

China's Tariff Autonomy, Fact or Myth

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## Contents

### CHINA'S TARIFF AUTONOMY, FACT OR MYTH

U. S. Raises Barrier Against Japanese Cotton Goods      Soviet Air Development Aids Siberian Transport  
Netherlands India Prolongs Sugar Control              Japanese Wheat Estimates Below Government Plan  
Farm Debts and Farm Population in Japan

### CHINA'S TARIFF AUTONOMY, FACT OR MYTH

*Frank Kai-Ming Su and Alvin Barber*

**T**HE present state of affairs in North China, where Japan is now rapidly extending her influence, not only involves the question of the political future of this area, but constitutes for China the latest and most menacing phase of her long struggle to gain and maintain tariff autonomy. The latter development is scarcely less important than the problematical fate of the territory involved. To the **Large-Scale Smuggling** loss of the Manchurian customs in 1931-32 must now be added other serious inroads upon revenues vitally necessary to the Nanking Government. Factors making for these further losses include the general tariff revision of 1934, enacted under Japanese pressure; the slashing of duties fully 75% by the Japanese-controlled East Hopei Autonomous Council, another step in the development of the northern provinces as an adjunct to the economy of Japan; and the large-scale smuggling operations through the northern frontiers and ports policed by Japan, which now involve enormous quantities of merchandise.

To an unusual degree, the Central Government of China derives its support from customs imposts and duties. The customs service has been one of the few stable factors in a land retarded by foreign interference, administrative changes and chaotic military rule. Reaching into all 21 provinces, the customs have provided a dependable source of revenue for many foreign loans and indemnity obligations secured on these returns and have left a substantial surplus for the ordinary necessities of government. In addition, the long struggle for the sovereign right to control her own tariff system, to increase revenues where necessary and regulate the direction of her trade in such a way as to help

the development of her domestic industries, has been the very focus of Chinese nationalism, a point of honor which China has thought it not too dangerous to defend and a rallying point for all interested in an independent Chinese nation.

When the National Government put into effect the first revised import tariff on February 1, 1929, the enactment of this measure, ratifying, **Promise of Protective Tariff** at last, Chinese customs sovereignty, was celebrated as a great diplomatic success. The Government announced that the newly acquired rights would be used not only to increase revenues, but, even more important, to protect and foster the development of native industries. The first promise was rather promptly fulfilled. The revenues of the government were increased enormously and still remain today at a figure considerably above the level of former years. In the second instance, slower progress was made, but in the tariff revision of 1933, the Government did, at least to some extent, introduce the principles of protection. This trend was radically reversed in the further revision of 1934, in which the influence of Japan has been seen as the dominant factor. Taken with the subsequent blows sustained by the National Government in the customs administration of the northern provinces, it may very well completely undermine China's hard-won tariff autonomy, setting the stage for a "Japanese" tariff, which can only mean a colonial economic development for China.

This interference with China's sovereign right to control her own tariff system is nothing new; from 1842 until 1929 it was a continuous and conspicuous feature of her foreign relations. But the present situ-

ation differs in at least three important respects from the past: (1) There is a sudden, violent dislocation of established relationships. (2) There is obvious discrimination in favor of Japan, not only in the 1934 tariff itself but in the fact that a breakdown of customs control in the North has opened the way for the smuggling of Japanese goods and is a prelude to concessions which will, of course, be discriminatory. The former joint control of the Chinese customs at least maintained equality among the Powers, whatever the unfortunate consequences for China. (3) The relatively stable and comprehensive customs service, drawing revenues for the central government from all parts of China and on the whole definitely a Chinese regime, is undermined throughout a large section of China with consequent threats to the integrity of the whole system as well as to the authority of the central government and the servicing of the foreign debts.

The implications for future trade contained in the 1934 tariff revision, the drastic reductions announced independently by the so-called East Hopei Autonomous Government, and the activities of smugglers have not been lost upon Japan's competitors in the China market. Both the British and American Governments have recently lodged protests in Tokyo. In the long run, however, it is probable that the crumbling of Nanking under such financial sabotage as now obtains in the North will prove the most serious factor in the situation. Since the establishment of the National Government, the Western Powers have supported Nanking as a bulwark against Japanese encroachment and as a general stabilizing influence designed to secure the safety of their investments. Even Japan has preferred the known quantity represented by the Nanking Government to the breakdown of this authority under the attack of Communists and dissidents. The impairment of customs revenues at once places many foreign loans and indemnity obligations in jeopardy, and the threat to the solvency of Nanking conjures up to the foreign powers visions of anarchy disastrous to China and only too readily inviting further action by Japan.

