

AMERICAN BUSINESS WITH EAST ASIA

By
GUNTHER STEIN
Recent correspondent for the
Christian Science Monitor in China
and former Editor of China Air Mail

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Tenth Conference of the
Institute of Pacific Relations
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(A Study of Economic Relations between the
United States and East Asia, 1946-1947)

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This paper is based on a larger research study which Mr. Stein has undertaken for the American IPR on American Trade with Pacific Countries. It is submitted by the American IPR as a document for the Tenth Conference of the Institute of Pacific Relations to be held at Stratford-upon-Avon, England, September 1947. The author alone is responsible for all statements of fact and opinion in the study.

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This is a preliminary report on the first results of a study of economic relations between the United States and East Asia as reflected in the opinions of informed American businessmen. The incompleteness of the study and restrictions of space make this brief report little more than a starting point for further study.

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The author is responsible for statements of fact; views expressed are those of American businessmen, even where they are not so described specifically.

FOREWORD

This is a preliminary report on the first results of a study of economic relations between the United States and East Asia as reflected in the opinions of informed American businessmen. The incompleteness of the basic study and restrictions of space make this brief report little more than a cursory survey of the manifold issues involved.

The study is based on interviews with a representative cross-section of American traders, manufacturers, bankers, insurance and shipping executives - mainly but not exclusively with men who are experienced in business with East Asia and vitally interested in its growth. Officials of various United States government departments, business associations and trade unions and nationals of East Asiatic countries have also been consulted for background information.

Major interviews have so far been held with 89 persons in the New York area, the Middlewest and on the West Coast, as follows:

- 25 export and import merchants
- 14 executives of industrial firms
- 4 engineers experienced in East Asia
- 5 bankers
- 6 shipping representatives
- 3 insurance representatives
- 3 trade union representatives
- 15 representatives of chambers of commerce, etc.
- 14 officials of the U.S. administration, foreign governments and U.N. organizations

The author is responsible for statements of fact; views expressed are those of American businessmen, even where they are not so described specifically.

(1) China, Hong Kong, India and Dependencies, Ceylon, Burma, Siam, French Indo-China, British Malaya, the Netherlands East Indies and the Philippines.

(2) Including GARRA and land-lease deliveries to several East Asiatic countries.

Chapter I.

TRENDS OF EAST ASIA TRADE

(a) The Record of Post-War Business Revival

American business with East Asia in 1946 and early 1947 seemed to be doing well as far as volume was concerned.

Excluding Japan which had not been reopened to private commerce, the combined monthly dollar value of United States export and import trade with East Asia⁽¹⁾ was 2.2 times as large in 1946 as it had been in 1939; and during the first quarter of 1947 it was 3.5 times larger than in 1939.

American exports, of course, played the main role in this increase. In comparison with 1939, the monthly average value of exports to East Asia had risen by 295 per cent in 1946 and by 510 per cent during the first quarter of 1947. But the average monthly value of American imports from East Asia was also higher, by 20 per cent in 1946 and by 105 per cent in 1947.

Part of this growth of export and import values, of course, reflects inflated price levels. But even if the inflationary factor is eliminated by applying the wholesale price index of the United States Department of Labor to the value figures, it appears that the physical volume of American exports to East Asia must have been much larger than in 1939 - probably by as much as 150 per cent in 1946 and by roughly 225 per cent during the first quarter of 1947. (This increase, in fact, was great enough to overcompensate American exporters considerably for the loss of their best Pacific pre-war market, that of Japan, which in 1939 had accounted for little less than one-half of all United States sales to East Asia).

Nor is the physical volume of American imports from East Asia as small as might be thought. Its monthly average, in comparison with 1939, was down 24 per cent in 1946, but up a full 30 per cent during the first quarter of 1947.

With all this, the one billion people of East Asia still played only a comparatively small role in the United States' greatly increased post-war foreign trade. Again leaving Japan out of account, the share of all the other East Asiatic countries in the United States' total international commerce⁽²⁾ was no more than 13.2 per cent in 1946, against 14.0 per cent in 1936, the last year of Asiatic peace. During the same time, the countries of the Western hemisphere raised their share from 35.4 to 43.9 per cent, while Europe's share fell only from 36.0 to 33.3 per cent of total American world trade.

(1) China, Hong Kong, India and dependencies, Ceylon, Burma, Siam, French Indo-China, British Malaya, the Netherlands East Indies and the Philippines.

(2) Including UNRRA and Lend-lease deliveries to several East Asiatic countries.

(b) Business with China

China, together with her British emporium Hong Kong, has, for the time being at least, taken from Japan the place of the United States' first-ranking market in East Asia.

It is not generally realized how much greater her recent supplies of American export goods have been than they used to be before the war. In 1946 China received from the United States over 9 times as much in terms of American dollar value or roughly 6 times as much in physical volume as in 1936, the year of China's financial reforms and rising foreign trade promises immediately preceding the outbreak of her war with Japan.

United States' imports from China, however, were comparatively small in 1946. Including those of Hong Kong which are not entirely of Chinese origin, they showed an increase of 13 per cent in American dollar value, but a decrease of at least 25 per cent in physical volume in comparison with 1936. The 1936 excess of American imports from, over American exports to, China of US\$27,300,000 was thus reversed into a 1946 surplus of American exports to, over American imports from, China to the extent of \$418,000,000; in spite of the fact that 35 per cent, or \$163,000,000's worth of the total American supplies to China in 1946 were delivered on UNRRA and Lend-Lease accounts.

American business experience in China since VJ-Day has been unsatisfactory in many ways, in spite of the fact that the comparatively heavy American exports gave fair, and in some cases excellent, profits to a number of trading firms.

Even the most hardened "Old China Hands" who have long been used to what they consider the traditional hazards of their business under conditions in which they can best show their mettle - administrative inefficiency and corruption, monetary confusion, widespread civil strife and manifold interruptions of transportation and trade - seem to agree that no time they can recall has been beset with quite so many and quite so formidable difficulties as the present.

No government in the history of modern China had ever had so much goodwill or as many patient apologists of its shortcomings among American businessmen as the Nanking government enjoyed until recently; yet none seems to have been criticized so violently on so many scores and by so large a majority of those who wanted to see it grow stronger, as this same government is now being criticized by its deeply disappointed wellwishers.

There has always been scepticism among the more conservative of American businessmen about China's ability to reform her economy from top to bottom and to develop her productivity and purchasing power to an extent that would make the industrious Chinese nation one of the world's really great markets and sources of supply. That scepticism, in fact, is as old as the dream of the proverbial 450 million customers which imaginative foreign traders have been dreaming for a hundred years; but those who for decades have been watching the Chinese people struggle through crisis after crisis and war after war, never gave up their belief that China would always be able to muddle through and eventually to make another step forward, whatever the odds of maladministration, foreign aggression and internal strife.

