

BUREAU OF FOREIGN AND DOMESTIC COMMERCE

FILE No. *China*

SHANGHAI

Aboard the President Taft, en route
San Francisco, February 25, 1938.

To the Foreign Commerce Service Division
From Commercial Attache Julean Arnold
Subject: China Annual Economic Report, 1937.

~~ATTACH TO NO.~~ 14912

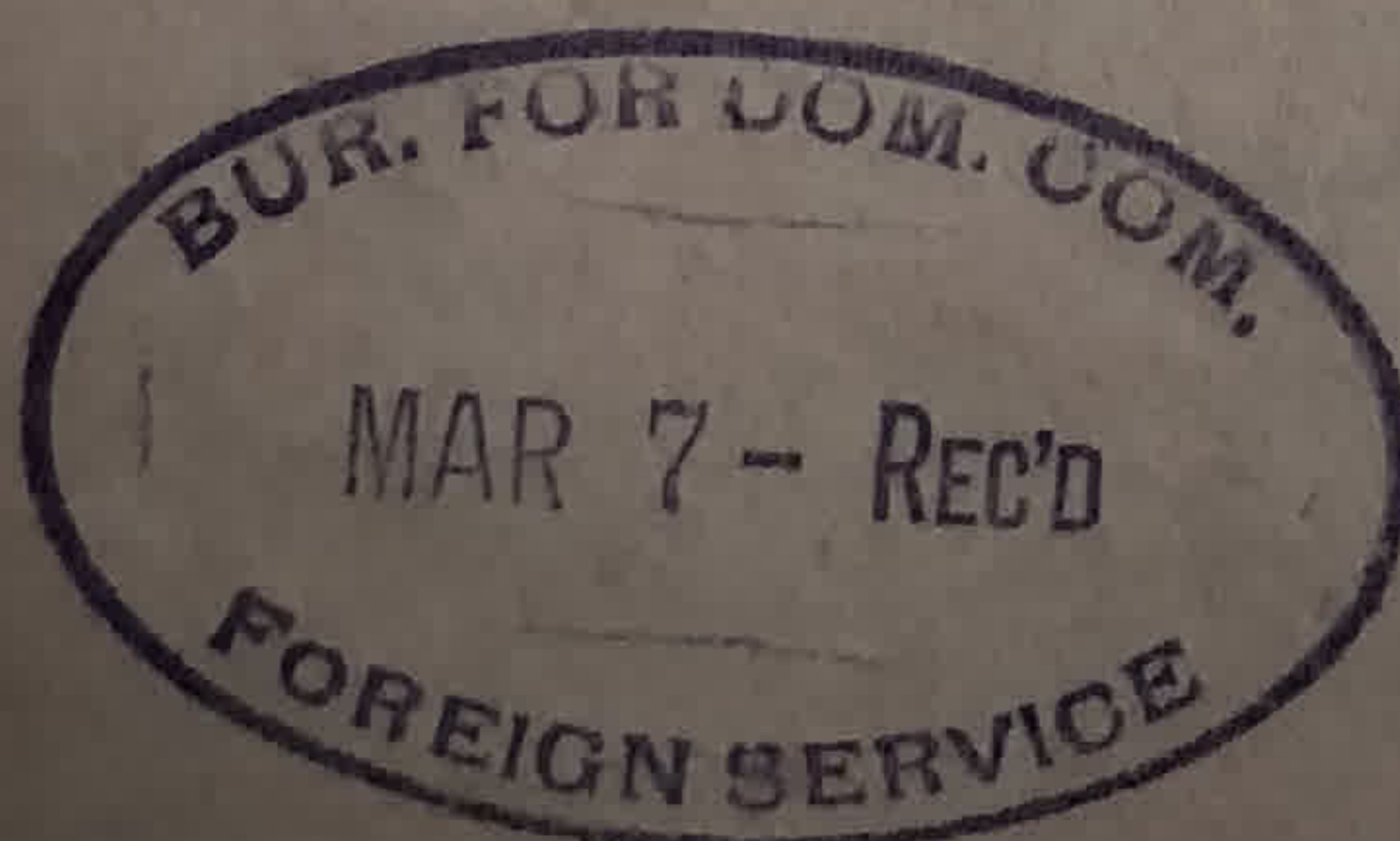
I am mailing herewith eleven copies of my annual economic report as mimeographed upon one side of the sheet only. I take it the Bureau will wish to furnish the Department of State with three copies for the use of the Far Eastern Division and Dr. Stanley K. Hornbeck. In our Bureau, naturally the Far Eastern Section of the Regional Division will need a copy as also the following divisions: Finance, Transportation, Machinery, Automotive-Aeronautics, Editorial, and Foreign Commerce Service.

