China's Commercial Today

BY DON D. PATTERSON

Only the unexpected will pull commercial China out of the sloughs of depression and away from the brink of a probable panic, if a frank statement be given of business in the nation as it stands today. This is no reflection upon the sagacity or acumen of those engaged in the China trade but is rather the culmination of a conglomeration of circumstances both internal and external. Exchange, the barometer of business in the Far East, has reached the cloudy and unsettled weather mark and is hovering uncertainly in the face of conditions that would seem to mark its future course as downward.

There are those merchants in China proper and those abroad who are interested in the commerce of the country who bemoan the recording of such facts as the present situation demands for an unbiased portrayal but it is only in an open treatment that relief will be found. It is in the time of deepest depression that the inherent genius of the business man is made apparent and houses that are built upon the rocks will weather the storm. If the high tide of prosperity was always with the business world there would be little or no need for research or constant application and it is the leaks discovered and stopped at the low ebb which make the studier vessel of the future. China is not alone in her present condition for it is a world wide movement. South America is experiencing the same backward swing of the pendulum and every country of the globe, to a greater or less degree, is going through its period of deflation. There has been no period following a war that has not been one of gloom commercially and, as has often been reiterated, it is to be expected that this is the greatest known period following the greatest known war.

Exchange has been heretofore called the barometer of business in China but for exchange might be more properly inserted silver. While silver is merely a convenient medium for transactions in goods and merchandise it is also a commodity having its own reacting conditions over and above those affecting the transfers for which it stands. In China silver quotations vary for the provinces and for even intercity exchange making any transaction of a two-fold nature, both an exchange of goods as a commodity and a second exchange of silver. Profits or losses must necessarily be two-fold.

Silver now stands in the fifties in the China trade, the Chinese dollar being in a ratio of 2.41 to 1 to the American dollar. Up to the present time, the conditions directly affecting silver as a commodity are of an adverse rather than an encouraging nature. There seems to have been no extensive curtailment of production. The converting of coinage in Europe and Great Britain into bullion adds further silver to be disposed of on the open market. The coinage in the European countries and Great Britain during the past ten years, and particularly during the period of the war, increased with almost unprecedented rapidity and now that the slack periods have arrived will be retired. Business depression has lessened the demand for the metal for its use in the arts and crafts. India is progressing on a semi-gold standard thus lessening her influence as a silver buying nation and present indications are that the governments of the world are drawing away from rather than favoring silver reserves.

The trade balance has turned against India for the year of 1920 and, with this country and China as the two largest silver standard nations in the world more or less crippled, no relief can be looked for from this source. Exports of an almost unprecedented nature would be necessary with the present state of affairs to bring silver back to levels approximating those of wartime. And the export demand of the various countries of the West is just now an almost negligible quantity.

As though this would not seem enough, there is a further uncertainty that may add its toll of weight toward lowering silver prices even further. It has recently been reported in the Far East that an agitation is being carried on in the United States with the sanction of the American Bankers Association, for the repeal of the Pitman Act. This measure briefly was one passed in 1918 as a wartime measure for a double purpose, that of disposing of an accumulation of silver dollars in the United States Treasury from the "free silver days" and an opportunity of assisting the Allies in Far Eastern political and trade conditions at the same time receiving in return approximately the price paid for the silver originally. The act also provided for the repurchase of silver mined and originating in the American territories at $1 gold an ounce to a total of 207 million ounces. With silver prices rising the sale of the surplus by the United States had somewhat of a steadying effect upon prices but the close of the war brought about conditions which were beyond the control of this factor. Now the United States government is buying silver but with no apparent result the adverse factors overbearing any effect that this purchase at $1 gold an ounce might have. It does have the advantage, however, of keeping American produced silver out of circulation in the open market to any great extent. If the act is repealed and silver certificates retired, American silver will then throw its weight into the scales of the world production and again lower the price of the metal. It will mean an increased amount to be consumed as either coinage or in the arts and crafts with scant demand. But so much for the gloom in silver circles,

The export market of China from which the silver revival must come remains in a continued weakened condition. Some exports are moving but are of such a slight nature as to have given no upward impetus to exchange. Some few hides, and skins, and other native products are shown as going out but these may be taken as only bare needs for actual demands.

All industries in the United States demanding raw materials from the East, and this is equally as true of Europe and Great Britain, are cutting down to a minimum. Stocks, for the most part bought at the high prevailing prices of a year or six months ago, are being liquidated by jobbers, wholesalers and retailers as fast as possible but there is no new demand. Ultimate consumers are getting along with as little as possible and despite an expressed aversion to the term in America there continues in fact a "buyer's strike." Even the most optimistic cannot see a revival until the late winter months of this year and it is upon such a revival that China's export trade depends. Despite the fact that a period of such low exchange should constitute an exporter's paradise the conditions abroad are a stone wall against any activity.

