fly cotton, and of flour, also that permits would be required for imports of cereals from Manchuria. May imports into Tientsin of foreign cotton purchased in Shanghai totalled 6,025 bales of 500 pounds. Despite imports of about 2½ million bags of flour into Tientsin in May and the present substantial stocks, importers anticipated that further purchases would be necessary in June to meet North China requirements for July-August delivery.

Peanut exporters at Tsingtao intimate that the past season produced only about a half of the normal crop of peanuts and that the next season is likely to result in even a smaller outturn. The cutting off of the Honan crop which formerly normally reached Tsingtao through Hsuechow is partly responsible. Rumors to the effect that restrictions on exports at Tsingtao would generally be relaxed have failed to materialize.

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REGIONAL TRADE CONDITIONS (CONT'D)

Trade Conditions in Central China during May, 1939
(Condensed from the Report of Vice Consul Franklin Hawley, Hankow.)

Agriculture and Crops: Weather conditions are promising and crop prospects good. However, the area planted to wheat is estimated as 30% below last year, due to war damage and to farmers absenting themselves from certain districts following the "occupation". The Japanese are now according treatment calculated to encourage farmers to return to the fields. Farm produce is now moving freely to Hankow from surrounding regions.

Transportation and Communications: Throughout May, movements of passengers were limited to the occasional accommodations provided on Japanese transports, and only Japanese cargoes moved in the Yangtze. The first of eight vessels under construction in Japan for the Nisshin Kisen Kaisha for use on the Yangtze between Shanghai and Hankow is reportedly to be completed in July and will be used as a military transport pending the opening of the river to general traffic.

Industry and Construction: Industry continued generally inactive throughout May. However, a few small Chinese rice mills were opened and a large foreign owned cigarette factory produced cigarettes at the rate per day of about 60 cases of 50,000 cigarettes each. Local reports state that Japanese interests are planning the establishment of a cigarette factory in Hankow, an oil refinery (presumably for vegetable oils or tung oil) at Hanyang, and an egg products factory, but it would appear to be too late this season to further the last mentioned project. Retail business in Japanese goods at Hankow appeared to move more briskly during May, due to a lowering of prices and depreciation of the Yen.

Foreign Trade: There were no movements of foreign owned cargo during May. Sugar, cigarettes, kerosene, lubricating oil, candles, soap, cement, timber, bean oil, beer, canned goods, rice, flour and piece goods were brought in by Japanese interests during the month. Japanese firms also shipped out of Hankow down river ramie, tobacco, egg products (1,200 cases), and small lots of cotton, wheat, tung oil, gallnuts and gypsum. Native cotton and wheat continued to arrive at Hankow from growing regions, for sale to Japanese buyers.

Trade Conditions in East Central China during May, 1939
(Condensed from a report by A. Bland Calder, Acting Commercial Attache)

General: Sharp rises in commodity prices occurred in early June following temporary withdrawal of support of the open market yuan by the Sino-British Stabilization Committee and the consequent 20% drop in foreign exchange value. Prospective import business in many lines is halted pending market adjustment to new high prices. A report on conditions in Nanking indicates that the city now has but 360,000 people compared with nearly a million prior to the hostilities. Japanese dominance of the scene there has reduced the small remaining Chinese population to a relatively low economic level, 52% of the families reporting themselves as unable to live on present earnings.

REGIONAL TRADE CONDITIONS (CONT'D)

Trade Conditions in East Central China (Cont'd):

Agriculture and Crops: Wheat production in the lower Yangtze region is generally good but the quality of the product arriving at Shanghai mills is poor with high moisture and dirt content. There is apprehension that Japanese may commandeer supplies from the region for milling in Japan or North China to supply shortages in Manchuria, forcing Shanghai mills to continue unduly large imports and creating a further drain on exchange resources. The Anhwei tea crop is good but quantities reaching the Shanghai market are but 60% of normal due to disturbed conditions.

Transportation and Communications: Shipping services from Shanghai to Wenchow and Ningpo, ports on the Chekiang coast, were resumed in mid-May after several weeks suspension, but nine other ports near Shanghai important to both domestic and foreign trade were closed to local traffic by the Japanese authorities though the prohibitions do not seem to be rigidly enforced. Japanese traffic between Shanghai and Hankow and intermediate ports on the Yangtze operates freely with steamers almost daily, and local booking offices are now advertising soliciting passengers and freight and offering to secure necessary military passes. All other commercial shipping is still denied the use of the river, though two British river steamers under the auspices of the British Navy and for the purpose of supplying gunboats in the middle river made the round trip from Shanghai to Hankow in May. The new Pacific-Northwest Orient Line (replacing the American Mail Line) is inaugurating services to Shanghai and other Oriental ports from Seattle in June.