It is suggested that several hundred copies be mimeographed for the information and use of those who have contacts with China and who are to be reached thru our Pacific Coast, New York, Chicago, Boston, Philadelphia and St Louis offices.

Much time and thought were devoted to the compilation of this report. It is especially significant because it covers the first six months of 1937 and also the last six months, the latter period involving the disastrous disruptions to trade and industry incident to the sino-Japanese hostilities. Thus it is in my opinion a very useful and valuable compilation considering the importance of the period which it covers. It must also be borne in mind that it embraces China, Manchuria and Hongkong. The four page introductory resume was radioed to the Bureau on February the tenth. Of special significance in connection with or rather as supplementary to this resume is the "Outlook for 1938" which concludes the report.

It is hoped that every possible use will be made of the report while the information embraced therein is still timely, so that our manufacturers and others who have contacts with or are interested in China may be able to avail themselves of the services of our Department in its efforts to cover that important section of the world.

(Julean Arnold)
Commercial Attache.



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FILE No. *H11*

SHANGHAI

China
RECEIVED

April 27, 1938.

MAY 25 1938

L-410 TEXTILE DIVISION

To: Far Eastern Section, Regional Information Division

DD. FOR. & DOM. COM.

Shanghai Office

MAY 24 1938

FOREIGN MAIL

Subject: "Industrial and Commercial Losses in Shanghai"

Attention is directed to a despatch of Consul General Gauss, dated at Shanghai, April 20, 1938, addressed to the Secretary of State, entitled "Industrial and Commercial Losses in Shanghai Caused by the Sino-Japanese Hostilities of 1937-38". This report points out the extreme difficulty in assessing or even collecting data relative to the colossal losses which have occurred to industrial and commercial properties in the Shanghai area as a result of Sino-Japanese hostilities in 1937. Statistics furnished by the Industrial Section of the Shanghai Municipal Council are similar to the confidential advance figures reported to the Bureau in our Weekly Economic Report of December 24, 1937.

With reference to remarks on page 9 as to the recuperative powers of Shanghai as evidenced by the 1932 Incident, and those at the bottom of page 10 with reference to the underlying basis of the importance of the port of Shanghai in relationship to its vast hinterland, we feel that these observations fall into a common error which has been all too prevalent in past months, as to the immediate future of Shanghai. The Incident of 1932 was so small and isolated as compared with the colossal destruction, both to Shanghai and its vast hinterland, which has occurred since August, 1937, that the former incident is, in our opinion, no criterion by which to judge recuperative abilities from the 1937 debacle. Frequent statements which one hears about the geographical location of Shanghai being such that it must inevitably come back to its former status and rise to even greater glories, fail to face realistically dominant political factors. There is no gain-saying that geographically Shanghai is ideally located but the cardinal point which these optimists appear blithely to overlook is the basic intentions of the military authorities in control of this area and the effect upon all trading interests other than Japanese. Active hostilities in the Shanghai area ceased late in November, 1937, yet the Hongkew

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and Yangtseepoo industrial areas of even the International Settlement have not yet been opened to free access. Neither tram nor bus services have been permitted to be restored. Innumerable types of impeding trade restrictions, to the point of slow strangulation, are daily being set up, to say nothing of monopolies which are in the process of formation by Japanese interests with the tacit consent of their officialdom.

Consul General Gauss' report on page 11 pointedly refers to the continued restrictions on up-river and inland trade resulting from the Japanese control of all inland waterways leading out of Shanghai and the disruption of rail facilities. Confidential information supplied to us by an American raw silk merchant of 22 years China experience, throwing further sidelights on the matter of inland transportation is commented upon in our Weekly Economic Report of April 23, 1936.

A new menace threatens what is left of the Shanghai cotton mill industry in the occupied Shanghai area. The efforts of Japanese interests to coerce Chinese cotton mill owners in these regions to enter into an arrangement whereby in order to secure permission to reopen the factories, the Japanese would control 51%, manage the business and receive 50% of the profits, while the Chinese would pay all the costs of rehabilitating and operating the mills, has within recent weeks been superseded by new tactics. It now appears that Japanese cotton mill owners have petitioned the Japanese military authorities for the privilege of peremptorily taking over and operating mills which they do not own, but which are located in the occupied areas, and that such permission has been granted. Exact details are not available, but sufficient data have come to our notice from a reliable source to satisfy us that this is substantially correct. Traders regard this move as a very serious threat to free competition for textile machinery and accessory business, as they perceive that if the Japanese get control of the Chinese mills there will be an end to all business so far as other foreign suppliers are concerned, while the procedure points to the manner in which other kinds of industrial enterprises within the Japanese occupied areas may be sequestered.