Certain facts in regard to the general situation in North China and to smuggling operations in both North and South, have been outlined in previous issues of the *Far Eastern Survey* (see especially, May 25, 1936, pp. 110-11; Sept. 25, 1935, pp. 154-55; Oct. 23, 1935, p. 169; Dec. 18, 1935, pp. 198-205). In the remainder of this article, the tariff background will be stressed and the effects of the present status upon the Chinese economy elaborated.

China's loss of tariff autonomy dates from the Opium War and the Treaty of Nanking, concluded in 1842 with Great Britain, whereby Shanghai was declared an open port, a customs house was established and provi-

sion was made for a uniform rate of 5% on imports and exports, according to the price level of the time. Subsequently, other nations also assumed a part in the administration of these duties. For almost a century thereafter, China struggled to regain her tariff autonomy. Revisions were made from time to time, but all were designed as adjustments to the existing price level and it is clear that the tariff was considered solely as a revenue measure. Thus, in 1902, when China pleaded that customs returns were not sufficient to meet the newly imposed indemnity charges, an upward revision was allowed. During the entire long period of her conventional tariff, however, China's actual customs receipts fell far below what the original 5% stipulation should have given her, a situation highly advantageous to foreign powers interested in extending their market for manufactured products.

The rise of nationalism in China after the World War greatly strengthened the growing demand for tariff autonomy, not only to secure increased revenues but as a symbol of sovereignty and as a means of protecting the development of domestic industries. It became one of the most vigorously sought objectives of the Chinese Government. Backed by widespread public opinion, the Chinese delegation strongly supported the right to tariff autonomy at the Washington Conference of 1922, which finally agreed to recognize this right in principle and further decided to hold a special conference on the subject in China at a future date.

After some delay, the special conference on the Chinese customs tariff opened at Peiping in 1925, but because of unsettled conditions arising from civil wars no conclusion was reached. However, the demand for tariff autonomy on the part of the Chinese leaders, intellectuals and students was so persistent that the committee made two recommendations: (1) that tariff autonomy be granted to China by January 1, 1929; and (2) that China should abolish *likin* (internal transit dues) by that date. In 1926 the Canton Revolutionary Government, without the permission of the Powers, began to levy a surtax of 5% on luxury articles and 2½% on other goods. In February the next year, the Peking Government also adopted the same measures. The Japanese Government protested, but supported by strong mass demand for the abolition of unequal treaties, the Chinese Government carried out what it considered the necessary measures for the benefit of China.

The establishment of the National Government in Nanking in 1927 signified a sharp turn toward the right in China's domestic as well as foreign policies. In the matter of tariffs, the Government decided to acquire autonomy by negotiations instead of by outright abolition of the existing treaties. After long nego-

tiations, the Soong-MacMurray Agreement between China and the United States was finally concluded on July 25, 1928. It stipulated that "the principle of complete national tariff autonomy shall apply," subject, however, to the condition that each "shall enjoy in the territories of the other with respect to the above specified matters treatment in no way discriminatory as compared with the treatment accorded to any other country." Further, "the nationals of neither of the High Contracting Parties shall be compelled under any pretext whatever to pay within the territories of the other Party any duties, internal charges or taxes upon their importations and exportations other or higher than those paid by nationals of the country or by nationals of any other country."

Similar agreements with other countries, recognizing complete tariff autonomy and the most-favored nation treatment, soon followed. Only Japan of all the major powers did not agree to these terms. The Nationalist Government, however, promulgated its first revision of the tariff schedule on December 7, 1928, and began its enforcement on February 1, 1929. Tariff autonomy had arrived.

