SHANGHAI

February 10, 1937.

ATTACH

L-404

#61453

To: Director of Bureau

From: Commercial Attache, Shanghai

Subject: Insert Sheets for Annual Economic Report.

With reference to my communication of January 28, 1937, (Letter No. L-368) entitled "China Annual Economic Report for 1936", I made reference therein to the necessity of sending at a later date pages 58 and 59 embodying data regarding the trade of Manchuria and the
1/ corresponding notation under the sub-topict "Foreign Trade" in the Resume on page B. Copies of these sheets are attached hereto. We also had to correct the exchange rate for the Hong Kong dollar during
2/ 1936, hence send a reprint of page 66.

Thus it is requested that these sheets be inserted and substituted in the original report as transmitted on January 28, 1937. We are radioing these changes to the Bureau in order to facilitate the mimeographing of the completed report.

Julean Arnold,
Commercial Attache.

JA:ER
Enclosure: No. 41067

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BU. FOR. & DOM. COM.
MAR - 5 1937

C H I N A A N N U A L E C O N O M I C R E P O R T

61453

(INCLUDING MANCHURIA AND HONG KONG)

F O R 1 9 3 6

Office of the American Commercial Attache

Shanghai, China

January 28, 1937.

61453

RESUME..... Page A

GENERAL..... " 1

CURRENCY AND FINANCE:
General Financial Conditions..... " 3
Foreign Exchange, Bullion Movements, Balance of Payments... " 5
Domestic Currency Unification..... " 6
Subsidiary Currency..... " 8
Budgets and Revenues..... " 9
Domestic Loan Reorganization..... " 10
Foreign Loan Reorganization..... " 10
New Taxation Policy..... " 11
The Banking Situation..... " 12
Foreign Credit Extension..... " 14
Credits and Collections..... " 15

LEGISLATION:
Insurance Enterprises Law..... " 17
Regulations Governing Proprietary Medicines..... " 17
Trade-Mark Law..... " 17
Law to Govern Joint Sino-Foreign Enterprises..... " 18
Income Tax Law..... " 18
Manchurian Legislation..... " 19

AGRICULTURE AND CROPS..... " 20

INDUSTRY:
Government in Industry..... " 23
Private Industry..... " 27
Flour Milling..... " 27
Cotton..... " 28
Tobacco..... " 29
Miscellaneous..... " 30

BUILDING CONSTRUCTION..... " 34

TRANSPORTATION AND COMMUNICATIONS:
Railways..... " 37
Highways..... " 41
Aviation..... " 43
Shipping..... " 45
Telegraph, Telephone and Radio Communications..... " 48

FOREIGN TRADE..... " 50

TRADE PROMOTION..... " 60
China Trade Act Companies..... " 61

OUTLOOK FOR 1937..... " 62

EXCHANGE RATES (For Conversion Purposes)..... " 66

SOURCES OF INFORMATION..... " 66

General: Year 1936 ended under far more favorable auspices than 1935. Progress was made in currency stabilization and economic reconstruction, especially railway construction. Bumper crops with high prices also contributed to improved conditions. In Manchuria, Japanese economic and political interests were further consolidated.

Currency and Finance: Favorable developments were: unprecedented stability of currency and progress in monetary unification; increased revenues from main sources; introduction of direct taxation; reduction in domestic loan servicing costs; steadiness and appreciation of Government Bonds; renewed servicing of old defaulted foreign loans, contributing to recovery of China's credit status; steadiness in banking situation with growth of importance of Chinese modern banks and general improvement in collections and credits especially in last quarter of year. Unfavorable situations were: the continued adverse balance of international payments and unbalanced budget with increased borrowing.

Legislation: New Insurance Enterprises Law objectionable to foreign companies because of restrictions of their business to treaty ports. Proprietary medicine regulations became effective January 1, 1937. Trade-Mark Law in need of more liberal interpretation and lessened number of commodity classifications. Income Tax Law became effective January 1, but not yet accepted as applicable to foreign interests. Manchurian legislation authorizes Custom house brokers handle all Customs formalities.

Agriculture: China enjoyed both bumper crops and high price levels for 1936 agricultural year which permitted decreased imports of foodstuffs and greatly increased purchasing power rural communities. Cotton crop of 3.7 million bales and leaf tobacco crop 170 million pounds largest on record. Manchuria soy bean crop with good prices great aid to economic conditions there. China opium poppy plantings greatly reduced.

Industry: At Shanghai for the last 6 months of 1936 there was an increase of 9% in industrial current consumed compared to corresponding period of 1935. Of special significance are the larger developments in electric power in North China under Japanese auspices. The Manchurian Government has increased its state industrial enterprises in harmony with Japanese plans for economic cooperation. Major industries in China enjoyed more profitable year than 1935.

Building Construction: In the new capital, Nanking, new construction proceeded on a large scale. Tsingtao experienced much building activity. Peiping, the former capital, is carrying out an extensive renovation program. Manchuria, with large inflow of Japanese capital, continues its large construction program. Shanghai after a severe building slump of past 2 years shows signs of revival of interest in new construction.

Railways: During 1936, new railway construction and rehabilitation of existing lines represented the outstanding economic achievement. For next 5 years, program of new construction anticipates 1600 kilometers annually. Unfortunately American participation almost negligible because of failure to provide long term credit facilities similar to those of international competitors.

highways. During 1936 much progress made in unification, standardization and improvement in highway maintenance and motor transport.

Aviation: Air passenger and mail traffic for 1936 increased about 100% over 1935. Landing privileges at Hong Kong were arranged to contact the China National Aviation Corporation with the Pan American Airways for trans-Pacific service and with Imperial Airways through Singapore to Europe. In the north, a Sino-Japanese company established a regular service between Dairen and Tientsin-Peiping. In military aviation equipment, large purchases were made, mostly American, apparently aggregating as much as US$6 or 7million.

Shipping: Upper Yangtsze shipping boomed so much during 1936 that additional ships had to be added to handle cargo demands. Conference ocean freight rates were increased during year. Oceanic passenger traffic to China was best in years. American business concerns consider shipping strike seriously disastrous to Sino-American trade, especially with Pacific Coast.

Other Communications: During 1936 the 9 Central China provinces network for long distance telephones was completed. Direct radio-telephonic communications were opened between Shanghai and the following points: Tokyo, Canton and Hankow, and also between Tientsin-Peiping and Tokyo. Powerful radio broadcasting stations were installed in Canton and in Chengtu.

Foreign Trade: For 1936, imports were 17% less and exports 23% greater than 1935. Adverse balance of trade was 31% less than for 1935. In imports very definite trends toward self-sufficiency apparent in agricultural products and consumer goods generally. For instance combined imports flour, wheat, cotton and leaf tobacco for 1932 accounted for 22% of total trade; in 1933 for 18%; in 1934 for 16%; in 1935 for 10% and in 1936 for only 7%. America headed list in China's foreign trade for 1936 taking 26% of its exports and supplying 19.6% of imports. Japan ranked second, Germany third and Great Britain fourth.

(NOTE: This space is held for insertion of Manchurian material on foreign trade)

Trade Promotion: Number of foreign governments during 1936 increased their trade promotion facilities to take advantage of improved opportunities for trade in China, especially in capital goods. China Trade Act Companies at end of 1936 numbered 86 with aggregate paid up capital of US$22 million and generally enjoyed more satisfactory business than for previous year.

1937 Outlook: Conditions generally improved over 1935 because definite progress made in political unity, increased purchasing power agricultural masses due bumper crops at high prices, improved demands and increased prices abroad for China's exports and increasing interest by foreign nations in extending long term credits for development projects. Uncertainties still persist concerning outcome of relations of Central Government toward factions in Northwest China and in relations with Japan, especially in North China. American business houses in China deeply concerned over continued Pacific Coast strike, especially if Atlantic shipping becomes involved. Situation warrants more favorable attitude by America in setting up credit facilities for greater participation in exports to China of capital goods.

GENERAL

The year 1936 ended under far more favorable auspices than did its predecessor. The liquidation of the semi-independent political status of Kwangtung and Kwangsi Provinces in South China was the most noteworthy political aspect of the year, as it led to a larger degree of national political unity than the country had enjoyed for many years. In currency unification and stabilization, 1936 will stand out as a milestone in the country's fiscal history. Following the nationalization of silver in November, 1935, China achieved a commendable degree of monetary unification and stabilization under a managed currency during the year 1936. On the other hand, little or no progress was made during the year in balancing the nation's budget, although there are prospects that 1937 may witness considerably increased revenues under a better organized financial administration. There are no prospects of cutting down on military expenditures, because of the continuing demands for the maintenance of fighting forces for both internal and external purposes. The huge smuggling operations in the north,. mainly through the autonomous area and mostly from Dairen, and in a lesser degree in the south along the Fukien coast from Formosa and in Canton, have cut in heavily on the Customs revenues and interfere seriously with legitimate trading. Unfortunately there was at the end of the year but little evidence of any substantial abatement of this nefarious trade. Furthermore, the autonomous regime in North China continues to present to the Central Government perplexing problems and uncertainties in Sino-Japanese relations for the coming year.

The year 1936 witnessed much progress in China's economic reconstruction. More definite advancement was made in new railway construction

under Chinese auspices than ever before recorded. A larger participation by foreign countries in supplying railway and industrial equipment on long term credits under liberal financing terms is indicative of a growing confidence in the country's internal conditions. China enjoyed during 1936 exceptionally good crops accompanied by rising price levels for its agricultural commodities, which naturally reacted most favorably upon the purchasing power of the rural communities. The country's exports for 1936 were also greatly in excess of those of the previous year.

Regarding internal political conditions, while the year closed with widespread and spontaneous demonstrations of public confidence in Generalissimo Chiang Kai-shek, following the Sian incident, yet the liquidation of the difficulties which led up to this incident, especially the relations of the Central Government to rebellious radical factions in the northwest, remained at the close of the year a matter of much concern to the country's political leaders. The outlook in connection with Sino-Japanese relations at the beginning of 1937 shows no improvement over that of a year ago. However, on the whole, the year 1936 ended more auspiciously than did its predecessor.

In Manchuria, the year ended with a more closely knit consolidation of Japanese economic and political participation in developments in that area, and the greater elaboration of plans for its economic penetration into North China. During the year, the Manchurian Government, in partnership with Japanese state agencies, created a number of additional state monopolies and enterprises, either for revenue, for profit, or for supplying Japan's national defense needs. By the end of the year, it was prepared to enact legislation to operate or regulate 21 basic domestic industries.

CURRENCY AND FINANCE

General Financial Conditions: Sir Frederick Leith-Ross, expert British Government economist, who spent about 6 months on a special tour of investigation in China in 1935-1936, in an address before the China Association in London in November, 1936, made the following statement: "The currency reform introduced in November 1935 has worked with remarkable smoothness. The Government banknotes have been accepted throughout the country. Silver has ceased to be used as currency and has flowed into the reserves of the Central Bank, where a large part has been converted into foreign currency reserves. Despite several serious attacks, the exchange has been firmly maintained, without any difficulty and the three Government banks have accumulated resources greatly in excess of those with which they started."

Sir Frederick further stated that the Central Bank requires to be reorganized as a proper central reserve bank and that the reorganization of the bank on sound lines will do much to establish confidence in the currency solidly both in China and abroad. He also stressed the necessity of securing a balanced budget. While the net deficit is not large by European standards it is very large in comparison with the fiscal resources of China. In this connection, Sir Frederick saw some promising signs, expressing the view that the improvement of business throughout the country should lead to an automatic expansion of the yield from existing taxes. He suggested that the recovery would be still further assisted if the Chinese Government were to revise its present tariffs carefully so as to reduce excessive duties.

Regarding loans, Sir Frederick stated that China is at present engaged in a large program of internal development and in the absence of foreign lending, has been forced to raise internal loans to an excessive extent and at

correspondingly high rates of interest. On the other hand, if it were possible for the Chinese Government to finance part of this development program by means of foreign loans, not only would it be able to raise the funds for this purpose much more cheaply, but by reducing the demands on the domestic market, the Government could finance its budget deficit proper out of real savings and could raise domestic loans generally at a lower rate of interest. Regarding foreign outstanding obligations, he stated that unfortunately the unsecured loans, and particularly most of the railway loans, fell into default during the period of civil wars and it seemed at first a hopeless task to tackle. Following his suggestion, however, the Chinese Government made definite efforts to arrive at settlements of these defaults at fair and reasonable terms with the result that, so far as British creditors are concerned, settlements have been reached or are in prospect for practically all existing foreign loans. Sir Frederick expressed the hope that these circumstances may open the way for fresh borrowing both in England and elsewhere for sound schemes of development.

There is little which needs to be added to these remarks of Sir Frederick Leith-Ross in summarizing the Chinese financial and currency situation after 14 months operations under the new managed basis adopted on November 3, 1935. Not only has the currency exhibited unprecedented stability throughout 1936, virtually eliminating the former exchange risks in foreign trade transactions, with rates pegged at a level contributory to an uptrend in commodity prices, but several other of the favorable trends indicated have been realized, such as definitely increased tax revenues in the latter half of the year, and a more widely realized currency reform through the harmonizing of political differences with the southern provinces. Further-

more, the cost of servicing domestic loans was materially reduced by the reorganization of most of the outstanding issues early in the year, and plans were laid for introduction of new direct taxes. Additional agreements were made for re-servicing long defaulted obligations of previous Peking regimes with British and other creditors, and an encouraging number of new credits were granted by officially sponsored European suppliers toward the end of the year for railway and other constructive purposes.