The annual general meetings of the British Chambers of Commerce at Tientsin, Hankow and Shanghai, as well as of public utility companies held within recent weeks, give cogent evidence of the restrictive features which Japanese occupation is having in both North and Central China upon the free intercourse of foreign trade. It is vividly apparent that the famous historical "Open Door" which has within the last six years been so effectively closed closed in Manchuria, if not yet closed in China, is rapidly becoming so barricaded and congested as to choke foreign trade traffic other than Japanese.

Mr. R. Calder-Marshall, Chairman of the British Chamber of Commerce at Shanghai on April 7, 1938, in his opening address stated:

"Though the Japanese Government has given repeated assurances regarding the maintenance of the territorial and administrative integrity of China and though her spokesmen have been equally emphatic regarding non-interference with foreign rights and interests, it is difficult to reconcile such statements with the events of the past eight months. The establishment, under nominal Chinese control, of the 'Provisional Government of the Republic of China', in Peking, and of the 'Reformed Government of the Republic of China' in Hanking, may, in theory maintain the administrative and territorial integrity of China, but such independence is more apparent than real, and if the declared intentions of Tokyo become effective and Japanese corporations are established under franchises from the 'Provisional' and 'Reformed' Governments to operate and control all railways, telegraphic communications, mining, electrical undertakings and some of the key industries, such monopolies would naturally seriously affect British interests.
***** Though Japanese spokesmen have emphasized that the 'Open door' policy will be maintained it is evident from the statements emanating from Tokyo that it is not intended that other nations shall enjoy 'equal opportunity' in major development work or industry or even commerce. The gross discrimination of monopolies in favor of one group need not be stressed, but when that group consists of nationals of an alien country, the discrimination is far more serious and almost assumes the character of an unfriendly act."

This forthright statement of Mr. Calder-Marshall drew fire some days later from Mr. Masaji Yoshida, President of the Japanese Chamber of Commerce, when he stated that while not professing to understand the technical phraseology employed by diplomats, he did not consider that the "open door" or "equal opportunity" meant "Equal allotment of concessions (in other words, an equal distribution of assets such as that made among the children of a family by their father)"; but that not only would the policy of "equal opportunity" be upheld by Japan, but that Chinese and foreign cooperation in the management of enterprises would be encouraged. Subsequently he added that the "open door" policy means to recognize the freedom of future development while respecting vested rights; and that it is not unreasonable for some industrialists and traders to have better business as compared with others, in proportion to their efforts and the scale of their enterprises, even if equal opportunity is given everyone.

"Finance & Commerce" editorially remarks that if the unofficial views expressed by Mr. Yoshida could be taken as accurately reflecting official policy, it might give some consolation to foreign businessmen who are not Japanese, but enjoy in China precisely the same treaty rights and privileges. Reflecting upon a resolution adopted recently by the Kobe and Osaka Foreign Chamber of Commerce, this journal feels that with Japanese policies in China being directed from Tokyo, the unfair discrimination against foreign business houses in Japan does not give much hope of a more generous attitude being shown in those parts of China which are now under Japanese military occupation.

What the future may possibly hold for foreign traders in areas in China which are not yet under Japanese occupation may be glimpsed from the following summary of excerpts taken from the speech of the Chairman of the Hankow British Chamber of Commerce.

"The disabilities under which our trade has to be conducted are often exasperating, but restrictions are natural to a state of war, and it therefore behooves us to be patient and tolerant. *****No doubt, this is a peculiarly inopportune time to think about the future, but how can we fail to do so? We appear to be faced with the alternative of two principal possibilities *****in Central China.

"The first alternative is the maintenance of the present status quo, that either Japanese arms will not penetrate to this part of the country or that, if they do, they will not seek to dominate it permanently. In that event, we are likely to be left to trade under a Government crippled by the burdens of war, set with the task of rehabilitating itself at the cost of an impoverished nation. How can we doubt that the widespread destruction wrought by the Japanese, the execution of China's scorched earth policy, and the migration of hundreds of thousands and indeed millions of refugees will continue to create a toll of havoc of unprecedented dimensions? In the face of this combination of calamities, it is idle to think in terms of China's power of recuperation. She will be faced with a task of stupendous difficulty, comparable only to that which confronted and overwhelmed nations after the European War. Can we under such conditions hope for stable and well ordered government, under which we could pursue our trade in peace and with some prosperity? Is it not far more likely that the countryside will again fall a prey to banditry and all the disorders with which we are familiar? Whence can we expect the purchasing power that will enable the consumer to purchase imported goods or the Government and industrialist the capital goods we are waiting to supply?