Between 1928 and 1930, sixteen countries (counting the British Empire as only one) came to tariff agreements with China. The Japanese Government was among the last, giving its assent to complete tariff autonomy for China on May 7, 1930, after several months of discussion. This agreement was reached, however, only after China had consented to maintain for three years the rates of the 1929 tariff on certain cotton goods and sea products and for one year the old rates on some miscellaneous goods in which Japan was most interested. In her turn, Japan agreed to maintain her existing rate of duty on Chinese grass cloth and to reduce by 30% the import duties on some luxury goods from China, such as silk piece goods and embroidered tissues. This Sino-Japanese reciprocal treaty definitely gave Japan some advantage in her trade with China, although because of the most-favored nation clause in other treaties, legal equality in theory extended to all.

The import rates of the February 1, 1929 tariff revision varied from 7½% to 27½%, a substantial increase as compared with that of the conventional tariff. Meanwhile, the price of silver in terms of gold was declining steadily. In order not to endanger the payment of her loan and indemnity obligations, nearly all of which were expressed in gold, China adopted, on February 1, 1930, the Customs Gold Unit, a theoretical token having a gold content of 60.1866 centigrams, which was equivalent to 40 cents in old gold U. S. dollars. On January 1, 1930, a second revision of the tariff also took place. This time the rates ranged from 5% to 50%.

Less than two years later, however, on September 18, 1931, the Japanese conquest of Manchuria began, and a new chapter in China's tariff history, as well as in her political history, was ushered in.

From March to June, 1932, one after another of the Manchurian ports stopped their remittances to China.

As a result of the separation, China lost around \$40,000,000 (Chinese) of her annual customs revenue, a substantial percentage of the total (13.5% in 1930). Facing such a great loss, with finances already in a precarious condition, China moved to regain the sum involved by increasing considerably her duty on luxury articles, such as artificial silk, floss and yarn, lace, silk piece goods, wines, spirits, toys, games, etc. The Sino-Japanese reciprocal treaty having expired on May 22, 1933, China undertook another revision of her import tariff. This time, although the percentage increase in the duties varied considerably, the rates on cotton and woolen goods were increased from 33⅓% to 100%, 200%, and in some cases, to as high as over 600%.

It will be noted that China was still acting in the exercise of her sovereign right to tariff autonomy. Indeed, this 1933 revision represented an attempt of the Chinese Government to introduce some kind of protective tariff as well as to meet revenue requirements. The rates on various products competing with domestic industries were drastically raised, whereas the rates on non-competitive goods or products valuable to the further development of the country were lowered. In the latter category were machinery, vehicles and parts of motor cars imported for assembly in China, the rates of which were decreased from 30% to 15%.

No sooner was the tariff schedule of 1933 promulgated than Japanese protests began to pour in. According to the evidence at hand the Japanese minister to China protested in the early part of 1934 directly in interviews with Wang Ching-wei, then President of the Executive Yuan and Foreign Minister, and later with Chiang Kai-chek himself. In addition, certain other events were taking place which strongly set up the presumption that China did not have a free hand in the official action soon forthcoming. It was at this juncture that the Tokyo Foreign Office spokesman proclaimed the so-called "Asiatic Monroe Doctrine"; at the same time the Japanese Government pressed five demands in regard to North China; at about the same time new demands were made for the repayment of the old Nishihara loans; and on June 11, 1934, Japanese gunboats and cruisers were ordered to Nanking as a result of the sudden disappearance of a Japanese vice-consul, who was later found hiding in a cemetery. On July 3, 1934, a new Chinese tariff act was promulgated, whose provisions contrasted strangely with the autonomous policies hitherto adopted by the Chinese Gov-