Now however, a good number of American businessmen seem to be nearer than they had ever been to despairing of China and of the chances of developing within the foreseeable future sound and broadening business relations with her. Another new factor, too, is that a greater number of independent Chinese businessmen than ever in the past are reported to be in agreement with them on the darkness of the outlook.

Increasingly serious complaints from businessmen about the handicaps to American export trade with China are filling the files of the home offices of firms interested in the China business, of the State and Commerce Departments, the chambers of commerce and foreign trade associations; and they recur in practically every businessman's discussion of the China scene.

The main feature of these complaints is the competition from government-sponsored trading organizations which - businessmen seem to agree - threatens to make free American enterprise in China impossible.

The Kuomintang's tendency toward state monopolies in trade is not new. Independent Chinese businessmen, whenever they dared, have long been complaining about the grasping "privileged family monopolies" around Chiang Kai-shek with their dominating four government banks and their various official and semi-official economic and trading organizations at home and abroad that have long been at work concentrating a good part of the country's trade in their hands.

Nor have American and other foreign merchants ever been indifferent toward that trend. But they were less concerned with it, until recently, than many independent Chinese traders who must depend for their credit on the government banks or on banks under their influence and who never enjoyed, like their foreign colleagues, the support of Washington or London in their attempts at fighting the inroads of "privileged family monopoly" into legitimate private business.

Today, however, most American businessmen are no better off than independent Chinese trading firms. The treaties of equality between China and the outside world and the abolition of extraterritoriality have made it easier for the "privileged family monopolies" to have their way against foreign as well as Chinese merchants. Political considerations that motivate Washington in its over-all attitude toward the National Government have tended to make American protests against the constant spread of monopoly trading less outspoken or at least less effective. The inflationary crisis and the resultant precarious currency situation - which in themselves reduce China's ability to buy foreign goods - have given the Chinese government a fresh pretext for restrictive foreign trade practices. And the methods chosen for controlling imports and allotting foreign currency to importers have only added to the power of the "privileged family monopolies."

American firms, like other foreign as well as Chinese merchants, are at the mercy of government agencies that have to decide about the issue of import licenses, foreign exchange allotments and the application of customs and other regulations. But government-sponsored trading organizations are said to obtain the import permits, the American dollars and the customs treatment they wish to get without question or delay. As a result, the Chinese emergency regulations of the country's international commerce restrict legitimate private trade and, at the same time, foster the trade of government and semi-government organizations and give them more and more the character of actual monopolies.

A much-quoted recent case was that of a ship arriving at Shanghai with large quantities of American commodities for official and semi-official Chinese concerns; the same kind of commodities for the import of which private American firms had long been waiting in vain to get the necessary licenses and dollar allotments, although some of them had already paid for the goods in the United States and were under a definite obligation to deliver them to their Chinese customers.

To give some more concrete examples cited by American businessmen: the importation into China of American motor cars by American or other private dealers is virtually prohibited through tight import license and exchange restrictions; and what few motor cars may actually be allowed to pass through the tight network of those regulations must not be valued at any more than \$1,200. Yet a single ship recently brought in thirty-two high-priced American luxury cars such as private traders could never hope to import - consigned by the American branch of a Chinese government trading concern to its home office. Similarly, while American dealers were waiting in vain for permission to import tires they ordered and paid for a long time ago, large consignments of tires for government trading firms have recently arrived and promptly been cleared in Shanghai.

But monopoly does not seem satisfied with what might only be a temporary acquisition of some trade volume from private American business. A number of American businessmen stressed their conviction that it aims at the very roots of American free enterprise in China by a policy of inducing manufacturers in the United States to take their agencies away from legitimate American business firms in Shanghai and to give them to one or the other of the "privileged family monopolies" which can offer better services for the simple reason that they are the State and therefore not subject to its restrictive trade regulations.

It is not difficult to imagine why old-established American distributors, against whom neither their suppliers in the United States nor their customers in China have any other complaint than that their sales are artificially restricted by the Chinese authorities, are getting extremely bitter when their predicament is climaxed by the loss of agencies they had long and successfully handled - by the loss of those agencies to official and semi-official Chinese trading concerns who, as some of American businessmen put it, allow themselves "fabulous profits" where the American distributors had been satisfied with a modest commission. A case in point is that of Willys jeeps which are now distributed by the "privileged" Fu Chung Corporation, at prices ranging from U.S. \$3,500 to \$4,500 for ordinary jeeps and up to more than \$7,000 for jeep station wagons.

Apart from the monopoly threat, there are many complaints about the application of the new, restrictive Chinese import regulations. Those restrictions are recognized by American businessmen as necessary under the prevailing serious financial situation. But their application has led to so many delays, even of imports for which foreign exchange had already been allotted, that regular American imports into China, other than those for UNRRA and "privileged family monopoly," were said virtually to have come to a standstill early in 1947.

On the side of American import trade with China, too, the inroads of monopoly into the sphere of legitimate private business are causing much sharp criticism.

American and other foreign traders did a great deal in the past to create steady markets in the United States and elsewhere for Chinese export commodities. Their growing demand for Chinese raw materials like tung oil, bristles, silk, wool, feathers, furs, etc., and their insistence on better goods, better processing, grading, packing and other improvements, are held to have done more than any Chinese government policies to increase production, improve qualities and raise prices, to the great advantage of the Chinese economy.

Yet a good many of those American firms are now deprived at least of part of their business. It is conservatively estimated by them that about two-thirds of China's export trade is now transacted through the various channels of official and semi-official Chinese trade organizations whose profits, as one American trader put it bitterly, "apparently do not so much benefit the empty coffers of the Chinese Government as the pockets of the privileged families and their henchmen."

Other complaints concern various matters that may seem small from the outside but contribute considerably to the difficulties in the way of large-scale development of Sino-American business relations and to the discouragement of many American businessmen.

One of those complaints concerns the tendency of part of China's officialdom to split the American business community in China by giving a few American firms preferential treatment, i.e., by admitting them to some extent into the "inner circle" whose favorites are given more sympathetic treatment and thus an interest in the "status quo," and who are therefore expected to soft-pedal the complaints of their less fortunate American business colleagues.

Disappointment in the results of the abolition of extraterritoriality gives rise to another set of complaints. Even according to the most "liberal" American businessmen who had long been in favor of giving up the foreigners' extraterritorial status in China and of recognizing China's equality with other independent countries, that change has not led to the normal conditions for the work and life of foreigners that were expected.

While Chinese in the United States are free to travel wherever they like, Americans, like other foreigners in China, still have to apply for special travelling permits between one city and another, in areas completely outside the range of civil war.

