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CHINA MONTHLY TRADE REPORTS

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GENERAL RESUME

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North Manchuria: Incomes of farmers remain at high levels. New transportation company being formed to supplant the Sungari Navigation Guild. Soy bean milling inactive, wheat milling dull. Building material costs rising. Local confidence in yen not high. Credits tight, collections normal.

South Manchuria: Acute shortage imported leaf tobacco now obtains due exchange and control measures. The 75 kilometer railway between Wangching and Hsuehling completed. Uniform freight tariff between Japan, "Manchukuo" and North China contemplated. Sweeping changes in Manchurian Five Year Plan announced. New synthetic fuel factory under construction. Business experienced serious difficulties in obtaining foreign exchange. Permission to import goods not classed as necessary for defense or industrial development will be increasingly difficult to obtain. No indication that the Government's efforts at price control are meeting with success. Export control of additional Manchurian products envisaged.

Kwantung Leased Territory: Due unavailability of foreign exchange and application of the "China Incident" special tax, commodity prices in Dairen have increased with further rises expected. It is believed that regulations will soon be promulgated to compel all banks to remit to and obtain from a designated bank all foreign exchange. During the first 4 months of 1938, Manchurian exports to all countries amounted to M. yuan 272.5 million and imports M. yuan 325.3 million, resulting in an unfavorable balance which is 8 times the unfavorable balance during the same period in 1937.

Tientsin: Cotton acreage estimated to be 50% of 1937 acreage. Floods feared in Yellow River drainage area. Cotton spinning mills operated at 83% capacity and 2,000 cotton looms at 100% capacity. Two flour mills operated sporadically with monthly production estimated at 30,000 bags. Construction of large sulphur black factory contemplated. Total building permits during first 5 months increased 13% as compared with same period of 1937. The "Provisional Government of China" prohibited Chinese Central Government banks from placing more of their notes in circulation in North China except those surcharged "Tientsin", "Tsingtao" and "Shantung" as issued by the Bank of China and Bank of Communications. May declared exports to the U. S. decreased 62% as compared with the same period in 1937. Thus far this year, foreign imports exceeded exports to foreign markets by 11%, while domestic exports have exceeded domestic imports by 325% - a complete reversal of 1937 trends.

Tsingtao: Trade difficulties increased due continued deterioration of currency situation and lack of transportation facilities. Prospects not encouraging for substantial improvement in near future. Revised estimates place the 1937 leaf tobacco harvest at 110 million pounds. It is predicted that only 10% of last year's tobacco acreage will be planted in 1938 and that cotton acreage will be reduced 50%. Freight traffic still suffered from a shortage of rolling stock, only small quantities of goods, other than military supplies, were carried. Industrial activity curtailed by coal shortage. Peanut oil mills remained idle. Egg products factories and tobacco redrying plants operate on limited scale. Rehabilitation of destroyed or damaged plants progressed slowly but steadily. Currency situation remained serious handicap to trade. No improvement in the unsatisfactory import and export situation is expected until wharves are available to merchant shipping generally.

Shanghai: During May and the first half of June, most phases of import trade were subjected to difficulties rarely experienced on so broad a scale in the history of the port. The unprecedented drop in Chinese currency, the restricted and diminishing amounts of foreign exchange allotments and the introduction of a new import tariff were among the principal contributing causes. Apprehension was felt at increasing necessity for resuming dredging operations on Whangpoo River. Ningpo still officially closed to Shanghai shipping. Japanese plan shipping guild for Shanghai, about 50,000 junks on Whangpoo River alone to be affected. Coastal freight rates increased 10%, are now 25% higher than in March. Coastal passenger rates from Shanghai to be increased. Customs examiners have returned to work on some wharves north of Soochow Creek. Chinese owned cargo permitted to be removed from China Merchants Steam Navigation Co's wharves. Postal services with Soochow, Wuhu, Wusih resumed. Shanghai telephone installations on increase. Electric power output during May 65% of May last year. Paid water consumption 100% normal. Chapei Waterworks re-opened. Department store retail sales only 10% below normal. Most imported commodities have increased in price due exchange restrictions and drop in Chinese currency. Silk industry in occupied areas being consolidated into what amounts to Japanese control. Other Chinese owned industries already absorbed. Kiangwan Race Course sold to Japanese interests. Further foreign exchange control measures introduced; allotments diminishing. During first 5 months of 1938, Shanghai imports and exports decreased 71% and 72% respectively compared with the same period of 1937. May imports into Shanghai increased 20% over the previous month while exports decreased 1%.

Hankow: Spring wheat harvest believed larger than normal. Credit extended to farmers by Government authorities. Traffic on Canton-Hankow Railway maintained without serious interruptions. Chungking now connected with Luchow, Ipin and Kiating by passenger and air mail service. Industry generally maintained at high levels. Foreign exchange control measures implemented to include list of 24 principal Central China exports. No improvement has occurred as to amount of foreign exchange being made available.