Foreign Exchange, Bullion Movements, Balance of Payments: After several months of successful stabilization effort under the policies adopted November 3, 1935, the Ministry of Finance on May 17, 1936, announced new provisions which were to involve increases in the gold bullion and foreign currency portions of the currency reserves, with silver reserves to be no less than 25% (formerly 60%) of the total value of note issues. Following the conclusion of the silver negotiations between China and the United States in Washington in May 1936, China successively made large official silver exports to the United States and other points abroad for the acquisition of foreign currencies for stabilization purposes. During 1936 China's net exports of silver thus totalled yuan 250 million in value and net exports of gold amounted to Gold Units 18 million, in addition to the net exports of yuan 66.6 million in silver and Customs Gold Units 7 million in gold made in the final two months of 1935 following the currency change. In the absence of official statistical announcements, it is impossible to ascertain the actual total amounts held by the Chinese authorities in various forms abroad in support of the external value of the yuan. Private estimates place such holdings at about yuan 600 million or the equivalent of approximately US$175 million, about half of which probably constituted the net addition during 1936.

The financial authorities have repeatedly expressed concern over China's balance of international payments. However during the past year greatly increased remittances from Chinese abroad have lent some encouragement, and increasing exports are also a favorable factor, as are the new credits being granted by European suppliers for railway and other construction materials. But the excess of imports, (particularly when the large inward smuggling of merchandise is taken into consideration), reputedly heavy unrecorded Governmental imports of military equipment, and some continued export smuggling of both silver and gold (though relatively small compared with the movement in 1934 and 1935) are adverse factors.

Currency restrictions put into effect by the Hong Kong Government in 1935 paved the way for the successful stabilization of the Colony's currency throughout 1936, the effort apparently being directed toward bringing the Hong Kong dollar close to parity with the Chinese yuan, a policy favored by business interests who express general satisfaction over the disappearance of exchange risks in foreign trade. Exports benefitted throughout the year by the lowered value of the Hong Kong dollar and toward the end of the year imports responded in a better degree to the advantages of stability and the improved political outlook in South China.

The Manchurian yuan remained at par with the Japanese yen during the year. The Bank of Chosen notes were withdrawn from Manchuria in December, leaving as the only currency the notes of the Central Bank of Manchu, the latter's issue at the end of 1935 being M. yuan 260 million.

Domestic Currency Unification: Liquidation of the semi-autonomous political status of Kwangtung and Kwangsi Provinces in the latter half of 1936 removed a major obstacle in the pathway of currency unification in China.

At the end of the year, National Legal Tender Notes were being accepted at face value generally throughout China as a medium of exchange and a uniform standard of value. It is now possible to remit national currency from point to point in China at nominal transmission rates, but without loss or appreciation by exchange as formerly was the case. Provisions have been made for the gradual retirement of the various provincial note issues at officially set rates in exchange for National Legal Tender Notes.

Note issues of the three Chinese Government banks as announced at the end of 1936 amounted to yuan 1,080 million, as compared with yuan 638 million one year previously. The issues of the Farmers Bank of China totalled approximately 130 million, as compared with 30 million at the end of 1935, an increase of 100 million. Adding known authorized issues of other banks still outstanding, and estimated outstanding provincial issues yet to be exchanged for national currency at their national currency value, total note issues in China are thus calculated at about yuan 1,650 million, as compared with yuan 1,116 million similarly estimated at the end of 1935.

Criticisms of the expanding note issues are met by the contention that in the program for the nationalization of silver the exchange of silver for Legal Tender Notes was expected to result in increased note issues, that the public is likely to absorb only so many bank notes as are required for trade, that any surplus naturally returns to the banks as deposits, and that current year end expansion is a normal seasonal expectancy continuing in fact up to the Lunar New Year holidays (in February) when annual settlements of the financial obligations are customarily made. It is also contended that rising prices should create greater demand for notes and that continued economic recovery may be reflected in still larger issues.

Subsidiary Currency: Efforts have been made during the year to effect various reforms in the subsidiary currency of the country. Chief among these was the introduction of new token coins, the minting of which began in January and up to the end of the year amounted to 526 million pieces with aggregate face value of yuan 22.3 million. These consist of copper 1/2¢ and 1¢ pieces and nickel 5¢, 10¢ and 20¢ pieces. Only about a third of the quantity of nickel coins minted have so far gone into circulation, their use being retarded by the continued circulation of large outstanding issues of fractional notes, on which banks and exchange shops make certain profits which they are reluctant to forego.

The setting of official rates for copper coin exchange in relation to the yuan at the time of the currency change in 1935 (which rates are also applicable for exchange of old coins for the new token coins) has had some effect toward stabilizing the old copper coins at around 300 to the yuan. This or better rates are now in effect in most of the areas of China where purchasing power in the depressed years was impaired by the depreciated and debased coppers falling to levels as low as 500 or 600 to the yuan. As copper coins are an important medium in the small purchases made by the masses, their higher value has contributed toward improving purchasing power.

On May 17, 1936, the Ministry of Finance, presumably as part of the outcome of the silver negotiations between Chinese representatives and the Treasury officials of the United States in Washington, announced supplementary measures for currency reform prescribing the minting of silver token coins of one yuan and half a yuan denomination. Details as to fineness, size, design and weight of the proposed new silver token coins had not been announced up to the end of 1936, nor any specific date mentioned for their introduction.

Budgets and Revenues: The National Budget for the fiscal year to end June 30, 1937, as drafted, indicated required borrowing of yuan 222 million, but final results may show a smaller deficit as tax revenues in the last half of 1936 were larger than original estimates. The unlikelihood of the budget being balanced at any early date is a matter of concern as the soundness of the new currency system will depend in some degree upon the equilibrium attained in Government finance. The huge military expenditures are regarded as unavoidable under present day circumstances. However, encouraging factors are: (1) that increasingly larger sums are being spent as capital investments in railways and other state enterprises, which are expected eventually to yield returns to the Government and are of material and permanent character as contributory toward China's economic reconstruction; (2) that rising revenues have been made possible by conscientious improvements in revenue administrations; (3) and that further anticipated improvements in the status of Provincial Governments' finances are expected to have the effect of reducing the subsidies to local authorities

Leading revenues of the National Government during 1936 were: Customs collections - yuan 324.6 million, an advance of yuan 9 million over 1935; Salt revenues - yuan 205.4 million, the largest on record, an increase of 11% over 1935, made possible by improvements in the collection system and by incorporation of additional provinces in the taxed area; Collections of the Internal Revenue Administration - yuan 157.5 million, a 32% increase over 1935 and the record since the Administration was organized in 1927.

The "Manchukuo" budget for 1936 was balanced at yuan 219 million, 4½% higher than 1935.

The decline in the value of the Hong Kong dollar during the past year, along with heavy Sterling commitments, made difficult the balancing of the Colony's budget. However, the estimated deficit for the year ending December 31, 1937, is equivalent to US$750,000, or less than was anticipated earlier.

Domestic Loan Reorganization: Reduction in servicing costs and simplification of the complicated domestic loan situation were effected by the National Government on February 1, 1936, by reorganizing 33 domestic loan issues with total outstanding balances of yuan 1,277.4 million into five issues under a "Consolidation Loan" amounting to yuan 1,460 million. Six percent uniform interest was adopted for all issues and amortization periods were extended to 12, 15, 18, 21 and 24 years respectively from February 1, 1936. Concurrently a Recovery Loan of yuan 340 million was issued for the purpose of meeting any immediate future financing needs.

The total of domestic loan obligations of the National Government at the end of 1936 is estimated at approximately yuan 2,350 million, an increase of yuan 820 million over the amount (yuan 1,530 - revised) outstanding at the end of 1935.

Foreign Loan Reorganization: A series of agreements for the reorganization and reservicing of a number of foreign loan obligations long in default were concluded during the year. Cancellation of interest in arrears, reductions in originally contracted interest rates, and extensions of formerly scheduled amortization periods, in some cases up to 50 years, were featured in these reorganization plans. Originally contracted by the defunct Imperial or subsequent Peking Governments, the reorganized outstanding amounts aggregate nearly yuan 300 million, consisting of five issues of Lung-Hai Railway loans, the Tientsin-Pukow Railway loans, the Canton-Kowloon Railway loan, the Vickers Loan, the Marconi Loan, the Taokow-Tsinghua

Railway Loan, and the Japanese Hankow Paper Mill Loan.

The Chinese Government also succeeded in reaching an agreement with the United States Government for reorganization of the American Wheat and Flour Loan of 1931 and of the American Cotton and Wheat Loan of 1933, which on May 28, 1936, were converted into one obligation with extensions of the originally scheduled principal redemption periods and with no further interest to be charged.

At the end of 1936 China's total outstanding foreign obligations amounted to yuan 1,790.2 million at the exchange rates prevailing. On the basis of 450 million population the per capita foreign debt of China is thus approximately yuan 4. A per capita domestic loan obligation of yuan 5.20 makes the per capita national debt yuan 9.20 or about US$2.76, as compared with the American per capita national debt of US$270.

In November the Manchurian Government put out its first public bond issue under the Consolidated Bond Law, allowing the Government to float debentures up to Manchurian yuan 50 million for the purpose of redeeming borrowings from the Central Bank of "Manchu". The bonds mature in 10 years, carry 4% interest and were offered at 95.

New Taxation Policy: China concluded plans in 1936 for the institution of direct taxes. The long proposed Income Tax became effective January 1, 1937, on all personal income and corporate profits. The National Government is also considering the introduction of an Inheritance Tax, the general principles of which have been decided upon by the Central Political Council, necessary legislation, already drafted, to be enacted before actual enforcement, the tentative date for which is set as March 1, 1937. The introduction

of direct taxation is acclaimed by Chinese economists as an important milestone in China's taxation history and distinctly helpful to possible emergency requirements in the event of war. In June in Manchuria, by an agreement with Japan relating to the gradual abolition of extraterritoriality, certain Manchurian business and other taxes were made applicable to Japanese residents in that area.

The Banking Situation: A greater stability in Chinese banking was apparent throughout 1936 as banks consolidated their positions following the currency disturbances of 1934 and 1935. The modern banks under the prevailing peaceful conditions over wider areas in the interior, continued to manifest an increasing interest in rural financing in contrast to relatively concentrated investments at the ports in past years. In fact banking policies in China are undergoing important processes of evolution, such as for example the introduction in 1936 of the system of discounting bank acceptances. Plans are also laid for developing re-discounting facilities at the Central Bank.

The growth of the Chinese modern banks may be indicated by statistical comparisons of the composite balance sheets of all the modern banks, including the Government banks, at the end of 1934 and of 1935, when assets and liabilities balanced at yuan 4,295 million and 5,428 million for the respective years. On the assets side, investments and loans increased by yuan 580 million in 1935 over 1934, and on the liabilities side deposits increased by yuan 798 million. It is regrettable that no details are available as to investments and loans, as the absence of this information makes it difficult or impossible to ascertain to what extent industries and business were given financing facilities or what portion represented absorption of Government

loans. Preliminary reports for 1936 indicate relatively smaller banking profits than in 1934 and 1935 because of conservative policies and continued general unwillingness to take risks.

The importance of the foreign banks, though they still play a leading part in China's foreign trade, has declined somewhat in the past several years on account of the rapid growth and progress of the Chinese modern banks. The exchange activities of the foreign banks, formerly capable of making large profits, are now limited by a steady foreign exchange market. Their note issues have been almost entirely withdrawn from circulation in deference to the wishes of the authorities with the introduction of National Legal Tender Notes. Difficulties in obtaining profitable investments for their financial resources at the ports have also been experienced on account of changed economic conditions in China in recent years. Foreign banks in general have not yet seen fit to participate to any considerable extent in financing Chinese projects or in extending credits to Chinese business.

In Hong Kong banks generally during 1936 had a dull year because of the limitations of the foreign exchange market upon which they formerly depended for their principal profits.

The Manchu Industrial Bank was established in December by the Manchurian Government in 50/50 partnership with the Bank of Chosen, taking over the business of the latter. Its purpose is to facilitate the circulation of money and supply capital needed for industrial developments in Manchuria. The bank may issue bonds up to fifteen times its paid-up capital and bonds offered are guaranteed by the Government, but long term loans made by the bank are expected to be restricted to state commercial and industrial enterprises.

Foreign Credit Extension: The conclusion of a formal agreement on December 16, 1936, at the height of the Sian Coup, between the China Development Finance Corporation representing the Szechwan-Kweichow Railway Company and the Banque Franco-Chinoise Pour le Commerce et l'Industrie, representing a French syndicate, for a loan involving advances of cash, materials and equipment to the proposed Chungking-Chengtu Railway for Szechwan Province, is significant, implying that foreign manufacturers and financiers are registering increasing confidence in the long range economic potentialities of China despite acutely adverse factors which may arise from time to time. In order to speed up its modernization program, China naturally requires foreign credits. The granting of a considerable array of such credits in 1936 without infringing upon the administrative integrity of China (the terms of the agreements including no special rights of political significance) strikes a new note in the history of foreign investments in this country.

During 1936 China reorganized several long over-due foreign obligations and began the reservicing of these loans. While these arrangements involved relatively low rates of interest and a long amortization period of 30 to 50 years in some cases, the move was acclaimed as a meritorious attempt on the part of the Chinese Government to meet older obligations incurred by previous regimes. The market values of Chinese loan issues abroad rose appreciably.