Table I  
CHINESE IMPORT TARIFF SCHEDULE OF JULY 3, 1934 COMPARED WITH SCHEDULE OF 1933\*

Class	Commodity	No. of Items	No. of Items Revised	Import Duty Rates Increased		Import Duty Rates Reduced		Unascertained
				No. of Items	% of Increase	No. of Items	% of Decrease	
I	Cotton piece goods, gray.....	14	---	---	---	---	---	---
	"    "    "    white or dyed.....	24	3	---	---	3	9-16	---
	"    "    "    printed.....	18	18	---	---	18	2-48	---
	"    "    "    miscellaneous.....	14	14	---	---	14	17-39	---
	Raw cotton.....	1	1	1	43	---	---	---
	Cotton thread, cotton yarn, etc.....	23	---	---	---	---	---	---
II	Flax, ramie, hemp, jute and manufactures	17	---	---	---	---	---	---
III	Wool and manufactures thereof.....	17	3	1	45	2	7-8	1
IV	Silk " " ".....	17	---	---	---	---	---	---
V	Ores and metals.....	95	90	85	4-55	5	11-30	2
	Metalware.....	3	3	3	20-25	---	---	---
	Machinery and tools.....	9	9	9	33-100	---	---	---
	Vehicles and vessels.....	6	---	---	---	---	---	---
	Other metal manufactures.....	15	13	13	20-66	---	---	---
VI	Fishery and sea products.....	25	9	---	---	6	14-26	3
	Animal products and groceries.....	36	34	33	16-40	---	---	1
	Spices, vegetables, cereals, fruits, medicinal substances, seeds, etc.....	61	34	32	7-50	2	22-33	---
	Sugar.....	7	---	---	---	---	---	---
	Wines, beer, spirits, etc.....	17	3	---	---	---	---	3
VII	Tobacco.....	6	---	---	---	---	---	---
VIII	Chemicals and pharmaceuticals.....	56	46	46	14-100	---	---	1
	Dyes, pigments, paints and varnishes.....	37	32	31	18-33	---	---	1
IX	Candles, soap, oils, fats, etc.....	23	8	8	13-53	---	---	---
X	Books and maps.....	3	---	---	---	---	---	---
	Paper and wood pulp.....	17	5	---	---	4	8-21	1
XI	Hides, leather, skins, furs, etc.....	7	1	---	---	---	---	1
	Bones, feathers, hair, horns, shells, sinews, tusks, etc. and manufactures.....	11	4	2	20	2	25	---
XII	Timber.....	11	11	11	25-100	---	---	---
	Wood, bamboos, straw, etc.....	11	11	11	17-105	---	---	---
XIII	Coal, fuel, pitch and tar.....	6	1	1	56	---	---	---
XIV	Chinaware, enamelled ware, glass, etc.....	10	1	1	25	---	---	---
XV	Stone, earth, and manufactures.....	9	2	2	33	---	---	---
XVI	Miscellaneous.....	46	21	20	17-100	---	---	1
	TOTAL.....	672	372	309	---	56	---	20

\* Bank of China Monthly Review, Vol. 9, No. 2 (Shanghai, Aug., 1934)

Table II  
SELECTED ITEMS OF THE CHINESE IMPORT TARIFF OF JULY, 1934 COMPARED WITH SCHEDULE OF 1933

Goods	Unit of Measure	Duty (in gold units)	Percentage of Increase (+) or Decrease (-) as compared with 1933 Schedule
<i>Cotton Piece Goods, Gray</i>			
1. Shirts, sheetings and T-cloths, plain, gray:			
(a) Not over 82 cm. wide:			
(i) Weighing not more than 140 grams per meter.....	meter	0.028	---
(ii) Weighing more than 140 grams per meter.....	"	0.043	---
(b) Over 82 cm. but not over 102 cm. wide:			
(i) Weighing not more than 90 grams per meter.....	"	0.026	---
(ii) Weighing more than 90 grams per meter.....	"	0.043	---
15. Shirts, sheetings, and Irishes, plain, white, not over 92 cm. wide.....	"	0.05	---
25. Shirts, sheetings and pongees, plain, dyed:			
(a) Not over 82 cm. wide.....	"	0.038	---
(b) Over 82 cm. but not over 92 cm. wide.....	"	0.05	---
<i>Cotton Piece Goods, Printed</i>			
41. Cambrics, etc.:			
(a) Not over 82 cm. wide.....	"	0.068	-21.3
(b) Over 82 cm. but not over 102 cm. wide.....	"	0.073	-48.6