Yunnanfu: An upward trend in trade and industry is in evidence. General outlook for American trade appears bright. Harvest of winter wheat and beans believed good. Reports indicate British interests endeavoring obtain contracts for construction of Burma-Yunnanfu Railway. Construction work on Burma-Yunnanfu motor road being energetically pushed. Yunnanfu building activity rapidly increasing. Local cotton mill operating on 24 hour basis. Import trade brisk but little export business in evidence.

Canton: Kwangtung crops expected to show average yields. Third silk crop about 50% larger than corresponding 1937 output. Government financial aid to farmers continues, notably to hemp and sugar growers. Acute shortage car space for commercial shipments to Hankow continued due movement of Government supplies. Regular services on Pearl River maintained by foreign-flag steamers. Trade and industrial activity approaching standstill due intensive Japanese air raids. Canton dollar fluctuated seriously. Export trade declining.

Hong Kong: Cargo bookings continue good for coastwise and river shipments out of Hong Kong. Overseas cargo moved in good volume. Shipyards continued to work at capacity. Retail trade good. Building construction activity during next few months should see definite increase. Housing shortage acute. Revenues have exceeded budget estimates. Credits and collections normal. During first 4 months of 1938, Hong Kong imports and exports increased 21% and 36% respectively compared with same period in 1937.

REGIONAL TRADE CONDITIONS

Trade Conditions in North Manchuria during May 1938.
(Digested from report of Vice Consul Charles S. Millet)

Agriculture and Crops: The purchasing power and incomes of farmers in North Manchuria remain at a high level. Recent weather conditions have been most favorable to the growing crops. Plantings are at present incomplete, but in some areas crops are already visible. Near the end of May stocks of soy beans and wheat in Harbin were estimated at approximately 274,000 tons and 31,000 tons respectively. Some believe that only a small increase will be made in soy bean planting this year due to large increases expected in wheat cultivation. Government control of soy bean farming, sale and exportation, is as yet not active or effective. The Ashih River, 40 kilometers southeast of Harbin flooded considerable Acheng acreage in May.

Transportation and Communications: A new "North Manchuria Water Transportation Company" is reported in formation to supplant the Sungari Navigation Guild; with management under the South Manchuria Railway, thus unifying major means of transport. The capitalization may be set at Manchurian yuan 20 million. The water level of the Sungari remains low, confining navigation to smaller steamers. Rail traffic between Harbin and Mutanchiang, was interrupted for a short time by the Ashih River flood. Damage was not large. Freight rates unchanged. A new radio station has been opened at Chiamussu, its programs to be entirely in Japanese.

Industry and Building Construction: Soy bean milling in Harbin was inactive with export demand reported dull. Only 3 or 4 mills are operating and they do so only to avoid shutting down as an expensive new permit to reopen would be necessary. The demand for beancake in Japan has been good; the present drop in seasonal. German purchases of beans are less than formerly. The demand for bean oil by American and China buyers dull. Wheat milling in Harbin during May was very dull - not more than 2 mills operated as wheat supplies are almost exhausted. Optimistic statements concerning large wheat supplies yet to come in from outlying districts are discredited by many merchants and dealers. The government, however, is now engaged in making arrangements to import flour from Japan and possibly Australia. It is estimated that unless the government permits entry of foreign flour, present supplies will not last to the end of June. Efforts to restrict the raising of flour prices have not been very effective. During May wheat prices ranged between M. yuan 9.50 and M. yuan 10.70 per picul (133 1/3 lbs.) while No. 3 flour was quoted from M. yuan 5.35 to M. yuan 5.75 per 22.13 kg. bag. Building material costs continue to rise. Nails and iron wire are now about 150% higher in price than a year ago. Goods transported on the river were not large in volume, as merchants outside Harbin were not buying. Wholesalers have been busy, but retailers report their business dull. Rich coal deposits are reported to have been found east of Chiamussu, Sankiang Province. The quality is said to be even higher than that found in the Fushun deposits.

Finance and Banking: Local confidence in the yen is not high. Credits are tight and collections normal. Interest rates are at last month's level (native banks from 9% to 12%, call loans from 12% to 14%). Chinese are buying large quantities of beans on speculation, expecting prices to rise. Speculation in cotton goods continued during May despite government restrictions. Government price control continues, but not always as effective as is desired. Native banks are lending funds for the Spring Settlement period.

REGIONAL TRADE CONDITIONS (CONT'D)

Trade Conditions in South Manchuria during May 1938
(Digested from report of Vice Consul Raymond P. Ludden)

Agriculture and Crops: The Government continued to consider plans for control of the supply of soy beans, but no concrete measures have been taken thus far. Although tobacco production increases are expected this year, there are no indications that they will be phenomenal. Due to exchange and trade control measures, manufacturers in Manchuria are experiencing an acute shortage of imported leaf tobacco.