With regard to the activities of the Board of Trustees for the Administration of British Boxer Indemnity Refunds, under which a revolving loan fund secured on British Boxer Indemnity payments has been developed over the past few years, the Chinese Secretary of the Board in referring to the 22

successive loans to the Ministry of Railways and to other loans for public works projects and industrial purposes stated that "---- up to the present all interest and amortization payments on principal have been met in full." The Board devotes two-thirds of its fund to railway developments (the completion of the Canton-Hankow Railway having been largely financed from this fund), one-third to public works and industrial and electrification projects, while the interest on loans so secured (amounting so far to about yuan 6 million) is applied to cultural and educational advancement. The present and prospective total of this fund is reported as amounting to 11.2 million pounds sterling, including 2 million pounds sterling allocated to educational purposes, the manifest success of its application to constructive purposes constituting an example of what can be done in the way of international cooperation.

In October, the British Government announced that in order to facilitate British exports to China its Export Credit Guarantee Department would establish an office in China under Mr. W. M. Kirkpatrick, M.P., in association with the Commercial Counselor and Financial Adviser to the British Embassy in China. Joint offices for these officials were opened in Shanghai in December and Mr. Kirkpatrick arrived early in January 1937 to take up his duties.

Thus, judging by the records of the past year China is already definitely embarked upon a new era of international cooperation in expediting her economic reconstruction.

Credits and Collections: Collections and credits generally throughout China improved, especially in the last quarter. In Manchuria small trading concerns were slow in paying because of the increase of consumers coopera-

tives and competition of big business closely associated with the Government, but the larger mercantile houses, mostly Japanese, handling Government contracts and staple lines experienced no difficulty in financing their operations. In Central China, bank failures were the lowest in years. Shanghai collections were slow and credits restricted during the first half of the year, with considerable improvement toward the end and a fairly good outlook for 1937. In South China, conditions were disrupted by political and monetary disturbances but were definitely on the mend in late months of the year. Greatly increased remittances from Chinese abroad to South China were a highly favorable factor in improving the situation. Hong Kong banks were cautious though no bank or business failures occurred there during the year. Three banks re-opened, and the year end outlook registered much improvement.

LEGISLATION

Insurance Enterprises Law: This law was promulgated June 7, 1935, subject to the enactment of enforcement regulations. The latter were issued on November 27, 1936, but have not as yet become effective. There is an aversion on the part of foreign insurance companies which operate in China toward registering under this law, mainly because of the stipulations restricting their operations to treaty ports. Foreign insurance companies have been operating in China for upwards of 100 years, whereas Chinese insurance companies are a comparatively recent development. Furthermore, it is contended by the foreign companies that a discrimination of this sort against their activities in China will, in the long run, militate against the welfare of the general public hence indirectly against the Chinese companies.

Regulations Governing Proprietary Medicines: These regulations as originally drafted several years ago have been revised from time to time and a final draft became effective January 1, 1937. It appears that most of the former objectionable features have been either removed or so interpreted as to divest them of their more damaging aspects.

Trade-Mark Law: Considerable criticism has developed during the past year among owners of foreign trade-marks covering goods marketable in China because of certain alterations and interpretations of the Chinese Trade-Mark Law and Regulations. For instance, the Law permits the registration of other but similar marks for allied classes of goods, which may mislead the consuming public to believe that the latter are the property of the company which owns the trade-mark covering the original line of goods for which it

was devised. The Law also makes no provision for the use in bad faith of a trade name or a trade-mark similar to one already registered. The Trade-Mark Bureau has interpreted the law in such a manner as to deny the registration of words as trade-marks when these are included in a firm or trade name. For instance, registration would be refused for the word "Sunbeam" as a trade-mark if it were part of the name of the applicant company, i.e. "Sunbeam Trading Company". The Trade-Mark Law provides for 70 classes of merchandise and sub-divisions which make a total of 252 classifications. Applicants must make application for each class of goods to be covered. The number of classifications should be substantially reduced.

Law to Govern Joint Sino-Foreign Enterprises: The Legislative Yuan on November 27, 1936, unanimously concluded that such a law, if enacted, would be inadequate to cover all the complexities and problems arising in this connection. Therefore, it recommended as preferable that the authorities concerned use discretion in each specific case and that no general law be passed relating to capital structure and similar issues. At the same time, the National Government announced that any Sino-foreign enterprise organized or approved by local authorities must, in order to become valid, receive the sanction of the properly constituted department or authorities of the National Government.

Income Tax Law: On July 9, 1936, the Legislative Yuan enacted the Income Tax Law (which became effective January 1, 1937) making provision for 3 classes: (a) incomes of profit seeking business enterprises capitalized at over yuan 2,000; (b) salaries and emoluments of public functionaries and those engaged in professions or other profitable vocations (the low limit of non-taxable

salaries being yuan 30 per month); and (c) interest accrued from government bonds, corporation debentures and stocks and banking deposits. As the Income Tax Law has not yet been accepted as applicable to foreigners subject to extra-territorial jurisdiction, it is not deemed necessary to elaborate on the detailed stipulations of this law.

Manchurian Legislation: In November, in Manchuria, a law was enacted providing that only authorized custom house brokers should undertake customs formalities and represent consignees vis-a-vis the Manchurian Customs. A law was also passed providing for customs bonding facilities at interior distribution centers. The Government was authorized by law, under the Emergency Control of Trade, to restrict or prohibit the import or export of certain articles "when there is special need in order to protect commerce in connection with measures taken or about to be taken by a foreign country". The Manchurian Government, in November, passed a law to control pawn shops, restricting rates of interest to a maximum of 4% a month and making certain other provisions to protect borrowers. The pawn shop plays an important part in the village economy of Manchuria.

AGRICULTURE AND CROPS

China not only enjoyed bumper crops during 1936, but was also blessed with higher price levels for agricultural commodities. Rice, which constitutes the main article of diet for the people of Central and South China, showed a yield about 5% greater than for 1935 and was one of the largest rice crops in recent years. The South China crop, however, was considerably below normal, necessitating larger imports of rice into that region, but with improved domestic transportation conditions, its rice imports from abroad will undoubtedly be smaller than last year.

China's 1936 wheat crop, exclusive of Manchuria, is rated a good average crop of 10% above last year and puts China in the front ranks of wheat producing nations. In Manchuria, the crop was estimated as about 10% below 1935. The Manchurian Government aims to make Manchuria independent of imported flour which means doubling the present wheat acreage, but the success of the movement is dependent upon the elimination of wheat rust.

The cotton crop is estimated at 3.7 million 500 pound bales, or an increase of about 1 million bales over last year, and is the largest on record. The small carryover has offset to some extent the larger crop, but the total supply only leaves a moderate surplus above domestic requirements despite a 15% increase in mill consumption. Higher prices also obtained. It is estimated that about 200,000 bales of foreign cotton will be imported next season compared with 300,000 bales last season. Considerable pressure is being brought to bear by Japanese interests in North China toward increasing the cotton yield and improving the quality with the idea of furnishing a larger source of supply for Japanese mills.

The country also enjoyed a record crop of flue cured tobacco estimated at 170 million pounds, or approximately 10% greater than the previous record crop of 1935. Similarly, the price obtaining is probably the highest on record. Higher prices for the Chinese leaf, with indications of an increase in cigarette consumption, are encouraging to bigger imports of American leaf for the coming year. In Manchuria, the Government working with the officials of the yen 53 million Manchuria subsidiary of the British American Tobacco Company, publicly announced that the company would actively help the Government in its plans of attaining self-sufficiency in growing Virginia leaf tobacco, which, it is anticipated, can be accomplished through this encouragement within a few years.

Although there was a large increase in the acreage under cultivation of sugar cane in Kwangtung Province, the harvest was but slightly greater than 1935. Indications are that plantings will be increased for 1937, because sugar refining is no longer a complete provincial government monopoly and there is a continued interest in the development at a modern cane sugar industry in China.

While the total peanut crop of China was estimated as a 15% increase over the previous year, that of Shantung Province, which netted over 700,000 tons was 22% above last year with a 25% increase in price. Large American imports of peanut oil contributed substantially to the higher price levels.

The North Manchurian soy bean crop for 1936 was not only 8% larger than last year, but the quality was also much better with practically no carryover of the 1935 crop. The harvest was estimated at 4,175,000 metric tons. There was a considerable increase in the yield of soy beans in

other parts of China.

In Kwangtung, the raw silk crop was 22,500 bales or an increase of 4,500 bales over 1935. In Kiangsi and Chekiang Provinces production is estimated to have amounted to 70,000 bales, of which 33,000 bales were exported. The production was greater than for 1935 but exports were less. However, there was a substantial increase in domestic consumption.

The 1936 fall tung oil crop is expected to be about 10% better than the excellent crop of 1935, with 70,000 tons of tung oil available for export to the United States in 1937. The 1936 exports to the United States were the highest on record.

Important crops such as kaoliang, Indian corn, sweet potatoes, rape seed, millet, sesamum seed, broad beans and barley had yields either equal to average, or in some cases well above normal and prices generally showed improvement.

Of special interest in connection with the agricultural situation in China are the efforts being made to reduce the production of opium poppies. For instance, in Yunnan Province production dropped from 120 million to 80 million Chinese ounces with a corresponding increase of about 40% in plantings of beans and the coming season will witness still further reduction in opium poppies in that Province. Efforts are being made to ameliorate the economic losses to the farmers, through the substitution of other crops. In fact, generally throughout China the suppression of the use and production of opium is meeting with considerable success.

INDUSTRY

Government in Industry: There was a noticeable tendency during the year of a declining interest by the Central Government in embarking upon manufacturing enterprises. In fact, with the liquidation of the Kwangtung-Kwangsi semi-independent political status, some of the provincial industrial plants were leased to private interests with indications that further progress will be made in this direction. There has been very little evidence thus far of successful Governmental operation of industrial plants, but no definite policy has been announced in regard to the future. On the other hand, the China Vegetable Oil Corporation, a Government industrial concern, was launched with the announced intention of standardizing the vegetable oils, especially tung oil, and stabilizing the price, but it is surmised by some that the ultimate objective is to institute a Government monopoly for the handling of this very valuable export commodity. Antimony and tungsten ores are both under the control of Governmental agencies.

After more than a year of planning and organization, it has been announced that a match monopoly known as the China Match Production and Sales Union, which includes 65 match factories, will be inaugurated on February 1, 1937. The Union is to be capitalized at yuan 5 million, one quarter of which has already been raised. It has the support of the National Government, which, in cooperating with the Union, has issued a mandate instructing the authorities of various districts to prohibit the establishment of any new factories for a period of 5 years. As the Union includes only factories in Central and North China and none in South China, there is skepticism in some quarters as to the successful operations of their plans.

The Central Machine Works, a Government project which was built and equipped with up-to-date machinery through credits obtained from the British Boxer Indemnity Refund, has been operating at a loss under Government control presumably for lack of proper business management and administration. This Machine Works, which has been under the direction of the Ministry of Industry, is soon to be turned over to the Ministry of Railways.

Plans have been announced for the founding of a Central Engineering Academy at Nanking to comprise 4 departments: electrical, mechanical, civil and chemical engineering. Part of the funds will be allocated from the Sino-British Boxer Indemnity and the remainder by the Ministry of Education.

In an endeavor to promote China's iron and steel industry, the Nanking Government has drawn up a set of regulations providing for the creation of a special committee to supervise iron and steel works. The committee is to be composed of 5 members appointed by the president of the Executive Yuan. The principal function of this committee will be to examine the production plans of iron and steel works and to set up, when necessary, a standard for market prices of native iron and steel products. The committee will also formulate plans for the Government to lend assistance to the iron and steel industry.

Under the Kwangtung Provincial Government's 3 year plan for industrial development, 20 government operated factories were completed and the construction of several others commenced by the end of 1935. Eight new factories were completed by the Kwangtung Provincial Government and commenced operations in 1936. The 30,000 k.w. turbo-electric power plant at Canton was completed and the machinery, which is of German origin, arrived during

the year. A paper factory was finished and completely equipped with Czechoslovakian machinery. The Provincial Government turned over the operation of 2 sugar mills to a Javan-Chinese concern for a period of 5 years, the company to retain 15% of the net profits. The Government also terminated its sugar monopoly in the fall with the announcement that private mills might be constructed at points distant from government plants. A contract was signed with a British firm for a survey of iron and coal deposits in Kwangtung to determine the feasibility of erecting in the vicinity of Canton a steel mill to cost approximately US$9 million. A preliminary agreement was signed with the General Electric Company of England to furnish for Canton 70 trackless trolley-busses and to install cables therefor at a cost of £225,000. According to the terms of this contract, payments are to extend over a period of 6 years, secured on the Mayor's signature backed by promissory notes of the Canton Municipal Government. Also, the German company which furnished machinery for the power plant, extended credits for a 5 year period, with no security except similar promissory notes signed by the Mayor.

In Manchuria during the year the chief industrial developments were undertaken by the Government or Government agencies and included the following: (a) Beginning of the erection of a coal distillation plant at Fushun, capacity 20,000 tons of gasoline, to cost yen 16 million; (b) expansion of the shale oil plant at Fushun; (c) increase of capitalization of the Manchuria Petroleum Company from yen 5 million to yen 10 million to finance expansion of crude oil refining operations; (d) further development of the Showa Steel Company plant at Anshan, now producing 670,000 tons of pig iron and 350,000 tons of steel annually; (e) erection of a large cigarette factory at Hsinking; (f) nationalization of the Mukden Arsenal and increase of its capitalization from Manchurian

yuan 2 million to M. yuan 4.6 million to finance expanded operations; (g) erection of a gold smelter at Mukden.