Table II—Continued

42. Voiles, printed .....	value	25%	-16.7
43. Organdies, printed .....	"	25%	-16.7
46. Cotton crape, printed, not over 82 cm. wide.....	meter	0.044	-33.3
48. Sateen, drills, printed, not over 82 cm. wide.....	"	0.066	-16.2
52. Imitation poplins, etc. not over 82 cm. wide.....	"	0.083	-16.6
56. Cotton piece goods, printed, n.o.p.f.....	value	25%	-16.7
<i>Cotton Piece Goods, Miscellaneous</i>			
57. Shirtings and sheetings, plain, yarn-dyed, not over 92 cm. wide.....	meter	0.05	-27.4
66. Cotton flannel, etc.:			
(a) Not over 82 cm. wide.....	"	0.044	-21.1
(b) Over 82 cm. but not over 92 cm. wide.....	"	0.057	-39.4
68. Cotton piece goods, yarn-dyed, n.o.p.f.....	value	25%	-16.7
69. Cotton waterproof cloth, rubbered.....	"	25%	-16.7
70. Piece goods, n.o.p.f.....	"	25%	-16.7
<i>Miscellaneous</i>			
71. Cotton, raw .....	100 kg.	5.00	+43.0
532. Oil, kerosene, in bulk.....	10 liters	0.45	+28.0
244. Agricultural machinery and parts thereof.....	value	7½%	+50.0
245. Electrical machinery for power generating and transmission, and parts.....	"	10-15%	+33.0-100.0
246. Machine tools and parts thereof.....	"	7½%	+50.0
248. Prime movers and parts thereof.....	"	10%	+33.0
251. Typewriters, automatic sales machines, tabulating machines, cash registers, etc., and similar office machines for clerical and accounting purposes, and parts thereof....	"	20%	+33.0
252. Machinery, n.o.p.f., and parts thereof.....	"	10%	+33.0

Table III  
REVENUE FROM CUSTOMS, 1928-1935  
(amounts in Chinese dollars)

	Total	Import Duty Amount	% of Total	Total Value of Imports	% of Import Duty to Total Imports
1928	128,274,076	72,446,056	56.25	1,863,332,000	3.35
1929	238,109,285	167,098,564	70.17	1,927,084,000	8.66
1930	281,405,583	211,639,119	75.21	2,040,599,446	10.37
1931	385,002,673	314,686,596	81.74	2,233,376,164	17.24
1932	311,976,210	236,291,686	75.74	1,634,726,298	14.45
1933	339,524,490	265,610,812	78.23	1,345,567,188	25.23
1934	334,645,408	260,215,093	77.76	1,029,665,000	25.26
1935*	315,052,000	255,744,630	81.17	919,211,000	27.82

\* Estimates

Table IV  
SHARE OF MANCHURIA AND NORTH CHINA IN CHINA'S CUSTOMS REVENUE

	Total Customs* Revenue	Manchuria†		North China‡	
		Customs Revenue*	% of Total	Customs Revenue†	% of Total
1929	238,109,285.17	34,900,236.99	14.66	37,111,429.00	15.54
1930	281,405,583.46	38,254,072.44	13.52	37,964,664.00	13.49
1931	385,002,671.94	40,803,327.80	10.59	59,763,728.00	15.52
1932	311,976,210.34	.....	.....	67,769,336.00	21.73
1933	339,524,490.49	.....	.....	70,009,398.89	20.61
1934	334,645,408.55	.....	.....	68,477,102.03	20.47

\* Including Revenue Surtax (since 1932) and Famine or Flood Relief Surtax (since 1931).

† Altogether seven ports: Aigun, Harbin, Hanchun, Lungchingtsun, Antung, Dairen, and Newchwang.

‡ Altogether six ports: Chinwangtao, Tientsin, Lungkow, Chefoo, Weihaiwei, and Kiaochoh.

Table V  
COMBINED MARITIME AND NATIVE CUSTOMS  
REVENUE AND AMOUNTS THEREOF PAID ON  
FOREIGN LOANS AND INDEMNITIES  
(in pound sterling)

	Total	Amounts Paid on Foreign Loans, etc.
1927	7,737,726	7,665,381
1928	10,012,913	7,562,151
1929	18,191,695	7,774,180
1930	15,529,200	7,762,280
1931	16,062,730	8,262,460
1932	15,457,668	6,144,797
1933	16,264,877	5,291,919
1934	17,666,997	5,066,901

ernment, especially in the protectionist revision of 1933. An examination of the Tariff Act of 1934 by the Research Department of the Bank of China (see Table I) brings out the following interesting facts:

By the new provisions, rates on many principal Japanese imports into China, including some in competition with Chinese products, were uniformly reduced. Among these were printed and miscellaneous cotton piece goods, fishery and sea products, and paper. Rates on many other Japanese