Law enforcement in China today, as several American businessmen stated, is often conducted in the manner of a police state, and "the old feeling of security for one's person and property in China exists no longer." This is ascribed largely to the inefficiency and corruption of the police and of other administrative agencies which is now considered to be more widespread than it ever was.

The new Chinese tax laws in what used to be international settlements and concessions under foreign legislation are said to be so complicated and ill-defined that there is much confusion among American businessmen about their tax obligations - a problem which even Chinese legal experts do not seem able to solve for foreigners who insist on playing safe and observing the law, even in an atmosphere in which administrative corruption and inefficiency daily loosen what respect for, or fear of, government authority there may have been developing in recent decades.

Some American property that had been confiscated by the Japanese is still being held by the Chinese. Finally, there are frequent complaints about the failure of the Chinese government to settle its outstanding pre-war United States dollar obligations to American firms. This failure is stressed in spite of the realization that China's finances are in dire straits - not so much for the sums involved as because of the conviction of American businessmen that the indifference of the Chinese government toward these matters is symptomatic of its lax ways of observing obligations, and because it adds to the many other factors which today, according to the prevailing view, make the mere consideration of private American capital investments in China inadvisable.

Criticism of the National Government's economic policies from the point of view of the mutually agreed need for broadening the economic cooperation between China and the United States is now often couched in cynical terms.

The fabulous industrial, power, transport, and general economic development schemes that were put forward in Chiang Kai-shek's book, "China's Destiny" and in a number of later plans of various government organizations - all of them implying considerable government guidance if not actual statism in their execution - look completely unrealistic to American businessmen who watch from day to day the helplessness of practically any branch of the government in the simplest matters of administrative routine.

Even the few American enthusiasts for such large-scale development schemes who used to consider certain parts of them feasible as joint Chinese-American projects now seem either sceptical or frankly disillusioned. Like the average American trader, some typical representatives of these views have come to realize that the weaknesses of the Chinese administration go much deeper than had been thought, and that they are in fact the manifestations of a basic and steadily growing crisis of the Kuomintang's political and economic system as such.

Moreover, they seem to conclude from recent experiences that foreign guidance, however technical in character it might have to be, would probably not be adhered to, even if initially accepted as part of the terms for American financial participation in any development schemes. For the strong nationalistic trend that prevails everywhere in China today expresses itself in a distinct bias against taking advice from foreigners especially on the part of the least efficient government officials who would be most in need of it.

On economic policies that are not concerned with creating grandiose power plants and super-modern industries, but with the burningly immediate task of saving the country from its ever-worsening economic crisis, the disappointment and criticism of many American businessmen are, if possible, even harsher. Chiang Kai-shek's sweeping economic emergency program of last February remained on paper, as had been predicted by most observers at the time of its announcement. Its proven futility only reinforced the general pessimism of those who are convinced that economic, like political, reform plans cannot possibly be expected to yield results under the present circumstances, since the persons who are drawing them up and taking it upon themselves to carry them through are the same men whose wrong conceptions of China's basic needs in the past, and whose inability to enforce what reform measures they had promised before, have been responsible for the present crisis.

The great majority of American businessmen have long defended the Nanking government's continuous failures in bringing about the necessary economic and political reforms, on the ground that the civil war, as the anti-Japanese war before, made it extremely difficult to lay the foundations for reform. The present trend of opinion, however, is rather in the opposite direction. More and more of those who used to give Chiang Kai-shek the benefit of any doubt in the relationship between cause and effect of China's growing internal problems, are now inclined to blame a good part of the responsibility for the civil war on the Generalissimo's lack of determination to push ahead with genuine reforms - against the desperate resistance of those "irreconcilable groups within the Kuomintang party interested in the preservation of their own feudal control of China," who, according to General of the Army George C. Marshall, "evidently had no real intention of implementing.... the agreements reached by the Political Consultative Conference (in January 1946) on a liberal and forward-looking charter which then offered China a basis for peace and reconstruction." An increasing number of American businessmen are now convinced that the Generalissimo himself and most of his entourage must actually be ranked with that very group that favors and depends solely upon "feudal control of China."

Opinion is probably more divided on the Chinese Communists than on any other issue. It seems that the fundamental soundness of the primitive economic reforms in areas under Communist control is being increasingly appreciated; at least in the sense that most American businessmen wish such reforms had been carried out by the National Government.

This seems especially true of American traders who know rural Chinese conditions too well to believe that any large-scale development plans from the top down - on the Tennessee Valley Administration pattern or otherwise too closely copying modern American examples, as has been Chiang Kai-shek's ambition - can possibly be successful in the backward Chinese interior before thorough grassroots reforms have raised agricultural production and the purchasing power of those eighty per cent of the Chinese people who are dependent upon agriculture; before scattered raw material resources and the chronic, if mostly only seasonal, labor surplus of the villages are being used on the spot for building up small-scale industries; and before political reform from the bottom up provides the basis for an administration that can enforce the laws it writes.

On the other hand, there seem to be many American businessmen who do not believe that the Chinese Communists would continue either in their primitively democratic economic reform policies or in their apparent political independence from Russia, once the collapse of the Kuomintang and the weakness of the middle-of-the-road reformers inside and outside the Democratic League parties were to give the Communists overwhelming power over most of China.

It is not only for their fear of the eventual breakdown of the National Government and of what might follow it that so many American businessmen now seem to be taking an extremely negative view of China. Unfortunately, there are today a good many among them who seem inclined to despair of China, that is, of the Chinese people as such. One of them, just back from Shanghai, expressed unqualified condemnation of the "hopeless Nanking government" and his qualified appreciation of the Chinese Communists "who know what they are doing and how the country can be made to produce" and with whom "it would probably be easier to do sound business." But he added, in

words too derogatory to be quoted, that after twenty-five years in the country he had come to the conclusion that it was impossible to think really well of ANY Chinese. Another businessman, active in his public support of Chiang Kai-shek's government, stated privately to his recent opponent in a radio debate, "To tell you the truth, I wonder why we ever gave those (people) equality. They certainly don't deserve it."

Those are extreme cases, and there are on the other side infinitely larger numbers of American businessmen who trust and admire the Chinese people and believe in their future. But even among those optimists, it seems, many are now putting their hope for a truly reformed and revived China, able to play an increasingly important role in world trade, very far into an indefinite future.

Hong Kong's post-war trade restrictions, in accordance with the traditional free trade policies that have made it one of the world's busiest commercial centers, are comparatively mild.

Business is thriving in Hong Kong and American participation in it is larger than it used to be before the war. Many American consignments that were intended for Shanghai but could not be unloaded because of tightened Chinese import restrictions or endless delays in their interpretation have been diverted to Hong Kong. From there, a highly organized Chinese smuggling trade which actually seems to account for more than Hong Kong's total legitimate trade with the mainland, has been taking the American goods through China's backdoor and bringing back, instead of steadily depreciating Chinese dollars, considerable quantities of tung oil, wolfram, antimony ores, silk and other Chinese products that have been finding their way to eager buyers in the United States.