The Manchurian Government voted funds to execute the following projects: (a) for light metals manufacture at Fushun - yen 25 million; (b) for manufacture and sale of weighing and measuring instruments as a Government monopoly - yen 3 million.

The Manchuria Electric Industry Company, a quasi-state monopoly of the electric power and light supply, capitalized at yen 90 million and two-thirds of which is owned by the South Manchuria Railway Company, continued its process of absorbing local electric companies. At the end of September the company announced that it had contracts to supply 215,000 k.w. of power, 100,000 k.w. of heat, and also 1,923,000 lights. It has capacity to generate an additional 200,000 k.w. of power.

The Manchurian Government has been pressing the Manchurian Affairs Board of the Japanese Government for the support of its plan to increase the capital of the Manchuria Coal Mining Company from yen 16 million to yen 80 million, so that its annual output may be raised from 2 million to 10 million tons annually. The output of the S.M.R. Company's coal properties at Fushun was estimated at 10 million tons annually.

A state company in Mukden manufactures automobile trucks and is in partnership with leading auto parts manufacturers in Japan. Dealers in foreign automobiles are very much concerned because of the tendency of the Government to prescribe that taxi companies must use Japanese made cars.

The Manchuria Gold Mining Company, a Government company which holds monopoly rights, reports its output for the first 10 months of 1936 at yen 8

million. A state company, with capital of yen 25 million, was organized in November for a plant to be erected at Fushun to electrolyze alun shale.

Private Industry: Viewing industry as detached from actual Governmental participation in any particular phase of its organization or operations, it may be said that for the first half of the year conditions generally were not propitious, whereas during the latter half of the year definite improvements were noticeable, especially during the last quarter of 1936. For instance, the Shanghai Power Company (American), which supplies approximately 90% of the power consumed by the various industries in the premier industrial city of China, reports that for the year there was an increase of 5% in industrial electric current sales over 1935 and for the last 6 months of the year an increase of 9% in sales over the corresponding period of the previous year. Similarly, the Shanghai Gas Company shows a heavy proportionate increase in the sale of gas for industrial purposes during the latter part of the year.

Flour Milling: The flour milling industry of China generally enjoyed a good year as it was favored with an unusually good supply of domestic wheat and, with rising prices abroad, found comparatively little difficulty in meeting the domestic market requirements. This industry is especially favored by a relatively high import duty on foreign flour, which has been reflected in considerably decreased imports. In North Manchuria, flour milling during 1936 was at the highest level for many years. Flour production there apparently exceeded 2½ million barrels, or about 50% greater than for the previous year. In order to meet competition with imported flour, Harbin flour sold at lower prices in South Manchuria than in Harbin.

There are no indications of any substantial increases in the installation of flour milling machinery in the large industrial centers of China. On the other hand, most of the mills have not until recent months been working on a full capacity basis. For this reason the capacity of existing mills is considered capable of taking care of considerably increased outputs. As for a possible expansion in the flour milling industry of China, it is anticipated that the installation of new mills will be most pronounced in the interior where supplies of wheat can be economically secured and a ready market for the manufactured product exists. In connection with furnishing industrial equipment for flour mills, much of this can now be supplied domestically. However, the more technical parts of the equipment, such as the rolls, will continue to be imported.

Cotton: The most important of the modern industries in China is cotton weaving and spinning. The total spindleage which we may now credit to China is over 5 million. The most interesting phase of the development of the cotton manufacturing industry in China is the increasingly larger proportion of Japanese interest therein. This is particularly true in North China, and especially in Tientsin and Tsingtao. Of the 7 cotton mills operating in Tientsin with a total spindleage of 231,000, Japanese interests have taken over 5 and have begun the construction of a new spinning mill of 50,000 spindles. At Tsingtao Japanese interests added about 80,000 spindles during the year, giving them a total of 520,000 in that important industrial center. It is now estimated that the Japanese investments in the cotton spinningindustry

at Tsingtao aggregate yen 60 million. According to information furnished by the Chinese Cotton Millowners' Association, of the 5,022,000 spindles credited to China at the end of 1936, 2,113,000 were Japanese owned, and 2,648,000 Chinese owned. Of the 52,000 looms, Japanese interests own 24,100 and Chinese 23,700. The British holdings in spindles and looms are comparatively small.

Considerable skepticism has been voiced regarding the possibilities of making the cotton manufacturing industry successful in South China, although the Kwangtung Provincial Government has installed spinning and weaving mills to take advantage of the heavy market possibilities there.

In 1936 the cotton mills of China enjoyed the greatest activity in recent years and yarn demands in the interior were at unusually high levels since the beginning of the new season. Stocks of yarn and of raw cotton were exceedingly low and the supplies of goods in the hands of small dealers and consumers were nearly depleted following several years of depression. With large crops of cotton and high price levels, the purchasing power of the farmers naturally increased. Thus, the year ended with a very propitious outlook in the cotton industry. It is also interesting to note that through Japanese encouragement the expansion and improvement of raw cotton in North China is being stimulated, not only as a source of supply for Japanese cotton mills in China, but also for the industry in Japan.

Tobacco: The cigarette manufacturing industry of China participated in a more prosperous season than for several years past. Chinese imports of cigarettes have fallen to negligible quantities. Its vast consumption is now being met

by domestically manufactured products. During the latter half of the year, cigarette sales were estimated as being about 12% greater in volume than for the corresponding period of the previous year. This trade has been aided by the greater stability in copper exchange, as copper coins are the principal medium of exchange for the vast consuming public in China. Good crops and higher prices also contributed to increased consumption. It is estimated that during the past year the cigarette consumption in China and Manchuria exceeded 70 billion pieces or nearly half the amount consumed in America. The principal centers for the manufacture of cigarettes are Shanghai, Tsingtao, Hankow, Tientsin and Mukden.

Miscellaneous: One of the rapidly expanding industries in China is cement manufacturing, stimulated by the great activity throughout the country in highway construction and the more recently active railway construction program. Most of the cement machinery has been supplied by a Danish firm. The Harbin Cement Company has received permission to increase its annual production from 73,000 to 120,000 tons. The North Manchurian demand is about 150,000 tons per year.

After operating for several years on a non-dividend paying basis, the Kailan Mining Company in North China, at its annual meeting in 1936 in London, voted a 2½% dividend. Owing to the uncertainties in the political situation in North China, the company has experienced considerable difficulties, but its report for the last fiscal year was regarded as very satisfactory. The sales for the first 22 weeks of its current 1936-1937 year amounted to 1.616

million metric tons, or an increase of about 3% over the sales of the corresponding period of the previous year, and prospects for business at the end of 1936 were fairly good.

The Yao Hua Mechanical Glass Company, the most important glass factory in China, which has a working agreement with the Kailan Mining Administration, disposed of the Belgian shares of the company to Japanese interests.

The woolen industry of North China showed considerable improvement for the year, and of special interest was the heavy increase in raw wool prices. Exports of oriental carpets and rugs of all grades increased considerably with 40% better prices.

Probably no other line of industrial activity will serve as a better index to increased industrialization in China than the expansion of the electric light and power industry. At Canton the new 30,000 k.w. electric plant, installed with German equipment, is about completed and ready for operation. Similarly at Nanking, the new 30,000 k.w. plant of the Central Government is nearing completion. The Pootung Electric Supply Company, which supplies a large industrial area across the river from Shanghai, issued tenders for two 5,000 k.w. turbo-generating sets to augment their present plant. At Tientsin, the Japanese Development Company plans the construction and installation of a 30,000 k.w. power plant to provide power for various Japanese cotton mills and other Japanese industries. Plans are announced for the construction of a hydraulic electric power plant on the upper part of the Sungari River in North Manchuria to cost about Manchurian yuan 60 million. The Oriental Development Company, Japanese, is reported to have purchased the Kalgan electric power plant with plans to increase its electric output from 3,000 to 10,000 k.w.

The newly completed Nakayama Steel Works at Tientsin is expected to begin operations shortly, producing from 70 to 90 tons monthly of galvanized iron plates. Plans have been announced for the development by Japanese capital of the Lungyen Iron Mine in North China and taking over, in connection therewith, the 250 ton capacity blast furnace at Shihchingshan near Peiping. The total capital of the enterprise is given as yuan 30 million.

In the chemical, pharmaceutical and drugs lines, it is patent that much progress is being made in manufacturing mainly under Chinese auspices. Alcohol distilleries have been installed in a number of places in China.

Considerable interest has been shown during the past year in the possibility of erecting a paper mill in Wenchi, Chekiang Province, for the manufacture of newsprint, owing to the increasing demands arising from the larger circulation of newspapers and periodicals.

Probably the most interesting development throughout the country in an industrial sense, is the gradual increase in small manufacturing establishments covering a multiplicity of different lines and taking advantage of cheap labor conditions. This is reflected in the announcement that the Federation of Chinese Industries will hold a Chinese industries fair in Shanghai in June, 1937. The Ministry of Industry plans an industrial exposition in Nanking during the latter half of 1937 for the purpose of encouraging domestic industry.

For many years, the British at Hong Kong have been endeavoring to make this Colony an important manufacturing center. In some lines there has been considerable success. For instance, in electric flashlights and batteries, the output for 1936 was double that of the preceding year and the total

exports rose from US$673,000 to US$829,000, including an item of US$9,000 exported to the United States. The manufacturers of knitted goods reported business in 1936 as better than for the previous year. While the rubber shoe industry had a larger volume of business in 1936, profits were smaller due to increased rubber prices. The Hong Kong Shipyards enjoyed a most active and prosperous year, both in construction and repair work. However, the general outlook for manufacturing industries in Hong Kong is not promising because of the high tariff wall in China where the largest market for Hong Kong's manufactured products is naturally expected to exist.

If America would figure in a larger sense in the supply of industrial equipment to China, now that the country is emerging from a domestic handicraft to mechanized industrial society, it is very necessary that credit facilities be developed whereby our manufacturers of machinery and allied products may meet the competition of their international competitors who are in a position to grant long term credits.

BUILDING CONSTRUCTION

It is very difficult to make any statistical appraisal of the amount of new building construction in progress throughout China. The fact remains, however, that with the extensive street widening that has been going on for some years past in the cities of Central and South China to meet the demands for motor transportation incident to the large highway construction programs, there has been a very considerable amount of building construction in numerous cities and towns. Following in the wake of these modernizing improvements, a number of these cities have installed water systems, light and power plants, drainage systems, telephone facilities and certain other municipal utilities.

Shanghai experienced the greatest building boom of any city in China. This was at its peak about 4 years ago when new building construction amounted to upwards of yuan 100 million, but for 1936 the total value of building construction as reflected in the Shanghai building permits, was about yuan 25 million, or approximately 25% less than for the previous year. Construction work on the Greater Shanghai Civic Center under Chinese auspices continued during the year with special emphasis on the completion of the new harbor project for docking ocean liners. The Shanghai Medical Center, comprising a group of modern buildings with a frontage of 1,000 feet is in course of construction under Chinese direction. It was made possible through a gift of land by the Rockefeller Foundation. Although Shanghai has experienced a severe slump in building operations, at the end of 1936 the situation presented a better outlook. Rentals have stopped their downward movement and collections exhibited a substantial

improvement during the last quarter of the year.

Next after Shanghai in importance in building construction in China is Nanking, the capital. For 1936, new building construction, as covered by permits issued, aggregated about yuan 8 million. This amount is in excess of the figure for the previous year. In addition to actual building construction in the new capital, considerable money is being spent on municipal improvements otherwise, including streets, drains, parks and public utilities.

In Peiping, the old capital, an extensive program of renovation and restoration of historical landmarks has been in progress for several years and Peiping is today in a better state of preservation and a more handsome city than for many decades past. In fact, it may be considered one of the world's most delightfully unique show places. In Tientsin, the total amount of new building construction for 1936 was estimated at about yuan 4 million.

At Tsingtao there has been a progressive development in new building construction over a period of many years involving considerable new building for industrial and business purposes. During the past year the construction of high class residential dwellings has figured prominently. In the Yangtsze Valley, the cities of Hankow, Wuchang, Nanchang, Changsha and Chungking have all experienced considerable new building construction, especially in connection with the widening of their streets.

In the British Colony of Hong Kong, new building construction was unusually dull during the first half of 1936, but improvement was noted during the latter half of the year and some optimism is apparent in Hong Kong building circles regarding the outlook for 1937.

In Manchuria, in keeping with the vast program of economic and industrial developments generally, building construction is forging ahead in a large way. About yen 150 million have been spent annually in Manchuria, excluding Dairen, on construction and engineering enterprises since the Japanese occupation. In 1936, the figures were slightly below the normal amount. Government public works, in which is included construction by the South Manchuria Railway, accounts for about 75% of this new construction and private contracts for the remainder. At Hsinking, the new capital, construction fell off somewhat during 1936, whereas at Mukden it aggregated about yen 26 million, or a 25% increase over the previous year.

Thus, by way of conclusion, it may be reported that the outlook in building construction appears better than that of a year ago.