Industry and Construction: Shanghai flour and cotton mills continued active in May using large proportions of imported raw materials, but silk filatures suffered from inability to get an adequate supply of cocoons from the interior where Japanese interests are endeavoring to monopolize the supply for filatures operated under their control at Wusih. Shanghai public utility receipts and department store sales are at high levels in local currency but profits are on a lower scale in terms of foreign currency. Factory units and small industrial enterprises continue to rebuild or resume operations, mostly in new locations in the western areas of Shanghai. Housing construction to relieve the congestion continues active and two large office buildings are in prospect, one for early construction under Chinese bank financing, the other an American project to be carried out within two years if conditions warrant. Rents, food and clothing continued high in price, the cost of living index for Shanghai laborers having risen since December 17.43 points to 164.87 in May (1936 average equals 100) without commensurate pay increases.

Finance and Banking: The yuan continued steady in May at about 16-1/16¢ U. S. currency, but slumped about 20% in exchange value when the Stabilization Committee temporarily withdrew support on June 7. The rates steadied in mid-June at around 12-5/8¢ and 6 1/2¢ on resumption of support at the new level near the record low. Limitations of stabilization sales to cash have created a weak forward market. Chinese domestic bonds, average prices for the Consolidation issues, were around 54% of par in May, but jumped to 56% in early June with the decline of the yuan. Japanese Yen notes, because of oversupplies, were quoted at Shanghai exchange shops for the most part at a discount vis a vis the Chinese yuan.

REGIONAL TRADE CONDITIONS (CONT'D)

Conditions in the Chinese Controlled Areas of China in May, 1939
(Prepared in the Office of the American Commercial Attache, Shanghai, from news sources)

General: All reports from travellers from the interior indicate that the trade, general economic and financial policies of the vast areas still under Chinese Government control are being constantly shaped and adjusted to the purposes of long and continued resistance, with all classes of the populace collaborating wholeheartedly. In general news of economic and industrial developments is not as freely disseminated as in times of peace. The items culled from the news and presented herein are: therefore **not to be-regarded** as all inclusive information on the developments.

Transportation and Communications: Shipping between the Chinese controlled ports of Ningpo and Wenchow on the Chekiang coast to the south of Shanghai which was cut off for a time in April by both military activities and Chinese Government restrictions were resumed in early May, but was further hampered throughout the month by Japanese detention of the small foreign coastwise vessels plying these waters, more than thirty such craft being held up at one time. Toward the end of May the situation was improving. Some considerable tonnage of export products from the Chinese controlled areas reach Shanghai via the Chekiang ports and products of Shanghai industry also move via these ports to interior China over combination highway-rail routes. The functioning of the ports of Ningpo and Wenchow, therefore, has an important bearing on both the foreign trade activity of Shanghai and on Shanghai industrial production for distribution in Chinese controlled areas. Japanese interference is apparently for preventing the carrying of contraband to Chinese controlled areas, while Chinese restrictions have to do with preventing various prohibited products of advantage to Japanese economy from reaching Shanghai. There is, however, a considerable volume of traffic in "non strategic" goods both inward and outward. Suspension of the movement of goods to Shanghai for export, tends to add to Shanghai's already adverse trade balance and puts further strain on the exchange market, whereas a free movement of export goods tends to aid in producing a more adequate supply of foreign exchange in the Shanghai market. There have been some prohibitions and interference also with traffic to nine other small ports near Shanghai.

A new China National Aviation Corporation 18 passenger American plane being assembled in Hong Kong is to be used as a reserve plane for West China lines. The Chinese Government's world wide Chungking radio station which was damaged by bombing May 4 was reported restored to operation late on May 5. Radio telephone services between Kunming, Yunnan and Chengtu, Szechwan, were inaugurated May 1. The Chungking National Broadcasting Station started June 1 to broadcast regular standard time signals.

The Chinese authorities have reportedly given an exclusive franchise to French interests for trucking services on the new Kunming-Luchow-Chungking highway, 500 French trucks to be in operation, payment for same to be made within three years, traffic to be under Chinese control.

REGIONAL TRADE CONDITIONS (CONT'D)

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

Industry and Construction: At an annual meeting of the Chinese Textile Society at Chungking May 1, the Minister of Education urged members to concentrate on developing textile manufacture in rural districts by means of small production units working toward war time self sufficiency.

A National Production Conference under the auspices of the Ministry of Finance met in Chungking May 9 to promote increased industrial production for Government purposes as well as public requirements. Many Chinese industrial leaders attended.