But all this is no basis for sound business development. The flood of goods into Hong Kong has recently been greater than the buying capacity of the colony and the impoverished Chinese hinterland, and it may not be long before it has to be cut down.

The relatively great amounts of Chinese flight capital in Hong Kong are largely used for speculation, instead of seeking permanent investments for the Chinese, like Americans who have been making good profits in Hong Kong trade which some of them might want to invest, consider the present boom temporary since that basis of business prosperity is largely dependent on developments in China itself.

However, some American businessmen are wondering whether Hong Kong's future importance in the China trade may not be considerably enhanced by political events in various provinces of South China, where old tendencies toward local autonomy seem to be resurfacing themselves in connection with the ever growing unpopularity of the National Government in every stratum of society.

A number of politicians and militarists from South China whose views are outspokenly anti-Communist and are expressed in more or less liberal propaganda had to flee to Hong Kong where they maintain close contact with their home provinces. Their hope seems to be that the South may eventually succeed in throwing off the domination of the National Government, as it did for a while, long before the outbreak of the Sino-Japanese war. They

(c) Business with Hong Kong

The crisis in China has given Hong Kong a new lease on life.

It had been expected that, after the war, a united China would press Britain with all its might for retrocession of the colony and that Hong Kong would soon sink to the inferior position of a mere transshipment station off the South China coast. Instead, history has repeated itself once more. As happened so often during Hong Kong's hundred years under the British crown, it has again attracted from the trouble-ridden mainland great numbers of wealthy and not-so-wealthy Chinese with a large volume of capital who are glad of the safety, orderliness and business opportunities offered by the colony, rather than being anxious to have it quickly returned to China.

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However, some American businessmen are wondering whether Hong Kong's return to importance in the China trade may not be considerably enhanced by political events in various provinces of South China, where old tendencies toward local autonomy seem to be reasserting themselves in connection with the ever growing unpopularity of the National government in every stratum of society.

A number of politicians and militarists from South China whose views are outspokenly anti-Kuomintang and are expressed in more or less liberal phraseology had to flee to Hong Kong where they maintain close contact with their home provinces. Their hope seems to be that the South may eventually succeed in throwing off the domination of the National Government, as it did for a while, long before the outbreak of the Sino-Japanese war. They

would then try to come to an understanding with the Communist regions in the North and with other provinces where opposition to the National Government is also growing to an unprecedented extent, with the final aim of bringing about a unified China on the twofold basis of inter-regional federation and inter-party coalition.

"Hang on to Hong Kong if you want to continue trading with China during these years of disruption," an American businessman said. "A new hope for a unified and modern China may once more arise from the South, as it did under Sun Yat-sen; and next time, the British in Hong Kong would probably not repeat their mistake of ignoring and hampering it."

CHAPTER II

AMERICAN ASPECTS

(a) Exports.

The urge to export is not yet a major phenomenon in the American post-war economy although the United States' world exports reached the all-time record of almost \$10,000,000,000 in 1946 and may total between \$15,000,000,000 and \$16,000,000,000 in 1947 if shipments during the rest of the year are maintained on the high level of the first three months.

(To illustrate the truly enormous magnitude of these values by way of an unconventional comparison: the entire real estate of Greater New York, the world's largest, tallest, richest and most populous city, has recently been appraised at a total value of no more than \$17,000,000,000.)

American exports in 1946 were fully three times as large in value and probably twice as large in physical volume as they had been in 1939. They represented fully 5 per cent of the country's "gross national product", against only 3.5 per cent in 1939.

Yet this unprecedented volume of American goods was sent abroad mainly by the efforts of the United States government and of foreign buyers; partly against the reluctant attitude of not a few American producers and consumers who would have preferred to let foreign markets wait until the war-accumulated home demand was more fully satisfied; and without anything that might justly be called a strong urge to export on the part of the American economy. Apart from the farmers, whose surpluses the Administration automatically directed abroad, together with a good deal of food that was not considered in excess of home needs, and with the further exception of comparatively few branches of industry (like, for example, the film and machine tool industries), American producers as a whole did not seem to feel an acute need for large-scale sales abroad.

But attitudes have already undergone some change and developments during the last months made it clear that the urge to export is gradually becoming more distinct in one industry after another; while many merchants and manufacturers believe that it will eventually become stronger than it has ever been.

Merchants specializing in export trade were of course the first, after the end of the war, to take a very strong interest in increasing their foreign business as much and as quickly as possible. For considerable time they found it difficult to compete with home buyers for the insufficient output of most producers; and to be successful they often had to offer even higher prices and to be even less selective in their choice of goods than the domestic trade.

Since industrial reconversion was completed and supplies in general became more plentiful, however, export merchants obtained the larger part of the desired goods more easily. This has been the case especially in various lines of textiles and garments, household articles, toiletries and other "soft" consumers' goods the production of which is first in threatening to outstrip domestic demand - at least at the high prices manufacturers are still trying to maintain in the home market. It is characteristic for

the new urge to export (in order to keep up domestic prices) in some of the consumers' goods industries that some textiles and other products are already being offered at considerably reduced prices - "for export only". Being the main buyers from producers whose export sales are often no more than a stop-gap sideline - more or less neglected when home demand is satisfactory, but strongly pushed when supplies tend to exceed domestic demand - export merchants are anticipating even larger and quite urgent offers of such goods for sale abroad, especially from comparatively small producers, when the generally predicted business recession actually takes place.

Only in "durable" consumers' goods and especially in capital goods exporters are still suffering from the scarcity of many of the most urgently needed supplies, although the extent of the shortages varies greatly from one line of products to another. For while some manufacturers even in most of these lines of industry have already begun to catch up with war-accumulated domestic demand, most of them - like the makers of automobiles, refrigerators, etc., and especially of many kinds of machinery, construction, railroad and power equipment - are still lagging behind demand; and it may take them another year or two if not longer to liquidate the backlog of domestic needs unless they have overestimated the extent to which those needs are actually backed by purchasing power.

In this sphere of American industry, largely dominated by big concerns, export sales are as a rule considered an integral part of a firm's normal business and organized on a sound, permanent basis, no matter whether a firm may have export departments and foreign sales organizations of its own or whether it is working through specialized exporters or import agencies abroad.

The export executives and agents of some producers of "hard" consumers' and capital goods, apparently, had reason to complain during the reconversion period that they were not getting a fair share of their firms' output for their foreign customers, new as well as old. But it seems that some manufacturers have recently been increasing their allotments for export, in spite of continuing shortages and insistent pressure for supplies from impatient domestic customers. There are other indications for a new tendency on the part of manufacturers of "hard" consumers' and capital goods to lay more emphasis on the future development of their export trade than they used to do before the war, and to make greater efforts to stake out the largest possible claims abroad, both against American and foreign competitors.