TRANSPORTATION AND COMMUNICATIONS

Railways: There is probably no other line of economic development which is receiving so much attention and which can mean more to the future of China than railway construction. Until the past few years, railway construction in China seemed to be a matter of greater concern to foreign capital and manufacturers of railway materials than to the Chinese. In fact, up to quite recently, nearly all the railway construction in this country was handled under foreign auspices. The result has been that the actual mileage constructed has been comparatively small, less than 10,000 miles, in light of the economic transportation requirements of the country. Now that the leaders in China, in fact the thinking public generally, are convinced that railways are positively essential to the country's political, industrial and economic developments, and now that the Chinese have become experienced in the building and in the operation of railways, the entire situation has changed. We are now witnessing a very active interest on the part of the Central and Provincial Governments, as well as banking and business interests, in new railway construction and in the rehabilitation of existing lines.

The Ministry of Railways has now put forth a 5 year construction plan calling for the completion of 1,600 kilometers each year. In connection with the financing of this construction, Sir Frederick Leith-Ross, special British Government Economic Expert, who spent many months in China investigating trade and economic conditions on behalf of his Government, made the following statement: "China is not in a position to purchase capital goods for cash, and credit facilities are required. As regards new railway con-

struction, these credit facilities ought to take the form of long term loans as it is impossible for any railway, however well operated, to be able to repay its capital cost in 10 or 12 years."

During the past year the following railways were completed:

The remaining gap on the Canton-Hankow Line between Shaokwan to Lochang, a distance of 456 kilometers, under Sino-British auspices.

The Yushan-Nanchang Section of the Chekiang-Kiangsi Railway, 291 km., under Sino-German auspices.

The Soochow-Kashing Section, 74 km., connecting the Nanking-Shanghai with the Shanghai-Hangchow Railway.

The Sian-Paoki Section or extension of the Lung-Hai Railway, 173 km., under Sino-Belgian auspices.

The Kiangnan Railway from Nanking through Wuhu to Sunchiapu, 180 km.

In Manchuria about 450 km. of new lines were opened during the year and additional new construction is being continued.

In addition to the construction work, a very considerable amount of rehabilitation and the purchase of new equipment was consummated during 1936. Of special interest, however, was the railway credits rehabilitation, as the loan service payments had in many cases been deferred or in default. The railways had suffered severely on account of financial embarrassments due to years of civil wars and political disturbances. The settlements now perfected for the resumption of the loan services were generally effected by the reduction of interest in arrears and the lengthening of the periods of principal repayments, with the creation of a Loan Service Committee to administer these payments. In North China through traffic on the Peiping-Mukden Railway was resumed in May after a suspension since 1931. Orders were placed by this railway with the South Manchuria Railway for two 10-car air-conditioned trains, equipment, dining and observation coaches; also considerable other rolling stock was purchased from the S.M.R.

For the first time in the history of railways in China, Japanese locomotives have been purchased in connection with the securing of 13 locomotives for the narrow-gauge line under construction in Shansi. This railway also purchased 227 Japanese freight cars.

The Shantung Railway enjoyed during 1936 the most prosperous year since its return to Chinese control in 1923. Its revenues aggregated yuan 18 million or a 4 million increase over 1935.

In North Manchuria, special low freight rates were inaugurated in 1936 between Harbin and North Korean ports to encourage imports and exports through these ports rather than through Dairen. During the year, the direction and operation of all railways in Manchuria and North Korea were unified in the General Directorate of Railways, a newly created department of the South Manchuria Railway Company.

New construction is planned as follows:

Chengtu-Chungking Line, 523 km. Destined ultimately to connect with lines through Kweichow, Hunan and Shensi. Estimated cost of railway is yuan 54.5 million, of which yuan 34.5 million will be contributed by a French loan sponsored by the Banque Franco-Chinoise pour le Commerce et l'Industrie acting on behalf of the French Syndicate, and yuan 20 million furnished by the China Development Finance Corporation acting on behalf of the railway company.

Chungking-Kweiyang Railway, 516 km. Surveying work now in progress.

Hunan-Kweichow Line to be extended from Chuchow, (Hunan) to Kweiyang, the capital of Kweichow, approximately 1000 km. under Sino-German agreement calling for 10 years credits for materials netting yuan 30 million. Eventually it will be extended to the north to Chungking and to the west to Yunnanfu.

Yunnan-Kweiyang Railway, 650 km. Survey work in progress. Presumably to be constructed under Sino-French auspices.

Kweilin (Kwangsi) - Hengchow (Hunan) Line, 320 km. and Hohsien (Kwangsi) - Samshui (Kwangtung) Line, 200 km. Surveys being made under auspices of Kwangsi Government.

Paoki-Chengtu Railway, 935 km. Preliminary survey now undertaken by the Construction Bureau for the Western Section of the Lung-Hai Railway, under Sino-Belgian auspices by a loan arrangement of yuan 50 million, equivalent to 450 million Belgian francs. The loan is to bear interest at 6% and is guaranteed by the Ministry of Railways and secured on the receipts of the Paoki-Chengtu Railway and the Kaifeng-Loyang Section of the Lung-Hai Railway. This projected line will serve the 3 provinces of Shensi, Kansu and Szechwan.

Sienyanghsien-Tungkwanhsien Railway, about 100 km. Construction work in charge of the Lung-Hai Railway as it becomes a branch of this line from Sienyanghsien northward to Tungkwanhsien.

Nanking-Kiangsi Railway is part of the projected southeastern trunk line linking Nanking, Canton and Hankow beyond Nanchang on the Nanchang-Kiukiang Railway and Chuchow on the Canton-Hankow Railway. The section now under construction, covering 480 km., is from Sunchiapu to Kweichi on the Chekiang-Kiangsi Railway.

Nanchang-Pinghsiang Section of the line connecting Hangchow with the Canton-Hankow Railway, 262 km. In course of construction under Sino-German auspices.

Hangchow-Tsao-ngo Section of the Hangchow-Ningpo Railway, 80 km. In course of construction under Sino-British auspices.

Canton-Meihsien Railway, 370 km. Survey work in progress. This line is to connect with a point on the Canton-Kowloon Railway and run in a northeasterly direction, terminating at Meihsien which will become the junction of a line from there to Swatow, and another northward running through Fukien and eventually to connect with the Hangchow-Nanchang Railway.

Canton-Whampoa Railway, 16 km. To connect with a port to be developed at Whampoa.

Tsinan-Liucheng Line, 120 km. From Tsinan, capital of Shantung, to Changteh in the western part of the province.

Tatung-Pucheng Railway, 634 km. A narrow-gauge line now under construction traversing Shansi Province north and south, about 80% completed.

Tientsin-Shihchiachwang Railway, 288 km. Construction calls for an expenditure of yuan 20 million apparently to be raised from Japanese sources, with Japanese materials, dependent upon the conclusion of a final agreement.

In addition to these railways there are also under construction, or planned, the following bridges:

Chien Tang River bridge at Hangchow, 1334 meters.

The Tsao-ngo bridge between Hangchow and Ningpo, 320 meters.

The Yellow River bridge at Tungkwan, 900 meters, under Sino-Belgian auspices.

The Chung-Cheng bridge at Nanchang 1080 meters, to cross the Kan River. (Completed January, 1937.)

The important factor regarding new railway construction in China is the securing of long-term credits from foreign financial interests in connection with the supplying of materials and in some cases as advances toward actual construction. In this connection, British and Belgian Boxer Indemnity Funds are being used very effectively. Furthermore, British, German, French and Belgian financial interests, as assisted by their respective governments, are providing credit accommodations in efforts to participate in a large way in China's new railway construction program, which should, during the next few decades, result in the construction of several tens of thousands of miles of new lines. Standards of equipment once established will naturally influence future purchases.

Highways: Approximately 60,000 motor vehicles (about 75% of which are of American manufacture) were in operation in China including Manchuria and Hong Kong on January 1, 1937, on a total of about 60,000 miles of highways. During the past year, the closing of gaps in main arterial routes and the opening of the latter to traffic have been significant developments in the betterment of transportation facilities and the unification of the country. Furthermore, the unification, standardization and improvements in maintenance of highways and motor transport mark important developments. It is now

possible to motor from Nanking, the nation's capital, 200 miles from the mouth of the Yangtsze River, to Yunnanfu in Southwest China, a distance of 2,000 miles within 8 days time. It is also practical now to motor from Shanghai to Chengtu, the capital of Szechwan, and within the next year a highway will have been constructed from there westward to the borders of Thibet. Toward the end of 1936 a commission of technical engineers of the Bureau of Roads completed a 6,000 mile inspection tour in motor cars covering 9 provinces. Bus lines are operating regularly throughout this region.

In Manchuria by the end of 1936, there was completed the first 3 years program of new highways aggregating 9,000 km. and 18 large bridges. In addition to these a network of strategic roads was hastily built in unpacified areas by forced rural labor. New bus services were established to operate over these highways under the direction of the General Directorate of Railways.

One of the greatest impediments to the development of motor transportation in China is the high cost of gasoline due to the import tariff on this commodity. For instance, at Shanghai it should be possible to retail gasoline at 53 cents Chinese currency (US 16 cents) per gallon, but it is necessary to add an import tariff of 52 cents Chinese currency, which means a total cost of yuan 1.05 per gallon (US 31½ cents). In efforts to overcome these high fuel costs, the Chinese are resorting to various devices, including the substitution of charcoal gas and industrial alcohol. In Kwangtung Province, imports of gasoline for the year actually decreased although there was a considerable additional mileage of highways constructed and also a substantial increase in motor bus operations, hence there should have been an increase. However the decrease is attributed to the fact that there was

a heavy increase in the installation of charcoal burning apparatus on busses for both Kwangtung and Kwangsi Provinces. It is patent also that one of the important reasons for the encouragement of the use of gasoline substitutes has to do with the desire of China to develop self-sufficiency in motor fuel supplies in the event of military hostilities. This latter factor has also encouraged a larger use of diesel engines.

Certain departments of the Chinese Government have for some years past exhibited an active interest in the possibility of manufacturing, in whole or in part, motor cars in China. Considering the fact that China is essentially a market for the low-priced cars and the total imports for the whole of the country including Manchuria and Hong Kong are no greater than 5,000 or 6,000 annually, it would be patently uneconomic to proceed any further in this direction than to encourage the assembling of cars in this country.

Aviation: All branches of aviation continued to advance during 1936 and commercial lines recorded substantial gains over 1935. With the inauguration of the Canton-Hanoi line on July 10, direct service from Shanghai to Europe was established via Air France. Later in the year the extension of the China National Aviation Corporation's Shanghai-Canton line to Hong Kong and connection there with the newly established Singapore-Hong Kong line of the Imperial Airways, provided a second service between Shanghai and Europe. One trial flight from Manila to Hong Kong was made by the Pan American Airways. It is planned in the near future to extend the San Francisco-Manila service to Hong Kong as its Far Eastern terminal. This should give regular and direct air mail and passenger service between Shanghai and the United States on a 6 day schedule.

Four commercial aviation companies were operating in China at the end of the year, the China National Aviation Corporation (Sino-American), the Eurasia Aviation Corporation (Sino-German), both operating throughout China; the Hwei Tung Kung Ssu (Sino-Japanese) operating between North China cities and Dairen and the Southwest Aviation Corporation (Chinese) operating in South China.

Statistics are only available on the two companies operating out of Shanghai, the C.N.A.C. and Eurasia Aviation Corporation and for the latter company only for the first 11 months of 1936. These two companies carried a total of 22,559 passengers, an increase of 78% over 1935. Passenger kilometers totalled 15,130,000, an increase of 103% over 1935. Kilometers flown (figures for the entire year for both companies) totalled 3,378,000, an increase of 36% over the previous year. Mail carried amounted to 97,760 kilograms an increase of 16% over 1935.

Both the China National Aviation and the Eurasia Corporations added to their facilities during the year, the former company constructing a new passenger station at Peiping, storage tanks at the Lungwha Airdrome, Shanghai, and new runways at Chungking and Chengtu. They also established two meteorological stations on their Shanghai-Chengtu line. The Eurasia Aviation Corporation established meteorological stations along their Chengtu-Yunnanfu and Sian-Lanchow lines and constructed 6 fuel tanks, each with a capacity of 50 tons, at Sian. A new hangar, large enough to accommodate 7 planes, was completed at Lungwha Airdrome, Shanghai. They also equipped their planes with short wave two-way radio sets and radio direction finders. These companies each added two new planes to their services, the C.N.A.C. receiving two Douglas planes from the United States and the Eurasia two Junker 52 planes from Germany.

In Manchuria, two new air routes, one from Hsinking northwest to Mutanchiang and the other from Hsinking west to Mongolia, were inaugurated with bi-weekly services. Airports in Mukden and other important centers were improved and new waiting rooms, hangars and offices constructed.

Statistics on total imports of aeronautical products into China are not available as information regarding imports of military materials are not published. However, according to statistics compiled by the United States Department of Commerce, exports to China during the first 11 months of 1936 amounted to US$6,872,000, representing 35% of the total exports of airplane equipment from the United States. Exports to China from the United States increased 200% over 1935. In addition to the foregoing, it is estimated that imports from Germany and Italy during the year amounted to approximately US$1 million. An important factor in the purchasing of aircraft was the campaign conducted in China to buy planes as a birthday gift for Generalissimo Chiang Kai-shek for which more than yuan 3.5 million was subscribed. Most of this fund was used for the purchase of American aircraft.

Considerable interest in private flying has developed in China. The China Flying Club, which was organized in October, 1935, issued flying certificates to 30 graduates in November, 1936. However, due to withdrawal of Government financial support, the activities of the Club were temporarily suspended at the end of the year.