**“Japanese Tariff” of 1934**

imports were left unchanged. On the other hand, rates on a considerable number of Western, especially American, imports, including raw materials that are necessary for Chinese domestic industries, were considerably increased. A closer analysis of the new import duty rates on cotton piece goods emphasizes the trend. In the printed and miscellaneous categories, which are furnished for the most part by Japan, the reduction was general and drastic. To cite a few examples, the rate on printed cotton crape, not over 82 cm. wide was reduced by 33⅓%, that on cotton flannel (No. 66b), by 39.4%, and that on printed cambrics, lawns, muslins, brocades, between 82 cm. and 102 cm. wide, by as much as 48.6%. There was no reduction in the gray, white and dyed categories and other classes supplied chiefly by the United States or, to a lesser degree, by Great Britain. Table II furnishes other equally striking evidences of Japanese gains in the new tariff.

As a whole, the principal commodities on which the rates were reduced were cotton piece goods (printed and miscellaneous), fishery and sea products, paper, woolen piece goods and pure woolen thread and yarn. In the year prior to the introduction of the new schedules, from June, 1933 to May, 1934, as between the three major countries in the China trade,—Japan, United States and Great Britain—Japan was the principal source of supply of the first three categories mentioned above and Great Britain of the latter two. The important commodities on which rates were increased were raw cotton; animal products and groceries; fruits, seeds, vegetables, etc.; dyes and pigments; kerosene; timber, wood, etc.; woolen yarn and thread, mixed; metals; machinery and tools; chemicals; and coal. Of these eleven classifications, the United States was the principal source of supply in the first six; Great Britain in the next four; and Japan only in the case of coal.

The following table drawn up by the Research Department of the Bank of China, shows the way the goods of the three leading countries exporting to China, taking the value of China's total imports from June 1933 to May 1934, as a basis, would be affected by the new tariff rates.

	(In Percentages)			
	All Countries	Japan	Great Britain	United States
Imports, with rates reduced .....	4.50	13.11	12.85	0.54
Imports, with rates increased .....	46.28	35.49	47.29	60.00
Imports, with rates unchanged .....	49.22	51.40	39.86	39.46
Total .....	100.00	100.00	100.00	100.00

As will be seen, Japan was decidedly the gainer in the new tariff; Great Britain's interests were moderately well protected; and, by comparison, the United States suffered most of all. The adverse effect on products of the United States was no doubt, in part fortuitous. It is not likely that China,

either independently or as a result of Japanese influence, deliberately raised tariff barriers against a number of American commodities which China required and in which Japan had neither a competitive nor political interest. A more plausible explanation is available. If China, under Japanese pressure, was obliged to reduce duties on Japanese products, a countervailing increase would naturally be imposed on other products, supplied by other nationals, in order to maintain her needed revenues.

It is interesting to note in current trade statistics the course of those articles on which duties were noticeably raised or lowered under the 1934 tariff. Where duties were reduced, particularly on fish and other sea products, paper, etc., there was a decided increase of imports—to the advantage of Japan. In the case of Chinese imports of cotton piece goods from Japan, the official Chinese figures have not revealed as pronounced an increase, but this is to be explained, at least in part, by the sensational increase in Japanese products smuggled into China as contraband, a trade in which textiles figure prominently. On the other hand, imports of raw cotton, mainly from the United States, on which the duty was increased 43%, dropped from \$90,000,000 (Chinese) in 1934 to \$40,000,000 in 1935, a decline of more than half. Imports of oils, including kerosene, liquid fuel and lubricating oil, on which the duties were increased about 28%, dropped from \$87,500,000 in 1934 to \$76,000,000 in 1935. There were also marked decreases in other goods on which duties were raised.

These results, of course, cannot be ascribed wholly to the tariff, and in some cases it is likely that variations in duties had only a minor influence on the level of imports. The higher prices and reduced supply of American agricultural products, brought about by the curtailment of crops under government auspices or by drought, were most significant in their effect on exports of these products. Similarly, internal conditions in China, the silver problem and other factors are all reflected in the customs reports.