The share of export sales in the total output of several important American industries was already very large before the war. It averaged 7 per cent of all automobiles, trucks and parts; 16 per cent of coal tar dyes and textile machinery; 17 per cent of rolled-steel products; 18 per cent of printing machinery; 28 per cent of agricultural machinery; 30 per cent of machine tools; 47 per cent of metalworking machinery; and 56 per cent of aircraft. (And the American film industry normally derives about one-third of its total revenues from exports.)

To maintain such large export rates will in itself require greatly expanded foreign markets since productive capacity has been much increased in many branches of American manufacture and is expected to grow further in the process of post-war efficiency improvements during the next few years. But, as the export manager of one of the United States' largest

producers of machinery stated, "We shall have to start increasing the share of exports in our total sales within the next three or four years - when all domestic backlog demand is filled - if we want to keep our prices down through the most efficient use of our plants."

The same seems true of many other manufacturers, including some who are not yet aware of this likelihood. For the increased cost of production, partly due to higher wages and taxes, has raised the "break-even point" of most industries, i.e., the rate of actual use of industrial plants to their full productive capacity below which production shows no profit but beyond which, step by step, profits per unit product will increase. This means that an even larger part of industrial capacity must in future be used than was the case before the war; and that foreign markets will eventually have to contribute somewhat more to the total employment of many American plants.

Manufacturers in general are now probably more export-minded than they had been before the war. It seems from recent experiences of export merchants that numerous producers whose interest in foreign markets used to be rather erratic are now aware of a need for putting their export business on a more regular basis, while others who were not at all interested in it before the war are now studying its possibilities in what appears to be a serious effort at developing it.

The talk about a recession in the United States and the fear of an actual depression later in the 1950's may have something to do with this increasing interest of many industries in foreign markets; but most old-time export merchants who are good judges of the trend of attitudes in industry seem to be convinced that it will not only be a passing interest, as the similar wave of enthusiasm for the export business proved to be after the first world war.

East Asia, however, probably has little more, if not actually less, than its pre-war share in this growing interest for foreign markets. Originally, toward the end of the war, it had been considered one of the most hopeful regions; and it is still wistfully admitted by all those who have made comparative studies of foreign markets that the theoretical long-term scope for the development of American exports, especially of capital goods, is nowhere as great as in East Asia. But it is now generally felt on the basis of businessmen's reports from the spot that the prospects for political stability, on the whole, are even less reassuring in East Asia than in Western Europe and the Near East and much less bright than in Latin America; if only because it seems that the United States may have even greater difficulty in East Asia to make her diplomacy and her power successfully felt toward that end than she is encountering on the foremost frontlines of her interest, in Latin America and Europe.

(b) International Competition

International competition with America's export trade probably never was so insignificant as it has been since the end of the war. Particularly in countries of East Asia other than those belonging to the British Empire it has been almost non-existing in most commodities, so that virtually any kind of American goods has been finding a ready sale at practically any price; for the trade with those countries has been made so extremely difficult by import and foreign exchange restrictions that Britain and other European competitors, so far, did not seem to pay as much attention to them as they did to the easier and more affluent markets of Latin America.

But many businessmen expect international competition to grow comparatively soon, even in East Asia. That majority of American manufacturers whose products do not enjoy a technical monopoly position (like certain kinds of heavy farm machinery and other goods that are produced only in the United States or that are nowhere mass-produced so cheaply) are now discussing the various aspects of international competition which they will have to face in the future.

First of all, they foresee an increasing international struggle for the restricted foreign exchange supplies at the disposal of importing countries, in East Asia as well as elsewhere. As an exporter whose trade consists mainly of consumers' goods put it: "No matter how cheaply we may offer textiles in a certain East Asiatic country, if Britain, Sweden or Switzerland offer it machinery that enjoys a higher priority rating in that country's relative evaluation of its various import needs, our European competitors will probably get the foreign exchange that would otherwise have been available for the purchase of our textiles."

This form of competition would of course last no longer than the scarcity of capital goods in the United States still restricts their exportation. In the meantime, however, it may become a factor of some importance to American manufacturers of consumers' goods, especially if the dollar purchasing power of the world's markets as a whole or of specific East Asiatic countries is not increased by liberal dollar loans or by a quickened revival of their own foreign-exchange-producing export trade.

Secondly, international price competition with certain American goods is expected to develop long before the present backlog of urgent needs abroad is anywhere near liquidation. As Britain's exports grow, as relatively new exporters of industrial products begin to look for markets (like certain Australian manufacturers in several countries of East Asia), as Germany and Japan gradually return into the world's markets, the comparatively high American production costs and selling prices might well create for some American producers a difficult competitive situation. Some exporters are beginning to fear that such a development may coincide with an increasing American need for the exportation of consumers' goods during the next year or so; and that it may then help to bring about the kind of pressure on domestic price and wage levels capable of creating serious difficulties for the United States economy. It is in this connection that farsighted export merchants criticize the stubborn maintenance of unduly high profits and prices by most manufacturers in opposition to the government's efforts to lower prices while there is time for painless readjustment.

Thirdly, the competitive aspects of a possible expansion of trade

between various countries of East Asia are taken rather seriously, again mainly where the United States' business in consumers' goods is concerned.

There is first of all a growing apprehension in those trade circles that Japan might be permitted to regain part of the old markets of her light industries, if not the world over, at least in other countries of East Asia. Strong representations to the government have already been made by American textile manufacturers and exporters. But they seem somewhat sceptical about the results, in view of the fact that there may be no other political and economic alternative to that of making Japan rely rather heavily on the production and export of consumers' goods.

Similarly, there is some fear that the further industrial development of India, the Philippines and other countries of East Asia might give an even larger share of Asiatic markets to low-cost, low-price Asiatic producers. Some American businessmen were impressed by the possible implications of a "Special Accounts Arrangement" between India and China that was suggested by an Indian trade mission after its return from China a year ago. It was to make Indian goods exported to China payable in Rupees out of a special account with the Reserve Bank of India, against payment by the Chinese importers of those goods in Chinese currency into a special Yuan account with the Central Bank of China, and vice versa. The arrangement, apparently, has not been concluded; but the mere suggestion of such a bilateral instrument for trade development was apparently regarded as an indication of the harm which might be done to American trade interests in East Asia if the rising nationalism of its various countries, together with their ambitions for economic development and their foreign exchange difficulties, led them to bilateral financial and economic agreements.