Shipping: Shipping in the Upper Yangtsze River increased so rapidly during the late summer and early fall that available vessels were unable to handle the traffic and 4 additional ships were added to the Yangtsze fleets. Freight rates were increased and companies did a thriving business until late in the year when the water level became abnormally low, seriously ham-

paring traffic in the upper reaches. During the year 19 vessels called at Hankow from Europe with railway materials forming the larger part of the incoming cargoes. These vessels loaded 38,300 tons for direct export, an increase of 40% over the previous year. The China Merchants Steam Navigation Company, a Government enterprise which for several years has been operating at a loss, continued its reorganization, and, profiting by improved trade and agricultural conditions, was reported before the end of the year to be on a profitable operating basis. A plan has been announced which provides for the construction during the next 6 years of 26 new steamers at a total cost of yuan 30 million. The reorganization of the North China Steamship Company involved the investment of yuan 300,000 of Japanese capital. At Canton considerable interest is manifested in the Whampoa harbor scheme, designed to make Canton an ocean port.

In trans-oceanic shipping, Shanghai reports that although import cargoes were not so good as for the previous year, export shipments steadily improved, especially during the latter half of the year. The Trans-Pacific Freight Conference of North China and the New York Freight Bureau, Shanghai, increased all freight rates, except on silk and tung oil, between Shanghai, Hankow and Tsingtao and the Pacific and Atlantic Coasts about 20% on September 1, and between Tientsin and the American market on July 1. The Hong Kong Trans-Pacific Conference and the Hong Kong New York Freight Bureau increased all rates to the Atlantic and Pacific Coasts about 20% on August 1. The West Bound Conference has announced that all freight rates between the United States and China will be increased 15% about March 15, 1937 and the same amount between the United States and Hong Kong on May 1, 1937. On the same date, freight rates on all commodities from Hong Kong to Australian main ports and transshipment ports will be increased by approximately 20%.

Passenger traffic between America and China, and Europe and China during 1936 was the best on record for many years. Advance bookings have been so numerous that travellers in many instances have experienced difficulties in securing accommodations, especially so since the enforced withdrawal of American ships during the latter part of the year owing to the shipping strike in America.

Tientsin reports that the shipping strike affected the business of importers of American goods to a very serious degree. Stocks of American goods of all kinds have been greatly depleted and in some cases exhausted. The cargo movement from Hong Kong to the United States was slightly better during the first 10 months of the year, but the shipping strike during the remainder of the year paralyzed all American shipping calling at that port.

In interviews with 33 American concerns at Shanghai in regard to the effects of the shipping strike, the consensus of opinion was that it is a very serious blow to trade between China and the Pacific Coast and that stocks for which the trade here usually depends upon the Pacific Coast as a source of supply are very heavily depleted. It appears that the situation has not been so serious as regards shipments from the Atlantic Coast for the reason that other than American tonnage has been available. But considerable delays in shipments have been experienced and in many cases added costs in diversions by this and other routes. It was generally felt that if the strike continues for some time in 1937, the diversion of trade to other countries and shipping connections would take on a permanent character for certain lines of trade. For instance, a perusal of the Chinese Customs Returns of Trade for Shanghai shows declines in some of the items of December imports from America in comparison with those of the previous month,

as follows: for fruits and vegetables 86%; canned foodstuffs 72%; flour and cereals 80%; sundries 77%; machinery and tools 67%; miscellaneous metal manufactures 48%; chemicals and pharmaceuticals 46%; timber 30%. Had imports from America for December maintained the levels of the year otherwise, Shanghai's totals would have given America a 11% increase for the year, whereas taking into consideration the declines for the month of December, the totals for the year show an increase of but 6%. It is patent that the shipping strike had much to do with these heavy decreases, if it was not entirely responsible for them.

Telegraph, Telephone and Radio Communications: For several years past much progress has been made in improving telegraphic, telephonic and radio communications throughout China and Manchuria. While much of this has to do with the military situation, yet it plays an important part in political and economic unity and in making for improved facilities for trade and industry. During 1936 the 9 provinces network for long distance telephonic communications was practically completed. Also in almost every province, including those of Manchuria, numerous new extensions were completed. Direct radio-telephonic communications were inaugurated during the year between Shanghai and Tokyo, Shanghai and Hankow, Shanghai and Canton, and Tientsin-Peiping and Tokyo. A powerful radio broadcasting station was completed in Canton and another one in Chengtu, the capital of Szechwan Province.

A Hong Kong telecommunications ordinance was passed during 1936 empowering the Colonial Government to take over all radio communication reception in 1937. If effective, this will prevent American press services from operating their own radio receiving stations and compel them to pay by the word for all news broadcasts, which at present amount to about 3,000

words a day from America. By virtue of a law enacted on October 8, 1936, telegraphic, telephonic and radio communications in practical operation in Manchuria became a monopoly of the Manchuria Telephone and Telegraph Company, a Government enterprise.

In May, 1936, the first direct two-way broadcast between China and the United States was inaugurated in the celebration of Foreign Trade Week at Shanghai. Plans are under way for perfecting early in 1937 radio-telephonic connections between Shanghai and American cities and Shanghai and England.

FOREIGN TRADE

Any accurate analysis of the trends in China's foreign trade is made difficult by the presence of large unrecorded factors. The huge movements of smuggled goods (exclusive of large quantities of narcotics which fall under the category of bootlegging trade) into North China, and, to a lesser degree, into South China, are estimated to have represented merchandise imports valued at from yuan 150 million to yuan 250 million for 1936. Chinese Governmental purchases from abroad of military equipment do not appear in recorded trade statistics. Some estimate these at about yuan 100 million for the past year. If we accept these figures, these two unrecorded import items constitute an estimated minimum aggregate of yuan 250 million in addition to a recorded import trade as reported by the Customs amounting to yuan 941.5 million (Gold Units 416.5 million). Thus, it would seem that China's import trade for the year just closed amounted to yuan, or Chinese dollars, 1,192 million, of which 21% was unrecorded and non-revenue earning.

China's net recorded exports in 1936 totalled yuan 705.7 million, a 22.6% increase over 1935, and equivalent to Gold Units 312.2 million. Exports, however, are commonly regarded as undervalued to the extent of 15% in Customs declarations. Thus, in actual monetary return to China we may raise the valuation to yuan 812 million. Figuring in unrecorded and estimated factors except narcotics, therefore, we may estimate China's 1936 trade at about yuan 2,000 million, of which yuan 380 million would represent the adverse balance or excess of imports over exports. In the invisible factors which we may set off against this adverse balance, the remittances from overseas Chinese for 1936 were considerably in excess of the previous

year or probably between yuan 300 and yuan 350 million. The expenditures of tourists were higher and foreign long term credits were greater. Confining ourselves to recorded trade (which thus apparently accounts for about 82% of the presumed actual trade), the adverse balance is only yuan 236 million compared with yuan 343 million for 1935.

Recorded imports registered a decline from 1935 figures of nearly 17% in the Gold Unit valuations (which probably more nearly represent physical volume than do the equivalents in yuan) whereas the valuation in yuan (which was at an average exchange level -- for Gold Units -- 21% below average 1935 rates) indicated an increase of 2.4% in import trade.

In general, export trade responded to better demands abroad and to the more advantageous exchange rates of the yuan, and in actual physical volume was probably greater than for the previous year. Recorded imports undoubtedly suffered some disadvantage because of the lower exchange rate of the yuan, while affected also by the large inward smuggling in the north, but these adverse factors were undoubtedly offset somewhat by improved purchasing power and by foreign credits which, together with heavier remittances from Chinese abroad, aided the general economic situation and probably prevented a greater decline than shown by the 17% drop in the Gold Unit valuation of the trade as compared with 1935.

Under the peculiar political situation in the demilitarized zone of North China, smuggling operations virtually brought about free trade conditions for certain commodities in an area with an estimated population of about 80 millions, with naturally adverse effects on both legitimate duty paying import trade and upon a section of domestic trade which, under the circumstances, was seriously impaired by this influx of relatively cheap manufactured goods. On the other hand, undoubtedly much larger quantities of

smuggled goods were consumed than would have been the case had these commodities been subjected to import tariffs which would have raised prices very considerably. Thus if this trade were abolished, it would not be correct to estimate possible additional imports at the present levels of duty free smuggled goods. Indicative of the extent of this illicit trade even at the port of Tsingtao is the fact that imports of rayon as passed through the customs for the first 9 months of 1936 were equivalent to 2,600 kilos compared with 355,000 kilos for the corresponding period of 1935.

Certain previously indicated trends in China's trade were present even in a more accentuated degree in 1936 than formerly as it is increasingly apparent that China is becoming more and more self-sufficient in the staple agricultural products, both because of efforts to augment quantity and improve quality of home production, and because of improving transportation conditions within the country contributing to better distribution. The trend of self-sufficiency in manufactured products is true also principally in textiles, flour, cement, matches, and cigarettes, and in a range of smaller industries.

The unusually good farm production in 1936 was not only felt in reduced imports in many lines in 1936, but may also carry the same effect over to 1937 trade. Specific instances of this were reductions of 76% in quantitative imports of rice, 80% in wheat, 40% in flour and 26% in raw cotton, as compared with the 1935 level. This decline in imports of bulk agricultural products is still better illustrated by the fact that six such items, namely wheat, wheat flour, raw cotton, sugar, leaf tobacco, rice and paddy, in the aggregate accounted for 37% of total imports into China by value in 1932, 32% in 1933, 25% in 1934, 23% in 1935, and 12% in 1936. As both sugar and

rice are understood to have been brought into South China by semi-autonomous regimes in very recent years in unrecorded quantities without duty payment, it may be more accurate in showing the trend, to omit these. A calculation embracing only wheat, wheat flour, raw cotton and leaf tobacco still shows the trend definitely in that these items in 1932 accounted for nearly 22% of total imports, in 1933 nearly 18%, in 1934 slightly over 16%, in 1935 10%, and in 1936 only 7.17%.

In non-agricultural lines, the basic indicated trend is also toward increasing imports of capital rather than consumer goods and apparently America's future in its trade with China lies in the development of capital goods which predicates the setting up of adequate credit facilities.

In China's recorded import trade, the United States continued in the lead in 1936, with Japan second, but were smuggling to be taken into consideration this position might well show a reversal. Germany was third and Great Britain fourth, while the Netherlands Indies continued in fifth position with a greater share in the supply of kerosene and gasoline to China than shown as originating in the United States.

The share of each of the leading countries in the trade of China is indicated in the following table of Customs figures with the comparative per cent for 1935:

Countries	Imports Gold Units Value		Exports Yuan Value	
	1935	1936	1935	1936
U.S.A.	18.9	19.6	23.7	26.4
Japan	15.1	16.7	14.2	14.5
Germany	11.2	15.9	5.0	5.5
Great Britain	10.6	11.7	8.6	9.2
Netherlands India	6.3	7.9	.9	.7
Hong Kong	2.2	1.9	14.2	14.5

(A considerable portion of China's exports to Hong Kong are for transshipment to U.S.A.)

The following table indicates America's relative position in China's imports for the years 1935 and 1936:

Import Items which show increases for U.S.% for 1936 compared with 1935	American % shares 1935-36
Brass & Copper	19 - 29*
Iron & Steel Tin Plate	57 - 61
Motor Tractors, Trailers & Trucks	89 - 94
Radio - Sets & Parts	45 - 57*
Milk, Condensed, Evaporated & Milk Food	14 - 18*
Leaf Tobacco	83 - 89
Artificial Indigo	25 - 33
Sulphur Black	11 - 14
Paint & Varnish	21 - 25
Paraffine Wax	19 - 20
Soap, Toilet & Fancy	36 - 37*
Books & Music	38 - 40*
Paper - Drawing, Document Banknote, Bond	71 - 82*
Asphalt	56 - 66
Photographic Material	45 - 48*

Import Items which show no change compared with 1935	
Motor Cars & Busses	78 - 78
Rubber Tires & Tubes	2 - 2

Import Items which show decreases in U.S.% for 1936 compared with 1935	American % shares 1935-36
Cotton, Raw	50 - 23
Iron & Steel Tubes, Ungal.	11 - 2
" " Rails, "	18 - 13
" " Plates & Sheets	12 - 6
" " Tubes, Gal.	25 - 2
Prime Movers & Parts	17 - 11*
Machinery & Parts (NOR)	17 - 15*
Machine Tools	23 - 6*
Aircraft & Accessories[1]	66 - 53*
Motor Accessories	81 - 78*
Scientific Apparatus	20 - 17*
Electrical Fittings (NOR)	19 - 14*
Telephone & Telgr. Material	23 - 9*
Salt Herrings	26 - 12
Shrimps & Prawns, Dried	20 - 18
Wheat	1 - 0
Wheat Flour	34 - 11
Cigarettes	42 - 31
Aniline Dyes	13 - 12*
Printing Ink	44 - 33
Gasoline, Naphtha & Benzine	37 - 32
Liquid Fuel	26 - 24
Kerosene	46 - 23
Lubricating Oil	85 - 82
Paper, Newsprint	11 - 0
Paper & Paperware[2]	55 - 25*
Leather	31 - 27*
Timber, Softwood	47 - 45

Note: Calculations made on quantitative basis except for items marked * which are on value basis.

(1) Large quantities of aircraft were admitted on special permits and did not appear in Customs Returns.

(2) Decline in paper due to heavy imports of American banknote paper for 1935.