Transportation: The 75 kilometer railway between Wangching and Hsuehling in Chientao Province has been completed. Although this line will be of advantage to timbering enterprises, its principal importance, in common with other recently constructed railroads in Manchuria, is strategic rather than economic. That the South Manchuria Railway Company would in fact (if not in name) operate the railways of North China became more evident during May, as did the probability that its capital and technicians will be the mainstay of transportation and harbor development in Japanese occupied areas in North China. The net profit of the S.M.R. for the fiscal year ending March 31 was Yen 72 million, with a gross profit of Yen 430 million. It is understood the S.M.R. is contemplating the establishment of a uniform freight tariff scale between Japan, "Manchukuo" and North China.

Industry and Building Construction: Sweeping paper changes in "Manchukuo's" Five Year Plan were announced in May. This plan, now in its second year and providing originally for an expenditure of Yen 3 billion, will now cost Yen $4\frac{1}{2}$ billion or more. This increase is attributed to the necessity for developing the Japan-"Manchukuo" economic bloc on the premise that the Sino-Japanese hostilities will be prolonged. Vague as to specific details, emphasis is placed on coal and iron production and the liquefaction of coal as well as other industries connected with national defense. It is indicated that the revision was dictated by Japan's involved military position on the continent. Ground was broken for the new factory of the Manchuria Synthotic Fuel Company, the construction to be completed by the end of 1939 at a cost of M. yuan 20 million. The Manchuria Mining Development Company announced a loss of Yen 385,000 during 1937.

Finance and Banking: Business continued to experience serious difficulties in obtaining foreign exchange. The practice continued unchecked of securing foreign exchange by private transactions with exporters who have exchange from sales abroad. Permission to import goods not classed by the Government as necessary for defense or industrial development will be increasingly difficult to obtain, it is believed. There are no indications that the Government's efforts at price control are meeting with success.

Foreign Trade: While the original "Manchukuo" Trade Control Law (effective December 9, 1937) restricted the export of maize and castor seeds, it is now proposed to control the export of 30 Manchurian products such as: flax, kaoliang, wheat, wheat flour, lumber, bristles, wool, leather, hides, acetic acid, waste cotton, lead ore, tin, aluminum and its manufactures, automobiles, internal combustion engines and other commodities. No enforcement date has been announced. Manchurian exports during May were valued at M. yuan 65.7 million, while imports amounted to M. yuan 111 million. For the first 5 months of 1938, exports were valued at M. yuan 338 million and imports at 437 million. This represents an unfavorable balance of M. yuan 98.4 million as compared with an unfavorable balance of M. yuan 24.7 million during the corresponding period in 1937.

Trade Conditions in Dairen during May 1938.
(Digested from report of Vice Consul Maurice Pasquet)

General: According to an investigation conducted by the Kwantung Government, April wholesale prices on 50 articles in Dairen increased by 2.6% as compared with the previous month, representing an increase of approximately 16% as compared with April 1937 prices. Prices are expected to rise further due to the application in early April of the "China Incident" special tax, and also because of the lack of availability of foreign exchange to pay for imported commodities.

Finance and Banking: Foreign exchange continues to be very difficult to obtain, but a technique has been evolved by importers enabling them to secure at least part of the necessary remittance funds. An importer who needs to remit abroad, makes a deal for the purchase of exchange with an exporter who has exchange accruing from sales abroad. To comply with the law, the transfer of the exchange from the exporter to the importer is effected through a bank at the legal rates, but in practice the importer also pays the exporter a premium for allowing the available exchange to be transferred to him. This premium is said to vary between 5% and 8% of the principal, although premiums as high as 20% are reported.

The scarcity of foreign exchange is chiefly caused by the following factors: (1) All excess foreign currency resulting from Manchuria's foreign trade is used to pay for Japanese army purchases which are not entered in the published trade statistics, (2) The excess is made available to Japan to pay interest on Japanese investments in Manchuria, and to offset "Manchukuo's" unfavorable balance of trade with Japan, (3) The excess is also made available to Japan to offset the latter's unfavorable trade balance with Germany with which country "Manchukuo" has a favorable balance of trade. Rumors are current that in order to stop this situation, which has the effect of weakening the yen, regulations will soon be promulgated to compel all banks to remit to and obtain from a designated bank all foreign exchange. The Yokohama Specie Bank has been mentioned as the probable foreign exchange clearing house. However, it is possible that the present arrangement permitting commercial exchange transactions to be effected as best they can, even at the expense of increased costs of imports, will be allowed to continue for some time. This method is considered by some to be cheaper than devaluating the yen officially.

Foreign Trade: Official announcements state that the foreign trade of Manchuria during April was valued at approximately M. yuan 179.7 million of which M. yuan 71 million represented exports and M. yuan 108.6 million imports. This represents an unfavorable trade balance of M. yuan 37.6 million. When April's trade is compared with the corresponding month in 1937, exports and imports have increased M. yuan 13 million and M. yuan 36 million respectively. April exports to Japan amounted to M. yuan 43.9 million while imports were valued at M. yuan 87.2 million, an unfavorable balance of approximately M. yuan 43 million. During the first 4 months of 1938, exports to all countries from Manchuria amounted to M. yuan 272.5 million and imports M. yuan 325.3 million, resulting in an unfavorable trade balance of M. yuan 52.8 million which is 8 times the unfavorable balance registered during the first 4 months of 1937.