Only comparatively few American businessmen, however, seem of the opposite opinion - that a maximum development of inter-regional trade, by the advantages it would give the individual East Asiatic economies, is in fact highly desirable because it would benefit American business with East Asia as a whole by raising productivity and purchasing power in the chronically commodity-hungry region. "Overseas" Chinese merchants who play so considerable a role in the trade of most countries of South East Asia and some Indian merchants and manufacturers with wide affiliations in those areas are probably today the leading advocates of expanding inter-regional trade. It would be tragic indeed if American businessmen, instead of using their facilities for participating in such trade and fostering it, were to fear it as the dangerous manifestation of a new Pan-Asianism.

(c) Imports

American foreign trade has two essentially different import problems. One concerns the dependence of the American economy upon regular and sufficient supplies from abroad of vital raw materials that are either not produced in the United States or seriously deficient. The other concerns the long-run dependence of American export trade upon ample dollar exchange revenues of its foreign customers from the sale of their own products in the United States.

The East Asia region has long been one of the most important, if not the single most vital American source of foreign supplies. To summarize the appended table (see page 35) which illustrates this point, fifty-six out of the United States' one hundred leading pre-war imports originated entirely, mainly, or at least partly in the various countries of East Asia. In the four largest single American import groups - crude rubber, tin, coffee and raw silk - all but coffee were mainly or almost exclusively provided by East Asia. In thirty-three out of the one hundred largest import categories, East Asiatic suppliers ranked first, i.e., British Malaya in three (crude rubber, tin and gutta percha); Japan in five (raw silk, medicinal herbs, pottery, cotton cloth and silk fabrics); India in six (burlap, unmanufactured cotton, shellac and other gums and resins, jute, wool carpets and rugs, and jute bags); the Netherlands East Indies, in nine (tea, spices, sisal fiber, tapioca, essential oils, quinine and other medicinal preparations, palm oil, straw hats, and paraffin); China in four (tung oil, bristles, tungsten ore and linen handkerchiefs); and the Philippines in six (coconut oil, copra, cotton wearing apparel, abaca fiber, pineapples and cigars).

The end of the war found the United States in urgent need of many of the essential products it used to import from East Asia. Even for considerable time after VJ-Day most supplies became only slowly available since war-damage and the results of Japanese occupation had in many cases interrupted production, while local transportation difficulties, in others, delayed the shipment of accumulated stocks as well as fresh supplies.

Tin from British Malaya and the Netherlands East Indies, tung oil from China and some other materials are still seriously deficient. But there is no doubt among American import merchants that the remaining shortages will sooner or later be overcome in the course of the economic reconstruction which is taking place practically everywhere but in China and in parts of the Netherlands East Indies. Supplies of all East Asiatic materials that are required by the industrial countries of the world will once again become plentiful in the future, so that the eventual lapse of the last of the inter-Allied allocation arrangements still in force is not expected to lead to a dangerous international race for the essential products of East Asia - unless an early outbreak of another world war is anticipated (- and unless, as a group of Asians said in discussing the subject, "God may have cursed us with large deposits of uranium ore and other rare and war-important minerals that may one day be discovered.")

Whatever increase of direct American capital investments in the further development of East Asiatic raw material resources may eventually take place, it is generally expected that it would probably be due more to favorable investment opportunities than to any feeling on the part of

American users of such materials that they must secure an ownership stake in their production against foreign competitors.⁽⁶⁾

On the contrary, the danger that is shaping up in the raw material production of various East Asiatic countries is that of partial over-supply on account of the expected loss of the foreign markets of some old-established raw materials to synthetic products. It is the first of the problems of East Asia's future purchasing power that concerns the manufacturers and exporters of American goods.

Rubber, so far, is the main object of apprehension. For it seems after the quick post-war comeback of rubber production in British Malaya and other East Asia countries that their output, to say nothing of their capacity, may soon begin to outstrip the needs of the United States and of large-scale consumers elsewhere. Total shipments during the second half of 1946, still largely from stocks, had already reached pre-war levels and turned a situation of world-wide shortage into one of near-glut.

Natural rubber now has to compete with the synthetic product which, at least for certain uses, has definitely come to stay as a major industrial raw material; especially since military considerations will further encourage the continued operation of a large part of the synthetic industry and since its greatly improved product now averages considerably lower in price than natural rubber. As working and transportation conditions in East Asia are returning to normal, raw rubber competition for the world's comparatively restricted markets is expected to become more and more lively and eventually more and more harmful to native living standards, plantation profits and the over-all purchasing power of the producing countries.

The progress of synthetic industries in recent years is certain to do even greater harm to the temporarily immobilized raw silk producers of Japan and China, both of which seem to have no chance of resuming competition with nylon and rayon for anything but a narrow luxury market, unless, as some old-time silk importers confidently hope, new uses may be discovered for what superior qualities natural silk possesses.

Nylon has also begun to make considerable inroads into some of the pre-war uses for bristles - one of the large items of China's normal export trade, of especial economic importance because of the additional purchasing power it normally provides to large numbers of Chinese farmers with few other cash crops. Pig bristles have already been replaced by nylon in part of the tooth - and other toilet brush production. They remain important for paint brushes only so long as nylon is not improved in a way that would also make it usable, and in fact superior, for that quantitatively much more important purpose. Another traditional Chinese and Indian export product, sausage casings, is gradually being eclipsed by synthetic products, and it seems that new and better substitutes have been developed for some natural medicinal raw materials of various East Asia countries.

(6) The main exceptions would concern raw materials in which the United States used to be self-sufficient or at least well-supplied from home production but which are now running short to various degrees, like oil, iron ore, copper, lead, and zinc. Of these, however, only oil, mainly in the Netherlands East Indies, seems obtainable in East Asia in significant quantities.

China's soybeans, once the Manchurian provinces are again linked up with the world's markets, will probably be in less demand than they were before the war, in consequence of the vast increase of soybean production in the United States and the greater attention European countries have been paying to that easily raised crop since Manchuria's troubles, since the late 1920's, made its soybean supplies to the world's markets irregular.

Many American businessmen are sceptical about the prospects for an early increase of East Asiatic purchasing power from products other than the old-established ones of which at least rubber and silk, the first- and third-most-important, in the United States' pre-war import trade, are likely to yield less in the future than they did before the war. India alone, with its strongly developing industries, its vigorously surviving crafts, and its realistic plans for further economic development will be an outstanding exception if political strife does not interfere.

In most of East Asia, different from Europe, it is not so much a question whether the United States will be ready to buy from its export customers whatever they may be able to produce beyond essential raw materials as it is a question of what more than such raw materials they could possibly offer the American market. The fact is that, with a comparatively few exceptions, the East Asia countries will first have to develop their manufactures or at least to revive and modernize their handicrafts before the question of American readiness to buy much more from them can be raised.