In China's exports, the United States continued the lead, taking yuan 186 million plus about yuan 14 million shipped through Hong Kong, or a total of at least yuan 200 million, or about 30% of the total. The U. S. Department of Commerce figures for imports from China into America for 1936, including those trans-shipped through the port of Hong Kong, aggregated about U.S.$80 million, or the equivalent of yuan 260 million. If 15% is added to the yuan 200 million as embraced in the Chinese figures, it will make a total of yuan 230 million which would seem to be a reasonable appraisement of Chinese exports to America for 1936. Japan was second, Great Britain third, and Germany fourth.

China's exports in 1936 increased in yuan valuation for most of the leading commodities due mainly to increased shipments to America. The following table shows the situation as related to leading items of interest to American trade:

Exports in Order of their Relative Values.

	Total Value in Thousands of Yuan or Chinese Dollars	% Increase over 1935	Approximate % Share taken by America.
Tung oil	73,380	77%	71%
Raw Silk, including Waste	43,633	8	31
Egg products	41,802	30	12
Hides & Skins	40,502	72	60
Tea	30,661	3	9
Raw Cotton	28,198	30	20
Tin	26,769	31	38 *
Bristles	25,303	56	52
Cross-stitch Work Linen (mainly handkerchiefs)	19,086	123	60
Sesame Seed	18,560	12	35
Wool (Sheep's)	15,444	1½	68
Peanut Oil	11,012	3	73
Sausage Casings	10,894	21	24
Antimony	9,887	24	11
Tungsten	9,342	39	18

* Through Hong Kong.

NOTE: Decreases in quantity for 1936 compared to 1935 exports were as follows: Tea 2%, Sesame Seed 9%, Wool 19%, Peanut Oil 19%, Antimony 10% and Tungsten 5%.

It is of interest to note that China proper exported wheat to the extent of 1,164,000 bushels in 1936 valued at about U.S.$662,000 or about 58¢ U. S. currency per bushel. The movement was largely to Japan. The total exported was more than treble the quantity and more than five times the value of 1935 exports.

The foreign trade of Hong Kong for the first eleven months of 1935 and 1936 in thousands of Hong Kong dollars and America's share were:

	Imports	From U.S.A.	Exports	To U.S.A.
1935	$330,603	$25,094	$244,075	$17,593
1936	407,208	30,812	315,774	24,796

Transformed into U. S. Currency in thousands dollars:

1935	$161,665	$12,271	$119,353	$8,603
1936	128,294	9,706	99,469	7,811

America's share of the import trade of Hong Kong was about the same for the two years, that is, 7½%. In exports America took 7.2% for 1935 and 7.9% for 1936.

The imports from America of old and over issue newspapers increased from 36 million to 39 million pounds, valued at nearly US$300,000. Imports of ginseng increased from US$632,000 to $855,000. Leaf tobacco decreased from 1.8 million to 1.5 million pounds. Aeroplanes increased from US$10,000 to US$380,000. Petroleum products which represent the largest item in imports

from America dropped considerably due to heavier imports by the big companies from their Sumatra holdings. Wheat flour imports from America decreased from 43 million pounds in 1933 to 6.3 million pounds in 1936, or from $631,000 to $148,000.

In exports the main items included tin, tungsten, tung oil, feathers, firecrackers, cassia, reed furniture and peanut oil, the bulk of which originated in China. Of special interest is an item of US$10,800 covering flashlights manufactured in Hong Kong and shipped to America. Hong Kong's total exports of flaslights and batteries amounted to US$1.2 million. Also of interest is 10 million pounds of rice exported to America, presumably for the consumption of the Chinese population.

The imports into Manchuria for the first 9 months of 1936 aggregated Manchurian yuan 506 million or a 14% increase over the corresponding period of the previous year. Total exports aggregated M. yuan 430 million, or an increase of 38% over the corresponding period of the previous year. In imports, Japan's proportionate share was 78%, or a considerable increase over that of the previous year. Imports from America into Manchuria for the first 9 months declined from M. yuan 20 million to M. yuan 17 million and represented about 3% of the total. There was a slight increase in imports from the British Empire, which is credited with about 5% of the total. The Chinese share of the 9 months' trade was a little over 6%. In exports, Japan took about 50%, China about 19%, Germany about 9%, the British Empire about 6% and the United States about 3%. Exports to the United States showed a slight increase over those of the previous year.

In imports, heavy increases were noted in textiles, sugar, machinery and tools, and paper. Enormous increases in the imports of pongee silk,

61453

sugar, rayon and raw cotton are of particular interest in view of the smuggling operations carried on between Dairen and North China. The principal items of imports from the United States were petroleum products, automotives, leaf tobacco, iron and steel, timber and raw cotton in the order named. Of interest in connection with imports from the United States is the fact that kerosene has been almost completely replaced by imports of crude oil, the latter being refined under the auspices of the Manchurian oil monopoly.

In exports, heavy increases were noted in soy beans, perilla seed and oil, millet, kaoliang, sulphate of ammonia, iron and steel, and skins. In exports to the United States, substantial increases were noted in perilla oil and seed, bristles, and skins.

The influx of a number of branches of Japanese industrial firms in Dairen was quite heavy through the year and gives promise of further increases and what is still more significant is the extension of Manchurian state capitalism in industry under Japanese auspices. These developments naturally react on the character of the country's trade. Dairen's increasing importance as a port is indicated by the larger number of ships using the facilities which the port offers. On the other hand, the low railway freight rate schedules are encouraging shipment from North Manchuria through Korean ports rather than via Dairen.

From an American viewpoint, the trade outlook in Manchuria does not offer much for the reason that Japanese interests seem to be determined to safeguard all opportunities in trade and industry for their own capital and commodities, at least insofar as these may be adequate to meet the situation.

61453

Highways: About 50,000 [illegible] in operation in China including Manchuria and Hong Kong upon 60,000 miles of highways. During 1936 much progress made in unification, standardization and improvement in highway maintenance and motor transport.

Aviation: Air passenger and mail traffic for 1936 increased about 100% over 1935. Landing privileges at Hong Kong were arranged to contact the China National Aviation Corporation with the Pan American Airways for trans-Pacific service and with Imperial Airways through Singapore to Europe. In the north, a Sino-Japanese company established a regular service between Dairen and Tientsin-Peiping. In military aviation equipment, large purchases were made, mostly American, apparently aggregating as much as US$6 or 7 million.

Shipping: Upper Yangtsze shipping boomed so much during 1936 that additional ships had to be added to handle cargo demands. Conference ocean freight rates were increased during year. Oceanic passenger traffic to China was best in years. American business concerns consider shipping strike seriously disastrous to Sino-American trade, especially with Pacific Coast.

Other Communications: During 1936 the 9 Central China provinces network for long distance telephones was completed. Direct radio-telephonic communications were opened between Shanghai and the following points: Tokyo, Canton and Hankow, and also between Tientsin-Peiping and Tokyo. Powerful radio broadcasting stations were installed in Canton and in Chengtu.

Foreign Trade: For 1936, imports were 17% less and exports 23% greater than 1935. Adverse balance of trade was 31% less than for 1935. In imports very definite trends toward self-sufficiency apparent in agricultural products and consumer goods generally. For instance combined imports flour, wheat, cotton and leaf tobacco for 1932 accounted for 22% of total trade; in 1933 for 18%; in 1934 for 16%; in 1935 for 10% and in 1936 for only 7%. America headed list in China's foreign trade for 1936 taking 26% of its exports and supplying 19.6% of imports. Japan ranked second, Germany third and Great Britain fourth. In Manchuria's trade Japan's proportionate share increased during the year. It now enjoys 78% of Manchuria imports and takes 50% of its exports. America is credited with 3% each of exports and imports, with an actual decline in the latter. The larger industrialization of Manchuria under state capitalism and Japanese participation is changing the character of its trade.

Trade Promotion: Number of foreign governments during 1936 increased their trade promotion facilities to take advantage of improved opportunities for trade in China, especially in capital goods. China Trade Act Companies at end of 1936 numbered 86 with aggregate paid up capital of US$22 million and generally enjoyed more satisfactory business than for previous year.

1937 Outlook: Conditions generally improved over 1935 because definite progress made in political unity, increased purchasing power agricultural masses due bumper crops at high prices, improved demands and increased prices abroad for China's exports and increasing interest by foreign nations in extending long term credits for development projects. Uncertainties still persist concerning outcome of relations of Central Government toward factions in Northwest China and in relations with Japan, especially in North China. American business houses in China deeply concerned over continued Pacific Coast strike, especially if Atlantic shipping becomes involved. Situation warrants more favorable attitude by America in setting up credit facilities for greater participation in exports to China of capital goods.

TRADE PROMOTION

Indicative of increasing interest in trade possibilities in China on the part of foreign nations, and probably in appreciation also of greatly improved political and economic conditions in China, is the fact that 11 foreign countries have set up special facilities for trade promotion purposes in their relations with China. The most active and enterprising efforts in this direction have been taken by Great Britain. Following the 6 months' special financial and economic investigations as made by the Leith-Ross mission in its tour over China, the British Government Export Credits Guarantee Department has sent its special representative to work in conjunction with the British Commercial Counselor who has taken over special offices on the Shanghai waterfront in furtherance of British trade promotion activities. Thus, the British Government maintains, in addition to its Commercial Counselor functioning under the Department of Overseas Trade, a special Financial Adviser, a representative of the Export Credits Guarantee Department, and an Air Attache.

A Canadian Trade Commission, under the auspices of the Canadian Chamber of Commerce and the Canadian Manufacturers' Association, will visit China in the early part of 1937 with the idea of making more effective trade contacts in this country. The Canadian Government maintains a Trade Commissioner at Shanghai and branch offices at Hong Kong and Tientsin. The Australian Government is represented in China by a Trade Commissioner who also maintains well equipped offices and staff for the promotion of Australian trade.

Within the past few months the Italian Government has sent to Shanghai a Commercial Counselor who had previously spent some years in America in special trade promotion work. Germany is particularly active in the

development of trade promotion facilities under Government auspices in China with special emphasis on the building up of export credits, probably going further than any other nation in the extension of long term credits in backing the sales of its railway equipment and industrial machinery in China. In addition to its Commercial Counselor's office at Shanghai, it has recently appointed a Trade Commissioner for Manchuria, in connection with a one year barter agreement signed on April 30, 1936, with the Manchurian Government, whereby Germany purchases Manchurian yuan 100 million of soy beans to be paid for 75% in cash and 25% in kind. In the first 6 months of the agreement, Germany took M. yuan 40 million of soybeans, but Manchuria purchased German goods to the value of only M. yuan 5.3 million leaving M. yuan 19.7 million of the quota of German goods to be taken up before the expiration of the agreement on June 1, 1937.

China Trade Act Companies: While the year 1935 was marked by failures with heavy economic losses of a number of important American concerns with their main offices in Shanghai, the year 1936 presented a more satisfactory situation with decided tendencies at the end of the year toward stabilization and general improvement. At the close of 1936 there were 86 companies actively functioning under China Trade Act charters with an aggregate paid up capital of US$22 million and with applications for 5 additional charters still pending. Eighty-five percent of the head offices of these companies are located in Shanghai, with others at Hankow, Tientsin, Peiping and Harbin. The underlying reason prompting special Federal incorporation for business in China, is to put American firms on a basis of equality in tax exemption with British, Japanese and French companies operating in this country.

OUTLOOK FOR 1937

Sir Frederick Leith-Ross, British Government economist, after an extensive survey of conditions in China, made the following statement:

"I am definitely optimistic about China. I believe that, given a period of peace and good Government, China is going to be one of the biggest and best markets for our manufactures; and that we must be prepared to nurse that market even at some cost, pending its development. We have to face keen competition from two skilful and industrious nations -- Germany and Japan -- who for various reasons, can undersell us. We can have very little hope of supplying China with fully manufactured 'consumption' goods.

"Our standards of life and cost of production are too high to enable us generally to supply manufactured goods to a low price market. Our job in China -- if we are to be successful there -- for the next decade or so will be mainly concerned with equipping China with railways, electric light plants, waterworks, ships perhaps, and the other major mechanisms of modern life which are the foundation or forerunners of a country's industries.

"This will all take great skill and striving on the part of our people out there; and ability and willingness of the United Kingdom to finance this trade will be necessary. But it calls also for a very much broader and bolder outlook on our part towards the rapidly changing pattern of that great area we call the Far East. On taking a still longer view I am convinced also that the people of a developed and productive China will offer a far greater market for us than her present poverty-stricken population can ever do."

The consensus of opinion among our Consular establishments in China, including Manchuria and Hong Kong, in the annual surveys of trade made by these offices, indicates a definitely improved outlook for the year 1937 in contrast with that faced a year ago. The reasons given are: firstly, a greater confidence in China's internal political conditions following definite progress in political unity; secondly, except for a poor rice crop in South China, excellent agricultural harvests with uniformly higher price levels; thirdly, greatly improved conditions in currency stabilization; fourthly, greater demands abroad for China's export commodoties,

indicative of generally improved world economic conditions; and fifthly, substantially increasing interest by foreign nations in providing long term credit facilities for equipment for construction and development projects in China.

At Shanghai, where we have a considerable number of American trading houses covering a large range of business activities, the sentiment at the end of the year among the heads of these companies indicated a greater spirit of optimism than was evident a year ago. However, these sentiments were in many cases predicated upon the settlement of the Pacific Coast shipping strike within the near future and the continuation of peaceful political conditions in China. Many of these American companies exhibited deep concern over the difficulty of competing with British and European houses because of the better facilities enjoyed by the latter in long term credits for industrial and railway equipment.