A Chinese industrial survey, reported from Chungking, stated that out of sixty Chinese owned cotton mills operating in China prior to the hostilities, 10 have been completely damaged, 12 badly damaged, 21 slightly damaged, 8 mortgaged or sold to foreign enterprises, and the balance of 9 siezed by Japanese. Five hundred thousand spindles and 5,000 looms will be in full operation in Chinese controlled areas when the new mills in Szechwan and Yunnan Provinces are completed. Three cotton mills with 20,000 spindles and 2 flour mills with a capacity of 5,000 bags of 49lbs daily, have been established in Shensi Province with Government financial assistance, most of the equipment having been moved from occupied areas. The Kweichow Industrial Development Company, formed at Kwoiyang, June 1, plans to develop mining and industrial enterprises in the Province. Capital is yuan 6 million, subscribed equally by the Ministry of Economics, the Kweichow Provincial Government, and three Government banks. The Yunnan authorities held a conference of engineers to devise means for doubling Yunnan tin ore production. They have also appropriated yuan 1 million for the establishment of a large station to promote silk cocoon and livestock production.

The Dah Chung Match Company, leading Chinese match manufacturing enterprise in Shanghai, has announced that a new plant at a cost of Hong Kong dollars 600,000 is to be established shortly by it at Kowloon, Hong Kong.

Finance and Banking: Press comments in April with regard to alleged new German-Chinese bartering agreements appear to have arisen from rumors with regard to readjustment of provisions of older agreements apparently still in force or incompletd. At least, no confirmation of any new agreements has been forthcoming.

The Ministry of Finance at Chungking announced in the middle of June that the servicing of domestic loans secured on customs revenue will shortly be revised because of the dwindling revenues available to the authorities. Details of the revision have not yet been announced, but it is expected that restrictions will particularly be placed on bond-holders in Shanghai as the authorities apparently desire to effect a stricter enforcement of the deflationary policy in the occupied areas, keeping the amount of free cash low in order to protect the open market foreign exchange rates. Scheduled payments due July 31 on the Consolidation and Recovery issues total yuan 56 million. Banks are chief holders of the bonds.

Foreign Trade: The Minister of Economics at Chungking has announced Government control of white bristle exports through the Foreign Trade Commission. Chungking's new official bristle bleaching plant is reported as producing 180 quintals monthly at present. Some quantities of bristles were shipped to the Soviet Union in the last six months of 1938 under special bartering arrangements. Chinese press reports state that a Chinese Government Trading Commission has been created in London for purposes of selling Chinese produce in the United Kingdom and for placing orders for British goods for China's requirements. Prominent British and Chinese Government officials and bankers are connected with this new Commission.- 10 -

REGIONAL TRADE CONDITIONS

Trade Conditions in Canton during May, 1939.

(Condensed from the report of Vice Consul Walter Smith)

Canton and the limited surrounding occupied region remain cut off by hostilities from tributary areas. River traffic between Canton and the ports of Hong Kong and Macao is still limited to mail and passengers, though traffic to Macao has increased to 15 sailings per month. While some local transportation services have been restored, there is no basis for any noteworthy improvement in business. Japanese merchandise continued to enter the port as "military supplies" although in limited quantities, as turnover is sluggish, sales being confined almost entirely to foodstuffs. Rice from French Indo-China entered Chinese controlled territory via Kwongchowwan, while supplies were imported at Canton from Formosa and from Wuhu on the Yangtze. Favorable weather conditions now indicate an average crop yield. Local telephone services in Canton continued to improve but permission to repair the long distance line to Hong Kong is still refused. The Kwangtung provincial authorities opened a broadcasting station, XGOP, in the northern part of the province, presumably for the purpose of combating the propaganda of station XGOK operated in Canton under the guidance of the Japanese Army. A Japanese petroleum expert examined shale beds in recently occupied territory, but investigations made by foreign oil companies in the past have disclosed that operations would not be profitable. In taking over silk filatures in the Shuntak district Japanese operators are having difficulties in purchasing cocoons with Japanese military notes which the farmers refuse to accept. The Peace Maintenance Commission estimates that yuan 69 million will be required to rebuild damaged properties in Canton.

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Trade Conditions in Hong Kong during May, 1939.

(Condensed from the report by Consul Howard Donovan).