China, for example, is not even able under the present circumstances to produce at reasonable prices enough linen handkerchiefs to recapture this American market in which she once ranked first, or to supply as much as Americans would readily buy of other Chinese handicraft manufactures.

While American manufacturers and bankers are exploring the possibilities of industrial development in East Asia that would widen the range of production and export goods of those countries, a few import merchants are taking an interest in the much smaller but by no means insignificant task of stimulating and modernizing traditional crafts, not only in China but also in other countries, which could easily develop sizeable markets in a prosperous United States if their production were organized (cooperatively or otherwise) for catering to the tastes and purses of wide strata of the American public.

As long as the crafts and industries of East Asia other than Japan and India are not developed to a greater extent, American imports from that region as a whole will continue to be mainly raw materials. Their total will certainly increase to the extent that American industrial activity and its need for such materials grow. In some cases, it may also benefit from stockpiling for military purposes which now seems to become a normal American practice. But on the whole, East Asia exports to the United States may fail in the coming years considerably to exceed their pre-war volume in which larger quantities of rubber and silk than will be needed in the future played so important a part.

(d) Financial Problems

The countries of East Asia still possess considerable liquid dollar holdings in the United States. At least, they did at the end of 1946.

According to the latest reports of American banks to the Federal Reserve Board, those dollar holdings totaled about \$1,150,000,000 on December 31, 1946, having decreased \$264,000,000 during that year. (7) They represented about one-fifth of the total dollar balances of all foreign countries in American banks.

The largest single total of dollar deposits any East Asia country held in the United States was that of the Philippines which decreased from \$629,100,000 at the end of 1945 to \$446,600,000 at the end of 1946. Theoretically, they would still be sufficient to finance about 21 months' trade deficits at the rate of the negative balance the Philippines had in their 1946 commerce with the United States.

China's visible (8) dollar holdings in American banks fell from \$582,300,000 at the end of 1945 to \$431,900,000 at the end of 1946. At that time they were still equivalent to about 14 months' deficit in China's trade with the United States at the 1946 rate, including American UNRRA and Lend-Lease supplies; or to 25 months' deficit at the 1946 rate if those special supplies that required no financing on the part of China are left out of consideration.

All other East Asia countries actually increased their dollar holdings with American banks from the end of 1945 to the end of 1946.

The Netherlands East Indies' deposits rose from \$113,700,000 to \$127,000,000 in spite of last year's negative balance in their trade with the United States of \$39,500,000.

India, Burma and Ceylon raised their holdings from \$33,400,000 to \$43,500,000 with the help of a positive 1946 trade balance with the United States of \$76,800,000.

British Malaya's liquid dollar funds increased from \$1,200,000 to \$17,300,000 while in 1946 she achieved a positive balance of \$112,200,000 in her trade with the United States.

Hong Kong's assets grew from \$27,400,000 to \$44,900,000 in spite of a negative balance in her 1946 trade with the United States of \$45,200,000.

And French Indo-China enlarged her dollar assets from \$28,000,000 to \$39,900,000, while her positive balance in the 1946 trade with the United States was \$33,700,000.

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- (7) The net total of East Asia's liquid dollar holdings was somewhat lower than this figure which represents the "liabilities" of U.S. banks in their accounts with these countries. The "assets" which should be deducted, are not specified according to countries; for the whole of Asia, including the Near East, however, they amounted only to \$99,200,000 on December 31, 1946.
- (8) Considerable Chinese funds, apart from large investments of Chinese flight capital in stocks and real estate in the United States, are supposed to be held in American banks in the names of non-Chinese companies and individuals.

These figures would have to be supplemented and qualified by a great deal of additional information before they could be taken as an exact yardstick for the respective currency positions of these countries. But traders consider them sufficient indication that the main countries of East Asia are by no means down to their last American cent. Yet this does not prevent American businessmen from agreeing that most, if not all of them, (probably with the only exception of India and other members of the British Empire Exchange Pool where the problem is one of restrictions in their use of dollar holdings and revenues) will require considerable financial assistance from the United States in the form of loans or capital investments if they are not only to maintain and somewhat to expand their currency purchases of American goods but if they are to be able to buy those large quantities of industrial, farm and transportation equipment American manufacturers will soon be anxious to sell to them for the development of their potentially rich but still backward economies.

Prevalent American opinion seems to be that the supply of large-scale financial assistance and especially of capital for over-all national development schemes to the countries of East Asia should in the main be the task of the World Bank (International Bank for Reconstruction and Development). This does not mean that American businessmen are actually expecting the World Bank to be able to provide large loans to any of the East Asia countries, at least in the foreseeable future; they are too much aware of the great difficulties involved in starting the bank on its career, especially outside the European and Latin American spheres where either more urgent or less risky tasks than those that face it in East Asia would seem to be somewhat closer at hand. It means, rather, that they deny the possibility of launching large loans for East Asia governments in the United States on the pre-war pattern of public subscription to investment-bank-underwritten issues; and that those countries will therefore have to wait for large-scale over-all development loans until the World Bank, which was created precisely for this purpose, judges it possible to underwrite them.

The opinions of businessmen about "political" loans of the United States government to foreign countries are divided. Even those who do not oppose them on principle seem to make one or the other, if not all, of the following stipulations for their justification. (1) Such loans must be urgently necessary in the sense that their grant comes to the rescue of a political situation abroad which is of more or less immediate danger to really major and vital United States interests. (2) They must be a reasonable risk, politically if not financially, insofar as the government to be supported by such a loan must be regarded as having a fair chance of actually playing the stabilizing role in the danger region in question. (3) The total number of such loans, i.e., the total volume of the taxpayers' money involved in any one year, must be within the comparatively narrow limits that have been outlined by current plans for reducing first taxation and then the national debt.

The proposed loan to Korea, it seems, finds almost general approval. It is regarded less as a political loan than as additional occupation expenditure, required to follow up a military commitment in a strategically important area.

The question of a large political loan to China, however, seems to

be considered with little if any favor. (9) Those interviewed were more or less agreed - in a good many cases regretfully - that it would not be justified under any of the foregoing stipulations.

Even businessmen whose primary interests are in the China trade did not seem convinced that China, today, is an immediately vital frontier of the United States; and some added that Japan under American occupation was in fact taking on that role of the Western world's East Asia bulwark against the spread of Soviet Communism which Washington has been trying so long yet so vainly to enable China to play.

The Nanking government, today, seems to be almost generally regarded as a poor if not an almost hopeless risk, not only in the financial but equally in the political respect. The \$3,000,000,000 worth of American help it was given since V-J Day did not prevent a deterioration of Chiang Kai-shek's regime to the point where more and more American businessmen are becoming doubtful of its ability to survive long as more than a rather narrowly confined local regime.