Trade Conditions in Tientsin during May 1938
(Digested from report of Consul Frederick W. Hinke)

Agriculture and Crops: Recording-breaking rains fell over large portions of North China during the latter part of May. Losses from rains and rust are reported as high as 75% of the wheat crop in the Tientsin-Peiping vicinity, with average losses of about 40% to 50% for the Hopei-Shansi-Honan area. However, observers report general crops in North China are unusually flourishing. Cotton production in Hopei, Honan and Shansi is roughly estimated at 240 million pounds, or about 50% of last year's acreage. Except for districts completely under occupation and dominance, cotton planting is believed restricted to acreage required for local consumption. Floods are feared in the Yellow River drainage area as dykes are reported to have been breached.

Industry and Construction: During the month, approximately 178,478 spindles of the 216,748 spindles installed in Tientsin were operating - or 83% of capacity. Cotton yarn production totalled 7,635 bales as compared with 6,375 bales in March and 6,731 bales in February. The 2,000 looms installed were operating at 100% capacity, producing approximately 149,000 sq. yards of sheeting as compared with 129,000 sq. yards in March and 131,000 in February. Two flour mills operated sporadically during May with an estimated production of 30,000 bags as compared with approximately 40,000 bags during April. Japanese interests are reported to be preparing for the construction of a large sulphur black factory in the ex-German Concession, Tientsin, to be ready by autumn. British Municipal Council building permits totaled approximately T\$433,000 in May as compared with approximately T\$132,000 in May 1937. Total permits for the first 5 months of 1938 amount to T\$1.1 million, an increase of about 13% as compared with the corresponding period of 1937.

Finance and Banking: The "Provisional Government of China" prohibited Chinese Central Government banks from placing more of their notes in circulation in North China. The circulation of notes other than of the "Federal Reserve Bank", Hopei Provincial Bank, East Hopei Bank, and Bank of China and Bank of Communications surcharged "Tientsin", "Tsingtao" and "Shantung" is to be prohibited after June 10, 1938. The "Federal Reserve Bank" placed \$0.10, \$0.20 and \$0.50 notes in circulation on June 1. The circulation of "Federal Reserve Bank" notes was reported to have increased from \$32 million in April to \$41 million in May. The total quantity of banknotes circulating in Hopei Province was estimated at about \$424 million in May as compared with \$370 million in February. In May 1937 the Hopei note issue was estimated at \$255 million. Credits are limited but dependent upon circumstances, collections are slow to satisfactory.

Foreign Trade: May exports to the U. S. declared at the Tientsin Consulate General amounted to approximately US\$811,000, an increase of about 21% as compared with April, but a decrease of 62% as compared with May 1937. The following commodities show increases in value as compared with April: bristles 64%; raw cotton 37%; raw human hair 122%; horsehair 55%; furs and skins 2%. The following export products decreased in value: walnut kernels 8%; casings 41%; human hair nets 63%. There were no shipments of sheep or camel wool during April or May. Small shipments of egg products and goat hair were made in May. A remarkable feature of the trade of the port thus far this year is that foreign imports exceeded shipments to foreign markets by 11% and contrariwise, domestic exports exceed domestic imports by 325% - completely reversing 1937 trends. In the first 4 months of 1938, about 34% of all foreign imports consisted of wheat flour and rice.

Trade Conditions in Tsingtao during May 1938.
(Digested from report of Vice Consul Carl O. Hawthorne)

General: Continued deterioration of the currency situation and lack of transportation facilities rendered trading increasingly difficult. Prospects for any substantial improvement in local economic conditions in the near future are not encouraging.

Agriculture: A famine fear was relieved by timely rains and the prospects of a reasonably good, though late, wheat crop. However, as repairs to the Yellow River dykes were never completed, it is expected that a large part of Shantung Province will be inundated in June. Revised estimates place the 1937 tobacco leaf harvest at 110 million pounds, of which only about 40% has been purchased. It is predicted that only 10% of last year's tobacco acreage will be planted in 1938, also that cotton acreage will be reduced 50%. Farmers will no doubt plant more grain and other edible crops in view of large carryover of cash crop products. It is estimated that more than half of Shantung's 1937 peanut crop, or some 500 million pounds, is still in the hands of growers in the interior.

Transportation and Communications: Railway conditions were slightly improved during May and passengers were again able to travel to Tsinan, subject to unforeseen delays. Freight traffic still suffered from a shortage of rolling stock, and only small quantities of goods, other than military supplies, were carried. Farmers in remote places are unable to get their produce to market as even junk traffic from coastal centers has practically ceased.