The silk market, one of the largest in the export field of the nation, is in an extremely unsettled condition with an impending crash in the Japanese market as one of the strongest factors. Buying for immediate needs only is ruling in the New York market and there are approximately 100,000 bales of undiposed of raw silk stored at Yokohama. On top of this the new season cocoon crop is impending. The Japanese government as a means of protection has "pegged" raw silk prices but no financial aid has been forthcoming to the filature owners. They are hard pressed for money and in many instances are disposing of their stocks as best they can at prices far below the peg. It would seem that it will be only a question of time until credit pressure will bring an unloading of Japanese raw silk and in the flood that will break loose China will suffer immensely in foreign trade.

The import market is necessarily dead because of exchange. It is hard figuratively for the Chinese merchant to come down to bread and water after the banquet days of the past with the Chinese dollar buying $1.25 gold, Operations in this field will consequently be suspended either until exchange adjusts itself to more favorable levels or until the Chinese merchant is able to reconcile himself to silver at two or more to one. Disposal of the goods now in transit or in warehouses will occupy the time of the majority for the next few months, just as similar merchants in other lands are attempting to liquidate the stocks they are holding.

The piece goods market, which was though to be in the worst possible condition, has sunk even lower because of the falling exchange. An increasing number of merchants are passing out of the trade and closing up their shops leaving the importers with the goods on hand. Large quantities of piece goods ordered some months ago, particularly from Great Britain, continue to arrive with no takers and little wareroom space. There is no ray of light for the future except the reflection upon the honesty of the Chinese merchant. Having refused to take the counsel of the importer to buy when exchange was at high levels, hoping that it would again go up to war time quotation, the Chinese merchant sees exchange traveling downward to some of the lowest figures of the pre-war period. Acceptance and observation of contract obligations means ruin so the merchant, with some few exceptions, takes the line of least resistance and goes into voluntary bankruptcy.

In direct contrast to the piece goods market is the metal market, which was several months ago in quite the same condition with dealers attempting to evade deliveries on grounds of the slightest technicalities. At present the guilds of the Chinese metal dealers, the banks and the importers have come together in an agreement whereby no additional orders for metals will be given at the lower prices until the existing stocks are disposed of. The compromise seems to be working out satisfactorily and the market is comparatively free from depression.

In the line of imports, foodstuffs and other necessities are, as a matter of course, being brought in. They are, however, being sold at higher prices due to exchange movements. Rents in the downtown districts and in certain sections of Shanghai are reported to have been raised from 75 to 100 percent. Building in the residential districts of this city continues with an increased vigor and no rent increases are evident. On the whole living costs for the foreign population of the country have risen approximately 150 percent within the past year.

Credits are tight both in foreign and native banking circles and these institutions are carrying the bulk of the burden of the present situation. Native merchants fail to live up to their obligations throwing the responsibility on the foreign firms, the foreign firms in turn are indebted to the banks and the banks must either carry the load or pass it on back. In this case it will be the middle man who will suffer, the Chinese will and have refused payment and there is no recourse, and the banks must maintain their position. Many extensions of credit have been necessary within the past few months.

All in all a most depressing picture is given by the commercial today in China but it is no more depressing than that of other countries. Every period of depression has its lessons, despite its regretable tolls demanded, and the present is one that should above all things teach the Chinese the value of modern business methods, the maintenance of a reserve fund, and the eliminination, in so far as is possible, of exchange speculations from legitimate business. It should also bring about an effort to standardize the coinage of the country and to place it on a more favorable and less fluctuating parity with the countries of the West. India is after this with a semi-gold standard and China must eventually turn her attention to similar measures.

By no means, however, should the efforts of the foreign trade nations be slackened in China. Valuable lessons are to be learned in the conduct of an import and export concern in present and past events. Preparedness might be called the foundation of the advice coming forth, and a realization that foreign trade is not always a "bed of roses." Capital, intimate insight, and reserves are required. With all lessons learned and profited by immensely vaster prospects are in the future.

The sporadic industrial development of China continues and from various sections of the nation come reports of new enterprises. These enterprises are of a nature that demand foreign cooperation in machinery and otherwise. They are also of a character that even with low exchange they will be able to produce reasonable and satisfactory returns to their owners. When in the heyday of prosperity it was possible to pay for a cotton mill running into a million or more dollars within nine months after its installation, it most certainly will be possible to pay successful dividends on a similar venture in the present day.

The condition existing now is that partially of a mental attitude. As has been written before, it is difficult to adjust oneself to common fare after the gorgings of a day of prosperity but such an adjustment is the natural process of human events. Exchange will probably never recover to old wartime levels but it will eventually find a steadying influence, the 165 period will be forgotten in the commerce of the day and China will assume the same attitude as will the other countries of the world—"business as usual."