Finally, it is felt, a loan that might give a fair chance of strengthening the Nanking government over somewhat wider areas would have to be of such very large volume that, added to new American commitments elsewhere, it would definitely exceed the bounds of political foreign lending which most businessmen want to see observed for the sake of reasonably conservative American finances. Furthermore, to be at all effective, it would require considerable supplementation in terms of American arms and of American supervision of the Chinese government's actual use of the loan. This would amount to a two-fold intervention (in her civil war and in Nanking's policies and administration) which most businessmen well acquainted with China fear would only serve to defeat the United States' long-term aim of acquiring a maximum of Chinese goodwill.

(9) After this study was written, the Associated Press reported as follows from China (quoted from New York Post, June 9, 1947):

Businessmen Hit New Loan to China

Shanghai, June 9 (AP)

Four representative American businessmen in China stymied by Chinese government business and financial regulations and caught by run-away inflation, said today they opposed any further American loans to China under existing conditions.

None would be quoted by name. If they were, they said, "what little business we are able to push through would be stopped entirely."

American business people in China, anxiously awaiting the June 30 deadline set by the Import Export Bank on the \$500,000,000 (U.S.) credits to China, agreed the money would be certain to find its way into Chiang Kai-shek's depleted civil war coffers, and offer only temporary respite in China's inflated economy. It would be merely a political loan, unless confined solely to capital goods, they argued.

The main hope of American East Asia interests for the supply of capital to the countries of that region seems focussed on the Export-Import Bank. But businessmen are practically unanimous in their insistence that the bank should concern itself only with limited, well-screened and well-thought-out projects that promise to develop American trade with East Asia countries, particularly by helping them to increase their productivity and the flow of their goods to the United States or to third markets. It is also demanded, especially by some American China firms, that businessmen experienced and interested in those countries be consulted in the screening of suggested loan projects and should be given an opportunity to participate in the business that results.

"Direct investments" on the part of American business concerns in specific enterprises in East Asia may eventually assume considerable if not foremost importance in supplying some of the countries of East Asia with capital for development purposes.

It is often overlooked how much this form of capital supply to foreign countries had already before the last war come to eclipse the method of public loan flotations for foreign governments, utilities, etc., in the open capital market of the United States.

Total American investments in foreign countries in 1939 amounted to \$11,400,000,000, of which \$10,800,000,000 were of a long-term character. Over two-thirds of these long-term investments of the United States, or about \$7,000,000,000, were "direct" investments of American business concerns in enterprises abroad which had been made more or less without the aid of the open capital market. Those in various countries of East Asia amounted to \$321,357,000. (10) (Even in 1936, before the Sino-Japanese war led to the liquidation of some and to losses on others in China and Japan, they had totaled only \$375,902,000.)

"Direct" American investments in East Asia, as elsewhere, are of a great variety, and their composition differs a good deal from one country to another. (11) In the Philippines, public utilities, mainly electric power plants, are in the lead, with sugar plantations and processing plants and sales organizations of American manufacturing concerns following. In the Netherlands East Indies, "direct" American investments are almost exclusively in petroleum production and refineries and rubber plantations. In India, there are investments in assembly plants for American-produced motor vehicles, textile plants and gasoline distribution enterprises. In China, they are mainly in utilities, foodstuff's processing and gasoline distribution concerns. Japan, before the war, was the only country in East Asia where American "direct" investments in manufacturing were larger than in any other enterprises.

(10)	Philippines	\$90,695,000
	Netherlands East Indies	71,275,000
	India	48,775,000
	China	46,136,000
	Japan	37,671,000
	British Malaya, French Indo-China and Siam	26,805,000
(11)	See "American Direct Investments in Foreign Countries - 1940", (Economic Series No. 20) - U.S. Department of Commerce, Washington, 1942.	

Some of the concerns in which American firms hold direct investments are of a joint foreign-American character while others, and probably a larger number with a greater total of capital, are entirely owned by their parent companies in the United States.

Banks play a special role in those American enterprises abroad because they use both American funds and local deposits for their often considerable financing of local and international trade and for various categories of participation, by investment and otherwise, in local production.

Strange as it may seem, the country in which potential "direct" investors, today, are apparently seeing the best promises for the expansion of their interests is - Japan. There are several reasons for this preference for Japan over other East Asia countries. First of all, being under American occupation and likely to remain for a long time under predominantly American influence once the occupation forces are withdrawn, Japan seems to offer better political guarantees for the security of American enterprises than many another nation.

Secondly, the defeated Japanese, badly in need of American capital, equipment, "know-how" and - last but not least - affiliation with American economic interests, will not insist on majority control in joint enterprises, as other important East Asia countries do.

Thirdly, skilled local labor is nowhere as plentiful and as likely to remain very cheap in terms of its productivity as in Japan; and the same is considered true of local managerial skill.

But as was stated elsewhere, the time has not yet come for American industry to work out any definite plans for fresh investments or even for the revival of pre-war enterprises in the as yet closed country.

This predominant interest in Japan does not preclude an active interest in other areas of East Asia. But it will probably take considerable time, in view of the manifold difficulties that will have to be overcome everywhere but in the Philippines before more than a few of the present schemes, many of which still seem rather vague, can be expected to develop toward realization.

Hesitancy in the decision of American industries about further participation in the development of various East Asiatic countries does not imply that the much-needed American technical "know-how" is denied to those who are anxious to acquire it. In China and elsewhere, hundreds of American technicians - sent out by a variety of American firms and government departments or privately hired by foreign government and private organizations - are active in one way or another and it is expected that this "export" of American technical knowledge will continue; although it is not likely to assume major proportions before more American equipment becomes available and especially before American capital, through whatever channels begins to flow to East Asia in large volume.

In the meantime, economic relations between the United States and the countries of East Asia are expected to remain more or less what they are now and development in those areas, as a whole, will probably at the best be slow.

It cannot be denied that early post-war hopes of many American businessmen for a quick growth of the roles the two parts of the Pacific sector will play in the progress toward an expanding world economy have been disappointed. The handicaps on the way toward that aim are looming larger every day.

In the countries of East Asia, they are in the main connected with the struggle of their peoples for national independence and for liberation from the feudal forces that still have so strong a hold over them.

In the United States, the handicaps are both of a political and economic nature. Politically, the split of what was to be One World into hostile capitalistic and communist camps has made it even more difficult for American East Asia policy to take its stand on the side of the peoples whose determined opposition toward local feudalism so easily makes, or at least brands, them "fellow travelers" of Soviet Communism. Economically, the antipathy of American business to anything suspected of restricting the freedom of private enterprise and of "planning" prevents the laying down of clear-cut, long-term Government policies for the guidance of the United States economy and therefore for its full, steady and predictable participation in equally clear-cut, long-term plans for the reconstruction and development of the world economy.

Gunther Stein