Industry and Building Construction: A coal shortage has curtailed industrial activity but the situation was relieved somewhat by arrivals of coal from Shanghai and Japan, the cost of which is 200% above normal. Repairs to the Ssu-fang sub-station of the electric power plant were completed and the plant is now capable of producing 5,000 k. w. per day. The large cigarette factory operated only 15 hours a week, while 2 of the 3 peanut oil mills remained idle. Egg products factories and 2 tobacco redrying plants continued operations on a limited scale. Slow but steady progress is being made in the rehabilitation of damaged or destroyed Japanese industrial plants. Yen 16 million of the Yen 50 million reconstruction fund given by the Japanese Government was allotted to Tsingtao, to be paid in 2 installments. A Yen 300,000 contract was awarded for reconstruction of the factory which formerly produced "Bridgestone" automotive tires and rubber shoes.

Finance and Banking: The currency situation remained a serious handicap to trade. National currency notes, even at a premium, are becoming difficult to obtain. Interior points are still reluctant to accept the new "Federal Reserve Bank" notes issued by the Peiping regime. Not even the "Federal Reserve Bank" will sell foreign exchange against them. The Yokohama Specie Bank offers to buy foreign exchange with the new notes at a fixed rate of 0.295 as compared with a rate of 0.2156 quoted by local British banks on May 31 for the sale of U. S. dollars against national currency. Foreign bankers continue to accept only national currency in payment for foreign exchange. New notes are accepted for deposit in separate account only and are not convertible into national currency.

Foreign Trade: There was no improvement in the unsatisfactory import and export situation and none can be expected until wharves are available to merchant shipping generally. Local foreign merchants fear that imports will be restricted to necessities as selected by the authorities.

Trade Conditions in Shanghai during May 1938.
(H. B. Howard, Assistant Trade Commissioner)

General: During May and the first half of June, most phases of import trade in Shanghai were subjected to difficulties and conditions which rarely, if ever, have been experienced on so broad a scale in the history of the port. The gradual decline of the Chinese dollar in terms of foreign currencies which began on March 14, for a brief period resulted in no coverage being available, whereupon the Chinese Government on March 18 introduced a foreign exchange allotment system. Weekly allotments were made through applicants' foreign exchange banks, though the percentage available was never more than 30% of the amounts requested. By June 18, the ratio had dropped to 25% for "preferred" items and 3% for "non-preferred". This situation resulted in creating an open market into which merchants were forced to enter to seek cover for their additional currency requirements. The spread between the official rate and the open market rate by June 13 had reached 45%.

Early in May it became apparent that the weekly allotments were being made upon an indeterminate "luxury" and "non-luxury" basis, though no official announcement as to what commodities were considered "essential" was available. Several items such as leaf tobacco, motion picture films, gasoline, cosmetics, and amateur photographic materials, were excluded entirely.

This resulted in the adoption of a cautious attitude by importers and traders in all commodities, as it was believed that eventually other imported products would be encompassed by the restrictions and in all probability gradually smaller amounts of foreign exchange at the official rate would be made available with each future allotment. As compared with the total amount of foreign exchange made available to Shanghai in the first allotment of March 18, the recent allotment of June 17 revealed a drop of approximately 90%. The Chinese dollar weakened simultaneously with these gradually decreasing amounts of foreign exchange allotments. By May 31 the inter-bank selling rate was US\$0.21 - or US\$1.00 equivalent to yuan 4.76. Shanghai retail prices did not react materially during this period but importers became increasingly cautious regarding forward orders.

Still another factor tending materially to unsettle the Shanghai market during the latter part of April and throughout the month of May was the general belief that a revision of the Customs import tariff would soon be announced. Import traders, not knowing how their positions might be affected by the anticipated revision and alarmed at the steadily dropping Chinese dollar exchange rates, could only follow a policy of watchful waiting. On May 31 the "Reformed Government" at Nanking and the "Provisional Government" at Peiping announced that a new Customs import tariff would go into effect on June 1, the tariff to embrace Shanghai and all other Japanese occupied areas in Central and North China. Since only two copies of the revision were made available to the public at the Shanghai Custom House, it was 5 or 6 days before traders generally could obtain any idea as to how their individual positions were affected. During this chaotic period, the Chinese dollar rates continued to decline until on June 13 an all-time low was recorded. The inter-bank selling rate was US\$0.16 $\frac{1}{2}$ - or US\$1.00 equivalent to yuan 6.06. Exchange shops offered as high as yuan 6.40 for American dollar notes.

Such adverse conditions as outlined above (1) the restricted and diminishing amounts of foreign exchange allotments, (2) the unprecedented drop in the Chinese yuan, and (3) the introduction of a new import tariff, -- forced many importers temporarily to retire from the market entirely.

Trade Conditions in Shanghai during May 1938 (Cont'd)

Conditions have now somewhat improved as compared with the first two weeks in June. On June 15 the Chinese dollar had strengthened to U.S.\$0.18 - or US\$1.00 equivalent to yuan 5.55, and traders have had time to ascertain their position in regard to the revised tariff. However, some importers, as a result of the relatively adverse foreign exchange conditions, are at present unable to import profitably certain commodities, even though they would now pay a reduced import duty. The import reduction in many instances does not sufficiently offset the greatly decreased value of the Chinese yuan.