At the same time there can be no doubt that the date of the enforcement of the tariff schedule of July, 1934, marked a turning point in Sino-Japanese trade, reversing the decline of Japanese imports into China which had continued for several years. The following table, which does not include the enormous amount of Japanese goods smuggled into China, especially in 1935, indicates the relative position of Japan in the Chinese market:

	(In Percentages)					
	1932	1933	1934		1935	
			1st half	2nd half		
United States..	25.5	22.0	28.63	24.27	26.4	18.9
Great Britain..	11.3	11.4	—	—	12.1	10.5
Japan .....	13.9	9.7	10.72	15.10	12.3	15.0

Here again, some qualification is necessary since the diminution of the anti-Japanese boycott and other factors in the complex Sino-Japanese equation had their influence upon trade.

The direct favoring of Japanese and some British goods in the tariff revision of 1934, is of course only a small part of the picture as far as China's national economy is concerned. The chief point, from the Chinese viewpoint is, that the same provisions also deprived the Chinese of certain foreign goods essential for the economic development of the country and the maintenance of its standards of living. The large increase in the 1934 Tariff of the duty on raw cotton, while at the same time the charges on certain cotton piece goods originating in Japan were reduced, constituted a blow to the native cotton textile industry. This industry already faced a chronic crisis as a result of high interest rates on borrowed capital, the lack of reserve funds, poor technological equipment, the decline in the price of yarn and other internal conditions.

The increase in the duty of raw cotton substantially increased the costs of production of cotton goods in China, and while the burden fell on both Chinese-owned and foreign-owned mills, the latter, operating on a much wider margin, were able to absorb the increase while the Chinese mills were not. Chinese producers were even less able than previously to withstand Japanese competition in their own market, and the results are reflected in the closing down, in whole or in part, of more Chinese-owned mills. An interesting sidelight on the situation is the conflict of interest arising between Japanese producers at home and Japanese mill owners in China, who have strongly protested the increased cotton duties but nevertheless continue the expansion of their holdings at the expense of Chinese producers.

For China, the 1934 tariff raises the whole issue of protection, one of the most earnestly stressed objectives of tariff autonomy. While the 1934 rates largely reduced such protection as earlier schedules afforded the cotton textile industry, it may be said that the increased duties on raw cotton, so damaging to manufacturers, have by the same token encouraged the domestic production of cotton. From the long-range viewpoint, a good case can be made, perhaps, for the development of the nation on an agricultural instead of an industrial basis. Such a plan, however, expresses Japanese rather than Chinese aspirations for China. It is Japan which is most interested and under present conditions stands to gain most from the development of a dependable supply of cotton, certain foodstuffs and other raw materials in China, to which access can be had if other sources of supply are

cut off. As an instrument of national policy, Chinese national leaders, on the contrary, claim to have set their course to foster the industrialization of China. By far the most important present factor in this program is the cotton textile industry, which sustains such damaging blows under the tariff of 1934.

What this portends to any program of industrialization in China has been pointed out in other places. (See *Far Eastern Survey*, Jan. 16, 1935, pp. 1-4; Jan. 1, 1936, pp. 6-7). The same unhappy result is to be expected from tariff increases on all kinds of machinery, ranging from 33% to 100%. How any kind of long-term industrialization schemes can be made to materialize in the face of such action is impossible to see.

From an opposite but nevertheless related viewpoint, the import duty on kerosene, a necessity for millions of peasant families and laborers, which was raised by almost one third, is equally unfortunate. Doubtless this rate and other similar provisions in the same act express the pressing need of the Government for larger revenues to offset the losses from decreased tariff items. However, as the purchasing power of the Chinese people had already been greatly reduced by the general economic crisis, the collapse of agriculture and the handicraft industry, the multitudinous and heavy taxes, floods, droughts, famines and widespread internal difficulties, the effect of such increases has been to put many necessary articles of life entirely beyond the reach of the common people.

It is clear that the 1934 tariff represents, for China, an abandonment of the principle of protection upon which much of her hope for industrial development has been based. The duties imposed have acted not as a protection for domestic industries, but rather as an oppressive sales tax on the poor, and a prohibitive impost on products necessary for the progress of the country—products which for the most part offer no competition to domestic commodities. Since a major aim, constantly reiterated, of tariff autonomy was to offer just such protection to Chinese industry, the conclusion is inescapable that the destruction of that protection in the tariff of 1934 constitutes by so much an infringement of the sovereign autonomy so long and patiently sought.