"The destruction of a workable currency will necessitate the rigid control of imports, with Barter Agreements the most favored method of finance. The scope of monopolies must automatically increase, and the various governmental trading institutions will be ready at hand to operate as agents of the Monopoly Bureaux. It may be doubted whether there is any scope for the private trader under any totalitarian system. Under the peculiar conditions which are likely to prevail in China, it is improbable that the foreign merchant could survive for long.

"Second Alternative---is the possibility of Japanese influence akin to domination. The scope of Japanese ambitions in Central China is less known than that in the North, but let us be clear in our minds on this point, that, if Japan should strive, and be able, to dominate this territory, as she is at present dominating the North, we are just as unlikely to survive. The Chairman's speech at the annual meeting of the Tientsin British Chamber of Commerce's meeting on February 9, will leave you under no illusions in regard to the Japanese insistence on trade domination."

And, after discoursing at some length upon the financial situation, the concluding third alternative characterized as "though dim and vague at present, yet offering a ray of hope", the Chairman added:

"It presupposes the absence of effective Japanese domination, and it lies in the possibility of certain of the Western nations eventually according China that help economically, which circumstances have prevented them from according her in the struggle itself. If, out of their hoard of accumulated gold, they can recreate China's reserves and so maintain the independence of the Yuan from the Yen, and, if they can supply funds and credit for rehabilitation and thus eliminate the necessity of barter, they will certainly be able to maintain the independence of this market. Even then, the process of reconstruction is likely to be slow, but there would be a future to which we could again look forward. A policy such as this must be boldly conceived and liberally executed. Half hearted expediences, such as we have witnessed in the past, would be entirely useless. It may be premature to think of such steps at present, but it is not premature to place on record the view that it will need such measures to ensure the future of British trade in China."

In my opinion, there is nothing in the present "complicated and dizzy picture" which would lead one to believe that the none too subtle tentacles of the Japanese military octopus will be relaxed in favor of non-Japanese traders. Each day brings to light new encroachments, and though the policy of the Japanese authorities appears to be badly

muddled, the same sort of indecision was witnessed in Manchuria, yet after the lapse of some seven years the combined effect has been largely to freeze out economic interests of non-Japanese foreign traders in that territory. The same incubus is as insidiously filtrating into economic and commercial channels in North China and that part of Central China now under Japanese military occupation.

As to the miraculous recuperative powers of the Chinese in which optimists like to find so much solace, such rehabilitation will take many years, if not decades. The triangular area between Shanghai-Nanking-Wuhu-Hangchow embracing a population of over 20 million people (in what is regarded the richest agricultural and industrial region in all China) has suffered untold destruction; cities, villages and farms have been laid waste, while such farmers and handicraft workers as are left are being further demoralized by the systematic spread of opium dens and gambling houses. Farmers are reported to have sold both seeds and implements to secure funds for gambling and opium smoking to forget their troubles. Serious minded Chinese are appalled at the effect which this widespread vice, if it runs on for several years, will have upon former industrious people, and regard it as one of the great problems to be faced in any rehabilitation which may come.

As to future prospects, many Chinese business and banking circles openly express the view that if the war lasts two or three more years all will be paupers. This does not mean that they are cavelling at official attempts to seek national independence. Former civil wars which rent the country during the past thirty years are not to be compared with the present struggle, as these civil disturbances were limited in scope to small areas wherein the resulting destruction was sporadic as contrasted to the widespread systematic devastation of the present hostilities.

Most observers appear to feel that the present hostilities will last for at least another year and possibly longer, and then that the result will in all probability be a draw. Prognostications midst this jigsaw puzzle are nothing less than foolhardy, yet I venture to hazard the guess that if the war concludes in a draw, that extensive areas will remain under Japanese military control and political domination to such an extent that commercial and economic opportunities for non-Japanese foreign traders will be increasingly shut out from participation in such trade as exists, unless it temporarily serves the purposes of and abets the schemes of the Japanese authorities. This is not black pessimism, but a realistic view of what the surging "March of Time" in the Sino-Japanese conflict extending from the Amur in the North to Canton in the South, reflects.

A. Viola Smith,
Trade Commissioner,
Temporarily in Charge.