While it is too soon to venture any prediction as to what the general trend in the import market may be during the next several months, present conditions are not encouraging for a probable early resumption of favorable market conditions, as it is believed the Chinese National Government will not be disposed to afford increased financial assistance to a city now located well within the lines and sphere of an opposing force.

According to International Red Cross authorities, in May there were about 100,000 destitute refugees in the International Settlement and French Concession of Shanghai with an additional 45,000 in the Nantao area. Of this latter group, about 21,000 are in camps with the remainder providing their own living quarters but requiring daily rations of food. Up to the beginning of May there was a fairly steady decline in the number of those accommodated in refugee camps throughout the city but now concern is expressed over the fact that the number of destitute refugees is remaining constant, which indicates that Shanghai may be obliged to settle down to the long pull of caring for 145,000 charges.

Agriculture and Crops: At the present time there are approximately 500,000 bags of rice stored in Shanghai; sufficient to meet local demands for a period of 8 weeks at the present rate of consumption of about 8,000 to 9,000 bags daily. Of this supply, 25,000 bags, or approximately 2,500 tons, is the property of the Shanghai Municipal Council brought in duty free last December when a rice shortage appeared imminent. It has been announced that sufficient quantities of rice are now arriving here daily to satisfy all immediate requirements. It is believed that there can be no question of a shortage as long as this supply continues uninterrupted. The French Municipal Council now requires all rice exported from the Shanghai French Bund to be covered by exports permits.

Information concerning crop plantings and harvesting in the Shanghai area is difficult to obtain due to the restrictions and general inaccessibility of these outlying districts. Heavy and prolonged rains throughout the Yangtze Delta have damaged a portion of the spring wheat crop, although approximately 85% is believed to have been harvested before the rains started. The crop was of good quality, but plantings are estimated to be only 35% of normal. Rice plantings are estimated to be about 30% of normal although in regions little affected by the hostilities it averages as high as 90%. For the whole of China the rice crop loss to date has been estimated by Chinese authorities to be about 51 million bushels valued at approximately yuan 284 million. Interplanting or double cropping has been greatly reduced due to poor farm labor conditions.

Trade Conditions in Shanghai during May 1938 (Cont'd)

Some 8,000 Formosans are reported to have been imported by Japanese authorities for agricultural work along the borders of the Nanking-Shanghai Railway, the workers taking over farms owned by Chinese who have been driven from their land.

Transportation and Communications: One of the more serious problems confronting Shanghai is the increasing necessity of resuming dredging operations on the Whangpoo River. Even in early February, apprehension was felt because in certain areas the river was silting dangerously close to safety limits. It has been stressed that nearly one year has elapsed since active dredging operations have been carried on in the river channel and outside Woosung. One shipping official stated that if provision is not made for the resumption of dredging in the near future, the existence of the port of Shanghai will be seriously threatened. The failure so far of the intermittent negotiations which have been going on between the Whangpoo Conservancy Board and the Japanese authorities to result in a working agreement has caused one or two private shipping interests to carry out independent dredging operations at their Shanghai wharves. Other dredging activities have been principally confined to Japanese docks, the owners of which have used equipment sequestered from the Whangpoo Conservancy Board.

Ningpo is still officially closed to Shanghai shipping although some two-way trade is carried on via Haimen - a small port closely associated with Ningpo. Only ships carrying rice or coal have been granted permission to call at Ningpo, and it has been difficult even for them to obtain permission. All bus roads out of Ningpo were torn up some months ago, with the exception of one road leading to the south of Chekiang Province through Kikow and Pehmao. The bus service on this road is now operating at capacity taking passengers south as far as Wenchow and west to Kinkwa. Wenchow, most southern Chekiang port, admits all incoming vessels but restricts the number of granting clearance to only one steamboat and one motorboat daily. No "luxury" cargo can enter Wenchow. Among the items banned are cigarettes, cosmetics, perfumery, and certain types of cloth.

Most foreign shipping interests, other than Japanese, continue to be restricted from the free use of inland waterways. All traffic, now consisting of about 162 motor and steam launches, is compelled to operate through a Japanese inland shipping company. Plans are under way for the reorganization and enlargement of this company about July 1, into a semi-Japanese government monopoly. Much of the tonnage represents vessels formerly owned by Chinese and which have either been confiscated or obliged by force majeure to accede to Japanese control and management in order to operate. Plans are believed in the process of formulation whereby the Japanese authorities will place all junks in and about Shanghai under one guild. About 50,000 junks on the Whangpoo River alone would be affected. The first step, according to reports, will be the formation of a guild controlling about 3,000 junks which operate mostly on Soochow Creek. The establishment of a Shanghai tug and lighter company is also believed planned.