There remains the question of revenue, the other major objectives of tariff autonomy for the Chinese nation. The whole subject of government finance in China will be treated in some detail in a later issue. Here it is necessary to emphasize, as indicated at the beginning of this article, the great importance of customs revenue for the functioning of the Central Government. Such revenues account for about three fifths of the total receipts of the National Government, exclusive of proceeds from borrowing. The first revised import tariff of the National Government, effective on



February 1, 1929, was followed by a considerable and rapid increase in customs receipts. From approximately \$128,000,000 in 1928, the year prior to the introduction of tariff autonomy, total customs revenue reached a peak of \$385,000,000 in 1931. With the loss of Manchuria, this figure was reduced substantially, but is still in excess of \$300,000,000 annually.

Since about three fourths of the customs revenue comes from import duties and since imports have been shrinking steadily in the last few years, the result may at first appear surprising. The explanation is found in Table III. Whereas in 1928, import duties constituted about 3.35% of the value of imports, today the same duties constitute more than 27% of the value. The latter figure reflects the heavy tax burdens laid upon kerosene and other necessities of life. Only in this way has the Central Government been able to insure the successful meeting of the many foreign loans and other obligations secured on the customs (see Table V) and to obtain the large additional revenues necessary, particularly, to carry out the military campaigns of recent years.

How will the Government meet the further drastic loss of revenue caused by conditions in the Northern Provinces? In recent years, China's "invisible" imports, smuggled contraband of which the customs authorities have no official knowledge, have reached such gigantic sums as \$143,000,000 in 1933, \$154,000,000 in 1934 and more than \$250,000,000 in 1935 (according to estimates made by economic experts of the Bank of China). Table IV shows the relative importance of the North China customs revenue, which has amounted currently to more than 20% of total customs receipts. Smuggling in the Northern Provinces, with the connivance of local officials and without interference from the Japanese has almost completely destroyed this

source of revenue for the Central Government and has flooded the country with Japanese merchandise unburdened by normal customs duties. When the contraband traffic in the South, especially along the Fukien coast across from Formosa, is taken into consideration, it is probable that the National Government is now losing as much as one third of its normal customs revenues.

Should the condition continue, it appears that the National Government in the very near future will be faced by a paralysis of many of its functions through the demonstrated inadequacy of its chief source of support.

### Threat to Nanking

It is unlikely that such losses can be made up by the imposition of still higher duties on those goods which now bear the principal tariff burden, inasmuch as any increase would probably result in a greater limitation of imports and diminishing customs returns. Since even today, customs revenues are proving inadequate, the second major objective of tariff autonomy has been destroyed and it is fair to say that what remains of this sovereign power is only the form and not the substance of tariff autonomy, which the rapid march of events has made largely a myth.

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## SIGNIFICANT DEVELOPMENTS

### U. S. RAISES BARRIER AGAINST JAPANESE COTTON GOODS

Following the breakdown of negotiations with Japan looking towards a "gentlemen's agreement" restricting shipments of cotton cloth to the United States, President Roosevelt acted on May 21st to increase American tariff duties on cotton piece goods of the type now imported from Japan. Hailed as "a step in the right direction" by American textile interests, the move brought prompt threats from Japanese cotton spinners of a retaliatory boycott against American raw cotton.

Effective June 20th, the United States tariff will be boosted by an average of 42% on imports of bleached, printed, dyed, and colored cotton cloth, containing yarns averaging between No. 30 and No. 50. Within this range and type are found nearly three fifths of

total cotton cloth imports last year, and as much as 90% of the shipments from Japan. Thus the President's action, taken under the provisions of the "flexible tariff" clause of the Tariff Act, is aimed specifically at the medium-count, competitive fabrics imported from Japan. It represents an attempt at a compromise solution of a question which has been a source of considerable embarrassment to an Administration seeking to rally public support behind its broad tariff reduction program.

The duty increase climaxes more than a year of agitation against Japanese cotton goods. Imports registered startling gains in the early part of 1935. (See *Far Eastern Survey*, Apr. 24, 1935, pp. 57-61.) Vigor-