Local business continued to benefit from the increase of population. However, because of the fact that the Pearl River remains closed to commercial traffic and that coastwise trade was seriously affected by Japanese naval and military activities, exports from Hong Kong to South China were only one-eighth normal. Official reports indicate that there were only ten bankruptcies in Hong Kong during 1938. Colonial Government revenues in the first four months of the year exceeded by nearly HK\$2½ million those of the same period of 1938. Introduction of an income tax has been proposed by the taxation committee. Air services between Hong Kong and Chungking continued to operate at irregular but fairly frequent intervals. Freight rates from Hong Kong to Haiphong were increased by 20% effective June 1st. No new construction projects of importance were started during May but shipyards continued fairly well occupied. Hong Kong's imports in the first four months of 1939 totalled nearly HK\$183 million a decrease of 17.5% compared with the same period of 1938. Exports were valued at HK\$170 million a decrease of 8.9%. Imports from the United States totalled HK\$17.5 million in value a decrease of 29.6%, while exports to the United States were valued at HK\$20.6 million an increase of 16.1%. Imports of gasoline, less than 2 million Imperial gallons, were only about one-third the quantity imported in the first four months of last year. Imports of wheat flour included nearly 43 million pounds from the United States.

Principal Items of China's Imports from January to April, inclusive, 1938 and 1939, in which America's trade is a factor, are as follows:

Commodity	Unit	Jan-April 1938		Jan-April 1939	
		Total	Am.Share	Total	Am.Share
Cotton, raw	Quintals	19,378	1	575,085	94,524
Brass & Copper	Gold Units	921,337	261,935	559,981	178,334
Iron & Steel Tubes, ungal.	Quintals	33,527	261	26,665	94
" " " Rails, "	"	65,337	34	26,002	1
" " " Plates & Sheets.	"	86,984	41,833	109,889	25,328
" " " Tin Plates...	"	102,265	71,317	68,936	50,192
" " " Tubes, gal...	"	12,870	180	25,441	45
Prime Movers & Parts	Gold Units	432,436	35,743	598,883*	31,415*
Machinery & Parts (n.o.r.)	"	1,862,388	269,611	1,873,472	190,464
Machine Tools	"	417,540	89,308	172,948	17,219
Aircraft & Accessories ...	"	82,357	46,020	13,830	688
Motor Tractors, Trailers and Trucks	Pieces	2,333	1,867	1,443	1,281
Motor Cars & Busses	"	380	300	743	514
Motor Accessories	Gold Units	832,775	380,974	719,514	380,577
Scientific Apparatus	"	594,316	85,815	415,278	69,449
Electrical Fittings (n.o.r.)	"	226,980	53,763	377,116	23,781
Telephone & Tel. Material.	"	426,535	38,662	231,396	10,697
Radio - Sets & Parts	"	145,904	146,061	292,992	139,279
Salt Herrings	Quintals	25,783	4,107	22,096	2,514
Shrimps & Prawns, Dried ..	Kilograms	252,237	53,339	228,166	60,615
Milk, condensed, evaporated and Milk Food	Gold Units	366,485	48,705	235,981	36,716
Wheat	Quintals	1	---	1,917,638	569,500
Wheat Flour	"	696,337	60,872	901,916	335,411
Cigarettes	Case 500's	291,022	5,352	472,681	19,619
Leaf Tobacco	Kilograms	4,706,216	4,486,476	13,039,746	10,484,554
Aniline Dyes	Gold Units	742,648	68,314	1,668,517	84,166
Artificial Indigo	Kilograms	796,733	297,754	839,059	117,788
Printing Ink	Quintals	1,424	805	3,136	67
Sulphur Black	"	3,226	45	29,362	144
Paint & Varnish	Gold Units	313,197	62,853	537,710	66,933
Gasoline, Naptha & Benzine.	Liters	54,404,141	37,559,076	42,259,920	11,547,439
Liquid Fuel	Metric Tons	53,642	16,735	57,144	14,585
Kerosene	Liters	107,481,410	47,950,847	123,631,494	35,234,875
Lubricating Oil	"	11,900,836	9,395,443	9,390,943	5,492,569
Paraffine Wax	Quintals	120,229	10,304	134,417	14,040
Soap, Toilet & Fancy	Gold Units	29,554	3,710	144,751	6,643
Books & Music	"	748,942	257,736	767,667	322,095
Paper, Newsprint	Quintals	138,230	1,955	141,235	112
Paper, drawing, document, banknote, bond	Gold Units	51,803	23,509	552,951	17,886
Paper & Paperware (n.o.r.)	"	373,330	100,647	867,017	25,484
Leather	"	175,309	29,478	286,455	80,674
Timber, softwood	Cu.Meters	64,725	31,878	199,682	80,949
Asphalt	Quintals	4,361	3,727	21,881	10,047
Motor Vehicle Tires & Tubes.	Pieces	32,702	16,924	46,047	22,239
Photographic Material	Gold Units	433,498	132,586	657,222	133,193

* Gross Import.