Trade Conditions in Shanghai during May 1938. (Cont'd)

Demands for a new tariff rate for Whangpoo River pilotage service have been made to local and foreign shipowners by the Shanghai Pilots' Association. The pilotage rate for the Whangpoo River at present is yuan 11.50 per foot, a rate which is less than half that charged on but one section of the Thames.

It has been estimated that of approximately 72 Chinese transportation and forwarding companies operating in Shanghai prior to August, 1937, there now remain only 2.

On June 16, shipping freight rates on China Coast trade were increased 10%. With the 15% increase that went into effect on April 10, coastal freight rates are now 25% higher than in March of this year. Effective June 26, passenger rates are to be increased 10%. This will be the first increase in coastal passenger fares this year. Fares from Hong Kong northward are not affected by these increases.

On June 1, examiners of the Chinese Maritime Customs, for the first time since the beginning of hostilities last August, returned to work on some wharves north of Soochow Creek. It is understood that a tentative agreement has been reached whereby only foreign and Japanese examiners will board incoming Japanese ships, while foreign, Chinese and Japanese examiners will board other vessels.

Japanese authorities have given permission for Chinese owned cargo stored in the central and lower wharves of the China Merchants' Steam Navigation Company to be removed providing ownership can be established. The Japanese Cargo Removal Committee, which is in charge of collection, storage and clearing of goods, will consider all applications received from Chinese owners up to July 15, after which date all cargo not claimed will be dealt with as absentee's property and disposed of at the discretion of the committee. The Removal Committee has declined all responsibility for lost or damaged cargo.

Diesel-powered coaches have been imported from Japan for use on the Nanking-Shanghai Railway. Aside from this type of diesel coach which is now operated on fixed schedules for the benefit of the Japanese authorities, a third class service for the Chinese passengers is run between the two cities, the trains consisting of abandoned Chinese rolling stock. The one way fare is yuan 3.80. Chinese passengers are sold tickets only after their identity and business have been established.

Postal services between Shanghai and Soochow, Wuhu, Wusih have been resumed while services to Hangchow are subject to final negotiations. Postage stamps of the National Government are used as the services remain under the control of the Postal Administration. Sale of Revenue Stamps was ordered discontinued as of June 13. The Administration's receipts have not shown a profit during the last 3 or 4 years. Postal authorities in Shanghai announced the temporary suspension of C.O.D. parcels and C.O.D. registered letter services between China and foreign countries as of June 1.

While Shanghai bus and tram services have not been permitted to resume operations in the northern districts of the International Settlement, plans for their resumption have recently been studied. It is likely that the

Trade Conditions in Shanghai during May 1938. (Cont'd)

restoration of tram services will encounter little difficulty, but possible obstacles are anticipated in the re-establishment of regular bus lines as Japanese bus companies now operate in these areas with especially imported equipment and staffs. Sixty "midget" Japanese made taxis recently imported are now operating in this area under the management of an especially selected personnel brought from Japan. These Japanese transport companies are operating their fleets within the International Settlement territory without payment of prescribed licensing fees.

The tramways operating in the International Settlement during May showed slightly better averages than the March and April estimates of 65% normal. The tram system in the French Concession continued to operate at better than pre-hostility levels due to the large influx of people into that district. In normal years the revenue of this company amounts to between yuan 1 million and yuan 2 million and it is expected that 1938 returns will exceed the 1937 level.

At the end of May, the Shanghai Telephone Company had a total of 53,020 telephones in service, an increase of 1,909 units as compared with April, or an increase of 7,557 units as compared with January 1, 1938. At the end of 1936, there was a total of 52,020 units in service while at the end of July 1937, approximately 60,000 installations were in service.

Industry and Trade: The labor situation in Shanghai has continued to improve. The April report of the Shanghai Police Commissioner shows that approximately 103,000 workers were employed during the month by factories operating in the International Settlement and on extra Settlement roads as compared with 87,000 during March and 63,000 February. Normally 800,000 workers were employed in all districts in the Shanghai area i.e. from Woosung to Lunghwa, about 600,000 of which were in the more crowded industrial areas of Shanghai proper. It is reliably estimated that not more than 200,000 workers are now employed in these collective areas.

The peak load of the Shanghai Power Company during May was 97,266 k.w. as compared with a corrected figure of 89,051 k.w. during April and 81,983 during March. These amounts represent approximately 65%, 59% and 54% respectively of the peak loads registered during the corresponding periods in 1937. The Shanghai Waterworks reports that the paid consumption during May was exactly 100% normal as compared with 91% in April and 87% in March. These percentages are based on the 1934-1936 averages.

On June 13, operations were again resumed at the Chapei Waterworks after being suspended for 9 months. Reconstruction of the plant was completed by laborers and engineers of the Waterworks Bureau of Nagoya, Japan. It is reported that the waterworks can supply a capacity of 100,000 cubic meters of water daily.

