

General Conditions:-

The civil war which broke out at the end of August in the vicinity of Shanghai between the provinces of Kiangsu and Chekiang has now extended to the borders of Chihli Province and Manchuria. The effects of the disturbances are being felt in all lines of trade. Money has become scarce and is practically unobtainable for the financing of either export or import trade. The native banks have called in their loans and in many instances the circulating paper notes of native banks have had to be withdrawn from the market, the public refusing to accept paper money other than that issued by the strongest native banks and the foreign banks.

The movement of troops has interfered seriously with the crop harvests which are now under way in all sections of North China. This will result in additional hardships to the population and the scarcity of foodstuffs in many sections is reflected in the soaring prices.

There have been no rains recently and the flood waters are receding steadily. The planting of fall crops is proceeding in all the districts unaffected by the war.

There has been considerable commandeering by the Government of horses, mules, and draft cattle; also conveyances of different types. Whole train loads of heavy two-wheeled carts which are used in the country have been noted en route to the northern front. Impressment of coolies to serve as carriers has been quite extensive. It is the custom of the Government when a cart or an animal is commandeered to issue to the owner a form of receipt promising either to return the article or to pay at some later indefinite date a certain compensation.

There has been heavy concentration of rolling stock and locomotives on the Peking-Mukden Railway northward from Peking. Transportation of commercial cargo is practically impossible. The wool, cotton, walnuts, peanuts, and other crops which should now be coming into the market cannot be moved from the country districts. The factor which contributes to the congestion of railway transportation and prevents the cars from being utilized to anything like capacity, even for troop movement, is the fact that after arriving at their destination they are not returned for further service on the line, but are held and used as barracks for the soldiers. In the case of open freight cars the tent poles are erected in the center of the cars and the canvas stretched to form a covering. From the humanitarian standpoint of making the soldiers as comfortable as possible, this is an excellent practice, but it creates the utmost confusion as far as transportation is concerned.

The income of the railways suffers seriously from these conditions. For the first six months of this year ending June 30 the gross receipts of all the government lines were approximately 20 per cent greater than during the same period, 1923. During July the heavy rains interfered with traffic to a considerable extent, particularly on the Peking-Suiyuan and Peking-Hankow Railways. Extensive repairs were required to replace washed out sections of the lines and bridges. Should the present cessation of commercial traffic continue for any length of time many of the lines will find it difficult to meet even their current operating expenses, for they have been drained of their income practically as fast as it accumulated. In the case of one line it is known that during the spring they were obliged to pledge the future income of specific stations in order to make bank loans to meet necessary operating expenses.

The import trade already has suffered some losses through cancellation by Chinese dealers of orders for goods which have not yet been shipped. In other cases requests for delay in shipment have been made. It seems to be the general opinion that shipments of cargo already afloat destined for Tientsin will be accepted upon arrival, but as the extent of the present outbreak becomes more apparent, every effort is being made to prevent the accumulation of stocks of goods which will have to be carried for an uncertain length of time. There probably will be little difficulty in regard to such commodities as wheat, wheat flour, and foodstuffs, for they represent articles that will be increasingly in demand, probably at good price advances. On the other hand such things as machinery, machine tools, steel plates and sheets, piece goods, electrical equipment, and materials of this character will be practically without a market while the present trouble lasts.

Export shipments are, of course, dwindling rapidly. The stocks of cotton, wool, hides and skins, peanuts, walnuts, and bristles are low. The new season for these commodities is just ready to open and the full effect of transportation difficulties in getting them to market will be felt soon. As an example of how serious the transportation situation really is so far as commerce is concerned it may be interesting to note that the American Express Company in Peking act as shipping agent for most of the Ship Companies which have boats calling at Tientsin and it was only after protracted negotiations with the authorities that arrangements finally were completed which permit them to send one freight car a week each way while present conditions continue.

Financial Developments:

There is no open loan market in Peking or Tientsin and interest is fixed on loans by negotiations based on the character of the security offered. Native bank interest rates in Peking have varied from 12 per cent to 25 per cent per annum during the past thirty days. Loans on good security can now be made on the basis of 12 per cent, as the banks have a surplus of silver which they find it difficult to employ profitably. A prominent Chinese banker stated a few days ago that in order to maintain the past rate of dividends on the outstanding capital stock of this bank, it was necessary for him to make at least 23 per cent, without including earnings and overhead expenses. Profits during the past six months of this year he said had been sufficient to provide for this year's dividends and he was therefore content to put out his money in short term loans on good security at the present comparatively low rate of 10 per cent to 12 per cent per annum.

Wine and Tobacco Tax Bureau Reorganization:

There has been in the minds of the Chinese for some time an idea that through the reorganization of the wine and tobacco tax bureau and the imposition of higher taxes on these commodities than now prevail, a very large increase in the Government's income from these taxes can be brought about. According to a statement made by one of the Chinese at the head of this bureau, the total collections at the present from all of the provinces amount annually to more than silver \$18,000,000. The amount which actually reaches Peking, however, is not over silver \$2,000,000. The provincial officials withhold the collections in many of their districts for their own administrative expenses. There is also a great deal of revenue lost due to inefficient administration of the Bureau. It has been stated by the Chinese that they contemplate a reorganization of the Bureau, and plans are being made to present to the Foreign Powers requests for adjustments of treaties which will permit the Government to increase its wine and tobacco tax revenues. Studies to this end are now being made and the internal revenue tax

rates of all the important countries of the world are being examined by a special committee.

Trade Notes:-

Flour:-

The flour merchants in Tientsin stated recently that during August arrivals of American flour were light as compared with arrivals earlier in the year.

There are six active flour mills in Tientsin with a total capacity of 38,700 50-pound bags per twenty-four hour day. At present only three of these mills are operating. They represent approximately 40 per cent of the total capacity of all mills.

Inefficient management resulting in financial loss is the chief factor which causes five of the mills to remain closed. The demand for flour has been good during the past year and it has been possible to make fair profits on its manufacture and sale in mills where good management has prevailed. The outlook for the remainder of this year indicates that the demand for flour will exceed that of last year owing to the large destruction of other cereal crops as a result of the floods. Flour importers state that they feel the outlook for American wheat and flour sales is very favorable with probably an upward price tendency.

Wool:-

Wool stocks in Tientsin are small. They are held mostly by Chinese dealers who are financially able to carry them for some time. There is no easing of prices.

Cotton:-

The cotton market remains strong. The Japanese continue to be the principal buyers. Stocks are small and the new crop has not yet come into market except a few scattered sales from some of the near-by shipping points in Chihli Province. The transportation delays will be felt in the cotton market within a few weeks and the operations of the local mills will undoubtedly be affected unless the situation improves almost immediately.

Lumber:-

Soft wood lumber stocks now in Tientsin are about 13,000,000 board feet. On the basis of last year's consumption this represents nearly one and a half year's supply. At present the consumption is low because of the interference in building which resulted from the heavy rains, and also because of disturbed political conditions.

Walnuts:-

The walnut crop is just beginning to come into the market. The crop quality is said to be good.