

Report for the week ended

July 20, 1938.

BUREAU OF FOREIGN & DOMESTIC COMMERCE

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(Title)

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Finance Division

Aug 31 1938

For, and Dom.

WEEKLY ECONOMIC REVIEW

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Outlook is the top situation: The fall this week of Hsiakien, important river port, about 120 miles down river from Hankow, is naturally a blow to the Chinese and illustrates the hopelessness of China being able to hold positions indefinitely against the superior mechanization of the Japanese. It continues to add proof to the thesis that only with greater foreign aid in the equipment for defense, or in other form, can China hope to stem the Japanese advance into the heart of the country. If the Japanese advance on the north bank of the river succeeds in crossing the hills on the about-Hankow border, the Chinese could conveniently flood out the Japanese in the plain necessary to cross en route to Hankow by land. The river has apparently been well mined, blocked with booms, etc. Military experts hold that geographical conditions now favor the Chinese side and will prove nothing more in the way of obstacles to the Japanese advance than has hitherto been the case.

Evidences of lack of air defense at least of late during several Japanese bombing raids on the major cities further illustrate China's shortage of plane. Recently the Chinese have been using available planes to strafe Japanese war craft as the Yengtze in a desperate attempt to hold up the advance on Hsiakien, thus being obliged to leave the major cities undefended and giving the Japanese "freedom of the air" there at times. More supplies of Russian planes which, it was understood in June, the Chinese were attempting to purchase appear not to

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have been yet delivered.

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AUG 29 1938
FOREIGN MAIL

Shanghai,
(City)

China,
(Country)

August 1, 1938.
(Date)

Report for the week ended July 30, 1938.

Submitted by: A. Rand Calder,
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(Name)

Acting Commercial Attaché,
(Title)

Departure of various of the Chinese Government departments and organs from Hankow presages its eventual fall to the Japanese, though such may take weeks or months yet. The Hankow situation is not comparable with Hsichow, the defence of which was aided by hills and an elaborate system of forts built many years ago. The present approach to Hankow consists of fairly flat terrain, with only the possibility of flooding the low regions successfully to impede the Japanese. The Japanese did not use sufficient forces in their attack on Hsichow during February, March and April as they had other undertakings in northern Honan and Shanxi at that time, a factor which enabled the Chinese to defend Hsichow with some success for a long period. At present, the Japanese are suspending military operations on all other fronts and are using an force of between 100,000 to 200,000 men with the aid of almost 100 warcraft and a concentration of more than 500 planes in their offensive up both banks of the Yangtze. The prospects for successfully defending Hankow are not good in view of the above-mentioned changed circumstances and new factors.

The Japanese advance down the rail line from Nanking toward Nanjing and the evacuation of the latter city, will be of greater significance to the Chinese Government even than the probable eventual fall of Hankow, as it will make possible for the Japanese to cut the Chkiang-Kiangsi Railway and thus to prevent traffic between central China and all territory east of Nanjing still in Chinese hands, including eastern Kiangsi, important areas of southern Kiangsu, and the larger part of Chkiang Province.

WEEKLY REPORT

Shanghai,
(City)China,
(Country)August 1, 1938.
(Date)

Report for the week ended July 30, 1938.

Submitted by: A. Bland Calder,
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(Title)

The Japanese have given up their third heavy push in Shensi Province, apparently withdrawing their troops for use in the Yangtze Valley. Thus, the danger of a Japanese push down through western Honan to the Yangtze cutting the river at some such point as Chasi or Ichang now appears to have vanished.

Probably of greater significance than any of these developments was the entry into alleged "Manchukuo" territory by Soviet forces a fortnight ago, culminating over the week end just closed in a serious clash in which there were reportedly 600 Japanese and 800 Soviet casualties, the latter being expelled from the occupied territory. This may culminate into major hostilities between Soviet Russia and Japan, in which case Japanese pressure on central China will undoubtedly ease with the likelihood that a further advance up the Yangtze or toward Nanchang and Chengsha will not be attempted. Apparently the Japanese had begun to move crack troops in Manchuria in transports down the coast and up the Yangtze for use in the push on central China. Certain of these transports are reported as now moving back down river from Huku without unloading the additional forces, apparently rushing them back to Manchuria instead. This illustrates further the invaluable aid to China that the maintenance of Soviet troops on the Manchurian borders has been to China. The Soviet Government can, apparently at any time, cause the Japanese much concern by initiating border clashes thus compelling Japan to keep large numbers of her best troops "on tap" in Manchuria and away from the Chinese fronts.

We are now beginning to witness economic advantages to Japan by virtue of its invasion of China. June trade of China indicates that 80% of the imports

Shanghai,
(City)

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Report for the week ended July 30, 1938.

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(Title)

(in recorded trade) into North China (including Tsingtao and all ports north of it) were supplied by Japan, and that 70% of the exports were taken by Japan. This means that Japan, with bogus money, (printed yen or Federal Reserve notes) is now looting North China successfully on a large scale. In addition the Japanese authorities appear to be adopting the necessary regulations whereby the foreign exchange cover involved in export transactions from North China territory to countries other than Japan may now be "controlled" to create foreign currency reserves for the new bogus money and thus to give it a "status". However, penetration into the Shanghai region and into the Yangtze Valley has not netted Japan much of consequence in the way of economic advantages so far, as economic life was so badly disrupted during the fighting that it has not been restored to order. North China did not suffer such wide-scale or devastating hostilities. The fighting there was of relatively short duration. Hence, the reorganization of trade has been a simpler matter. Also, the North China Chinese are more amenable to exploitation by an invader than is the case elsewhere in China where the Chinese resistance is strong and the populace tenacious in their hostility.

However, the longer the Japanese hold the now occupied territories of China, particularly the coastal provinces, the greater will Japan's economic strength for continuing the war be bolstered. In other words, the job is daily becoming a bigger one for those countries interested in seeing Japanese aims in China defeated.