In Manchuria, the outlook for the coming year is viewed by Japanese bankers and business men with optimism because of firm prices for agricultural products, especially soy beans, and a reasonably assured continuation of Japanese Government expenditures and investments along the high levels which have thus far obtained.

In North China, prospects for 1937 are considered the most encouraging for any period since 1930, except for the political uncertainty. Aside from the handicaps involved in large smuggling operations in North China and the interruptions in shipping caused by the Pacific Coast shipping strike, American interests should, it is contended, be able to maintain their share of trade for some time to come. Of particular significance is the prospect for continued improvements in North China's exports.

Tsingtao, which ranks fourth in importance in China's foreign trade and probably second in modern industrial advancement, ended the year with an optimistic tone. In this connection, agricultural and industrial prosperity played a prominent part.

While abundant harvests in the Central Yangtsze region and generally improved business conditions made for a favorable outlook for the coming year, yet this area is particularly sensitive to internal political developments and thus the feeling of uncertainty in this sense pervades the atmosphere to such a degree as to discount considerably the optimism otherwise.

At Shanghai, the annual Chinese New Year Settlement in February of 1937 is expected to be attended with very few failures as most firms had already reduced their overheads and reorganized their establishments prior to the more recent general improvements in trade. Due mainly to generally improved conditions during the last quarter of the year, importers look forward to 1937 with considerable optimism, but as noted above, this is contingent upon the favorable development of certain other factors.

In Canton, the liquidation of the semi-independent political status of Kwangtung and Kwangsi Provinces over a period of some years, has reacted very favorably upon business and industry generally, especially insofar as the situation presages a definite improvement in currency conditions. Hence, if unforeseen circumstances do not arise, it is anticipated that the year 1937 will register very substantial improvements in trade generally in that section of the country.

The British Colony of Hong Kong, through which the bulk of the trade of South China passes, seems to view the coming year with a mixture of optimism and pessimism. The improved political status of South China with

the resultant currency stabilization and the friendly attitude of the Central Government toward Sino-British cooperation, make for a definitely optimistic outlook. On the other hand, the continued high Chinese import tariff schedules discourage any large developments in manufacturing industries. From the American viewpoint, the Pacific Coast shipping strike has paralyzed the American shipping with this important trading center and is likely to influence adversely America's trade with South China.

Thus, conditions in China at the close of the year were such as to warrant a full-hearted endorsement of Sir Frederick Leith-Ross' optimistic outlook for the future, especially so if we are willing, as he suggests, to take a "much broader and bolder outlook toward the rapidly changing pattern of that great area we call the Far East".

FILE No. 611.93

Chinga

CONFIDENTIAL

February 25, 1937.

ATTAC

L-441

To

61453

To: Director of the Bureau

From: Commercial Attache, Shanghai

Subject: Insert Sheets for China Annual Economic Report.

With reference to our previous communications on the subject of changes in the China Annual Economic Report (our letter No. L-404 dated February 10 and our radiogram No. 242 dated February 16) and with special reference to my radiogram No. 251 dated February 23,

1/ I am attaching hereto copies of page 2A dealing with "Smuggling in
2/ North China" to be inserted between pages 2 and 3 of the draft copy of the annual report as submitted on January 28; and page 55 in which two paragraphs were inserted following the receipt from the Chinese Maritime Customs of the "Introductory Survey of Trade for the year 1936". Please substitute this page 55 for the one submitted in the draft copy of the annual report on January 28.

As these changes have been covered in our radiogram No. 251, this letter will serve merely as a confirmation of the changes made.

Julean Arnold,
Commercial Attache

Enclosure: No. 41071
/HR

73

MAR 19 1937

Smuggling in North China: The Chinese Customs administration declares that at the end of the year the Customs authorities were still unable to carry out their legitimate and normal functions of preventing the arrival of contraband into North China through the so-called autonomous state of East Hopei, as a result of the enforced withdrawal of their armed preventive forces ashore and afloat. Meanwhile the smugglers' disregard of Chinese law remains as audacious as their devices to circumvent preventive measures. Although the volume of smuggled goods has somewhat decreased since June 1936, due partly to the stringent measures adopted by the Government, and partly to the glutting of the market with smuggled goods, yet the situation is still serious and this problem of international significance remains unsolved.

In a memorandum presented to the Government at the beginning of 1937, the Inspector General of Customs reports a serious recrudescence of organized smuggling in North China as follows:

> "It is estimated that the duty leviable but not liquidated on such cargo during the year 1936 aggregated altogether about yuan 50 million. The recently devised Customs procedure on the railways has checked effectively the distribution of smuggled goods southward by rail, but considerable quantities of illicit cargo are finding their way to the interior by motor trucks, escorted by armed foreign smugglers. The revenue collections of Chinwangtao and Tientsin (pledged for the service of the foreign indemnities and loans secured on the Customs) have progressively declined of late and are some 30% lower than they were a few years ago before smuggling became rampant; and the revenue at other ports in the north, e.g. Tsingtao, has also suffered as a result of restrictions placed on Customs preventive activities. Kerosene oil figures prominently among the illicit goods pouring into Nourth China; and there is evidence that narcotics are also being smuggled in increasing quantities."

B

In China's exports, the United States continued in the lead, taking yuan 186 million plus about yuan 14 million shipped through Hong Kong, or a total of at least yuan 200 million, or about 30% of the total. The U.S. Department of Commerce figures for imports from China into America for 1936, including those trans-shipped through the port of Hong Kong aggregated about US$80 million, or the equivalent of yuan 260 million. If 15% is added to the yuan 200 million as embraced in the Chinese figures, it will make a total of yuan 230 million which would seem to be a reasonable appraisement of Chinese exports to America for 1936. Japan was second, Great Britain third, and Germany fourth.

Comparing China's 1936 imports, on the basis of values, with those of 1935 and 1934, substantial increases were noted in the following items: rails, railway cars, locomotives, bicycles, tinned plates, machinery and machine tools, scientific instruments, gasoline, sulphate of ammonia, heavy chemicals, aniline dyes, carded woold, softwood logs, cigarette paper and banknote paper. Substantial decreases were noted in the following items: cotton piece goods, raw cotton, woolen yarn, woolen piece goods, rice, wheat, flour, sugar, leather, coal, railway sleepers, motor cars and busses.

In exports, substantial increases were noted in the following: raw cotton, raw silk, sheep's wool, bristles, egg products, sausage casings, peanut oil, linseed, sesamum seed, hides and skins, millet, apricot seeds, tung oil, iron ore, tungsten, antimony regulus, tin, cross-stitch embroideries and laces.

China's exports in 1936 increased in yuan valuation for most of the leading commodities due mainly to increased shipments to America. The following table shows the situation as related to leading items of interest to American trade:

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DEPARTMENT OF STATE
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MAR 18 1937
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UNITED STATES
DEPARTMENT OF COMMERCE
BUREAU OF FOREIGN AND DOMESTIC COMMERCE

OFFICE OF COMMERCIAL ATTACHÉ
3 CANTON ROAD
SHANGHAI, CHINA

SHANGHAI

February 25, 1937.

RECEIVED
MAR 22 1937
FAR EASTERN SECTION

Received In
General Files
JUL 6 1937

L-441

To: Director of the Bureau

From: Commercial Attache, Shanghai

Subject: Insert Sheets for China Annual Economic Report.

61453

With reference to our previous communications on the subject of changes in the China Annual Economic Report (our letter No. L-404 dated February 10 and our radiogram No. 242 dated February 16) and with special reference to my radiogram No. 251 dated February 23,
1/ I am attaching hereto copies of page 2A dealing with "Smuggling in North China" to be inserted between pages 2 and 3 of the draft copy
2/ of the annual report as submitted on January 28; and page 55 in which two paragraphs were inserted following the receipt from the Chinese Maritime Customs of the "Introductory Survey of Trade for the year 1936". Please substitute this page 55 for the one submitted in the draft copy of the annual report on January 28.

As these changes have been covered in our radiogram No. 251, this letter will serve merely as a confirmation of the changes made.

Julean Arnold,
Commercial Attache

Enclosure: No. 41071

EA, FE, & FPC. 2/28
MAR 19 1937

China

March 19, 1937

Mr. Julean Arnold,
American Commercial Attache,
Box 605, 51 Canton Road,
Shanghai, China.

Dear Arnold:

In reply to your letter of January 28 proposing that your annual report on China for 1936 be utilized for the February 1 issue of the China Monthly Trade Report, the Bureau transmitted the following radiogram to you under date of March 10:

"YOUR LETTER JANUARY TWENTY EIGHT REFERENCE ANNUAL REPORT stop AUTHORITY HEREBY GRANTED YOU TO DIGEST ANNUAL REPORT FOR DISTRIBUTION AS FEBRUARY MONTHLY TRADE REPORT comma DELETING LAST PARAGRAPHS ON PAGES FIFTEEN AND THIRTY THREE RESPECTIVELY stop TO AVOID FURTHER DELAY BUREAU WILL ALSO DIGEST ANNUAL AND DISTRIBUTE HERE AS FEBRUARY MONTHLY stop HEREAFTER YOU SHOULD RECEIVE BUREAUS APPROVAL BEFORE MAKING ANY DEVIATION FROM REGULAR ROUTINE PROCEDURE IN PREPARATION OR DISTRIBUTION OF PERIODICAL REPORTS stop LETTER FOLLOWS end."

I believe you will understand the feeling in the Bureau that as a general policy we can not approve distribution of the full text of the annual report to recipients of the China Monthly Trade Report unless we can give subscribers to the Monthly Trade Report in other countries the same service. Obviously lack of funds and other reasons prevent this. As a matter of fact recipients of the Monthly Trade Report in China are already receiving advantages not shared by any other subscribers, for they receive the service free, while in this country and in all others, subscribers are required to pay for it under the provisions of the Economy Act of 1932.

We are completely in agreement with you that these annual reports, especially the reports on countries of prime importance in our foreign trade, should be made widely available to the American public, and this service has been considered every year, but we have been unable to secure a sufficient printing appropriation to provide for it. At present we not only have insufficient funds for printing much needed Trade Information Bulletins, but are kept closely to a minimum in the amount of mimeograph work that may be turned out.

Previous 2-16-37

Checked to... A.W.I.R.

Unfortunately, we have neither the time nor the personnel available to make digests of reports from the field as a general procedure, although in the present instance and in the interests of the time factor, we will digest your annual report and distribute it in place of the February 1 monthly issue. But it will be necessary hereafter for you to receive the Bureau's approval before making any deviation from the regular routine procedure, in order that we may judge if conditions in the Bureau can be adjusted to meet your suggestions. It is unfortunate that your office is burdened in this instance with making a digest of the annual in place of the monthly, and that this labor has to be duplicated in the Bureau for our American subscribers.

Very truly yours,

Louis Domeratzky,
Chief, Div. of Regional Information.

CKM:MIB

October 5, 1937.

Mr. Julean Arnold,
American Commercial Attache,
Shanghai, China.

Dear Arnold:

Your letter of August 9, addressed to Mr. Zapf, has just been received. On checking up, I find that a comment form, dated August 19, was forwarded to your office on or about August 21. The report was rated "Good" and the comment by Mr. Moser said in part:

> "This report deserves considerable commendation, and the manner in which it has been compiled is worthy of recognition."

Undoubtedly you have already received the original of the comment form from which the above quotation is abstracted.

Cordially yours,

10-6

H. Lawrence Groves,
Chief, Foreign Commerce Service.

COT/add

COPY FOR THE BUREAU

SHANGHAI

October 26, 1937.

L-174

To: Foreign Service Division,

From: Julean Arnold, Commercial Attache,

Subject: Rating on Annual Economic Report - 1936.

Referring to the communication of the Far Eastern Section Division of Regional Information, dated August 19th, indicating Grading and Comment Slip and referring to my Annual Economic Report, 1936, I wish to invite the Bureau's attention to certain aspects of our work which are not understood in the Far Eastern Section.

In the compilation of the Annual Economic Report I was not only obliged to use a very considerable amount of material other than that received from our Consular officers and other government agents, but even in connection with the material as furnished by government sources, I spent much time in preparing an outline indicating the type of material desired. In personal conversation with some of the Consular officers when passing through Shanghai, or, when visiting them at their posts I also took pains to elaborate the type of material wanted. Even after all of these efforts some of these reports as received were very disappointing, requiring a considerable amount of research on my part to fill in the material which was lacking.

It would appear from the comments of the Far Eastern Section that we do little else in compiling a report of this sort than to take the material as furnished by the Consuls and reproduce it. This is very far from fact. I have compiled other reports from other source material with far less extra work on my part, and have found this source of material of far more assistance than has been the case in the handling of some of the contributions as made by our Consular officers. As a matter of fact, there are very few reports which go forth from this office which do not depend upon a considerable amount of source material, and in any case this source material is far more useful and satisfactory than source material prepared by some of our Consular officers.

BU. FOR. & DOM. COM.
NOV 30 1937
FOREIGN MAIL

Thus, the comments of the Far Eastern Section, when implying that much of the credit for this report really rests with the Consular officers, are disappointing to me because of the evident failure of the Far Eastern Section to appreciate the immense amount of time, thought and effort required by me in the compilation of the Annual Economic Record of 1936. Thus, under these circumstances, it is respectfully requested that the Far Eastern Section revise its appraisal of this report and bestow the credit due upon this office for the major, in fact, the bulk, of the work and thought represented in the preparation of this Annual Survey.

Julean Arnold,
Commercial Attache.

JA:DM