June 15, 1939.

China Monthly Trade Report

Principal Items of China's Export from January to April, inclusive, 1938 and 1939, in which America's trade is a factor, are as follows:

Commodity	Unit	Jan-April 1938		Jan-April 1939	
		Total	Am. Share	Total	Am. Share
Bristles	Quintals	8,577	2,092	8,985	2,782
Egg Powder	"	10,197	873	11,285	845
Feathers, Duck	"	9,545	189	9,843	868
Sausage Casings	"	5,626	676	7,326	1,282
Goat Skins, dressed & Undr.	Yuan	800,539	55,898	950,486	273,805
Lamb " " " "	"	450,291	447,550	2,270,776	2,247,425
Weasel " " " "	"	876,992	542,148	3,542,770	3,531,837
Walnuts, Kernels	Quintals	9,886	3,821	30,091	12,253
Peanut Oil	"	36,940	---	111,330	15,976
Wood Oil	"	275,407	26,892	151,023	451
Oil, n.o.r. Tallow & Wax	"	1,853	8	14,607	7,930
Sesamum Seed & Pulp	"	21,709	971	35,949	3,792
Tea	"	74,282	8,358	67,272	914
Silk, Raw	Kilograms	792,152	94,918	1,598,850	373,489
Cotton, Raw	Quintals	327,964	18,892	50,943	1,259
Wool, Sheep's	Kilograms	627,398	4,792	720,883	334,045
Drawn Thread & X-Stitch Work..	Yuan	5,276,684	3,519,786	8,731,886	5,027,551
Lace & Trimmings	"	2,413,231	1,740,730	4,268,308	3,103,672
Woolen Rugs	Quintals	3,490	1,442	5,564	2,575
Tungsten	"	52,580	750	27,880	---
Antimony	"	21,082	---	4,479	---
Tin, Ingots & Slabs	"	46,062	---	42,803	916
Hats, Buntal Fibre & Hemp.....	Pieces	1,963,265	1,189,450	2,622,193	1,684,647
Fireworks	Yuan	530,795	486	77,735	---
Hairnets	Gross	168,225	65,286	304,180	82,932

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	35 lbs.
1 Mow equals	1/6 Acre
1 Picul equals	133-1/3 lbs.
1 Kilometer equals	Approximately 5/8 Mile.

June 15, 1939

The Foreign Trade of Shanghai in May, 1939: Shanghai recorded imports during the first five months of 1939 amounted in value to Gold Units 106.7 million, equivalent to US\$77 million an increase of 182% over the same period of last year, a decrease of 18% from the same period of 1937. Shanghai exports during the first five months of 1939 amounted to yuan 146.8 million, equivalent to US\$44 million, an increase of 155% over the same period of last year and a decrease of 28% from the same period of 1937.

Shanghai recorded imports in May amounted to G.U. 30.4 million, an increase of 29% from the previous month, an increase of 276% over May last year, and an increase of 8% over May, 1937; Shanghai exports in May amounted to yuan 34.2 million, an increase of 7% over the previous month, an increase of 185% over May last year, and a decrease of 17% from May, 1937.

Of Shanghai May imports 43.5% came from the British Empire (5% from the United Kingdom), 20.4% from the United States and Philippines, and 15% from the Japanese Empire (12% from Japan direct); of Shanghai May exports 40.6% went to the British Empire (17% to the United Kingdom), 25% to the United States and Philippines, and 13.5% to the Japanese Empire (6% to Japan direct). The evidences are that there is a continued and substantial unrecorded trade movement between Japan and the "occupied" areas of East Central China.

May imports consisted mainly of raw cotton, leaf tobacco, wheat, dyes and paints, and chemicals. May exports consisted mainly of raw silk, egg products, textile products, wheat flour, and sundries.

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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 January and February, 1939, may be used:

	<u>1939</u> <u>May</u>	
1 yuan (or Chinese Dollar)	US\$0.1606	(Open market interbank selling spot rates)
1 " " " "	US\$0.3000	(Official stabilization rates for export trade valuation)
1 Customs Gold Unit	US\$0.7188	(Chinese Maritime Customs average for trade valuation)
1 " " "	US\$0.3849	(For import duty payment computation)
1 Manchurian yuan (at virtual parity with 1 yon)	US\$0.2725	(American Consulate General, Harbin)
1 Hong Kong dollar	US\$0.2871	(American Consulate General, Hong Kong)

A. Bland Calder.

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Acting Commercial Attache.