As compared with pre-hostility levels, May retail sales in Shanghai department stores were estimated to be only 10% below normal contrasted with about 15% below normal during April and approximately 20% below in March. Domestically manufactured commodities represent approximately 65% of total department store sales in Shanghai. This ratio, which has varied but slightly

Trade Conditions in Shanghai during May 1938. (Cont'd)

during the past few years, is still being maintained although manufacturing activities have been greatly reduced as a result of the hostilities. Stocks on hand, those removed to safe storage prior to November, 1937, and those available from sources still operating, have been sufficient to maintain this ratio up to the present. At one time imported commodities represented as high as 90% of total department store sales, but with the establishment of domestic industries, this ratio was gradually reduced to the present level at which it has consistently remained.

Retail prices on all imported canned goods were generally increased no less than 10% during the month as a result of the declining Chinese dollar rates and the restrictions on foreign exchange. On June 19 the price of imported butter was increased by yuan 0.45 per pound due to the exchange depreciation and the advanced duty rate under the new import tariff. Retail prices for locally made beer have been increased yuan 1.00 per case or yuan 0.03 per liter for draught, while imported beer, even though it now pays 30% less import duty, is priced about 31% above domestic offerings as a result of the decreased value of Chinese currency. Most brands of imported spirits have been increased about yuan 2.00 per bottle.

Imported toilet articles in general have increased in price by about 30% during the past month. Coupled with an increase of some 20% earlier in the year, this has resulted in certain toilet requisites costing as much as 50% more than in January. Popular brands of face powder which sold for yuan 2.45 per box before the outbreak of hostilities are now priced at yuan 3.25 and most other cosmetics show corresponding increases. Prices of other daily necessities such as imported soaps, patent medicines, disinfectants, cod liver oil, malt extracts, cocoa, concentrated tonics and infant foods, have appreciably increased since June 1.

The price of imported photographic materials has been similarly affected. Whereas retail prices are now 50% higher than those obtaining some months ago, this increase does not compensate importers for the present drop in exchange.

Prices of local farm produce have remained fairly steady since the increase early this year following the dislocation of transportation facilities.

Gasoline prices in Shanghai have been increased to an all-time high of yuan 1.30 per gallon, an advance of 24% since January. Motor car dealers have been unable to maintain steady prices and are quoting in U. S. currency, converted at current exchange rates.

Tung oil transactions in Shanghai are practically at a standstill since the imposition of restrictions by the Chinese Government on the export of this commodity, which is considered as an essential supply in the present emergency. By mid-May there were no more than 66 short tons of tung oil stored in Shanghai. The center of this trade is now located in Hong Kong where communication with China's interior is still maintained.

Trade Conditions in Shanghai during May 1938. (Cont'd)

The egg products industry is now on the decline with available supplies quoted at unprecedently high prices. The hostilities have resulted in a drop in production of approximately 70%. Conditions in the egg producing districts of Kiangsu, Chekiang and Anhwei Provinces have made trade conditions difficult, it being practically impossible to transport the greatly diminished egg supplies to Shanghai. Domestic fowl in these occupied areas have been used for daily food supplies which has appreciably diminished the supply of eggs still occasionally available to the several Shanghai egg products factories.

Shanghai motion picture box-office receipts during May were about on par with April levels, or approximately 35% below the corresponding period last year. However, when compared with April and May averages during the years 1934 to 1937 inclusive, the 1938 April-May receipts show a decrease of only 13%. Business in foodstuffs markets and bakeries continues brisk. Most Chinese hotels and restaurants are operating at capacity.

On May 20 the British American Tobacco Company closed its Yangtszepoo and new Pootung cigarette factories. The closure is believed due to the unsatisfactory transportation and distribution facilities now obtaining throughout the Yangtze Delta cities, and also to a large accumulation of stocks. Other Chinese cigarette factories are still closed or operating on a very reduced scale.

In addition to such Chinese owned industrial undertakings as cotton spinning mills, cigarette factories, cement mills and flour mills which have been "entrusted to Japanese firms for management or placed under joint-management", another large Chinese industry -- namely the silk industry -- is now being consolidated into what amounts to a Japanese monopoly, according to usually reliable reports. Many Chinese silk filatures in the interior of Chekiang and Kiangsu Provinces have been absorbed by Japanese interests while even Chinese filatures located in the foreign settlements in Shanghai are not free from Japanese influence as they are dependent upon Japanese merchants for raw silk supplies. Japanese merchants, with special permission of the Japanese military authorities, have organized a number of agencies in different parts of the two provinces and are purchasing cocoons at a reported price of yuan 20 per 100 catties - or 133-1/3 lbs. - the usual price being yuan 35 to yuan 40. Farmers are believed to have but little chance to bargain as the agencies are protected by Japanese military.

The silk industry in the silk-producing districts of Soochow and Wusih is completely under the control of Japanese, it is believed. The largest Chinese silk filature in Wusih, the Hwa Shing Company has been "transformed" into a Sino-Japanese concern and is now known as the Hui Ming Silk Company. This company is reported to be the first factory to resume operations in Wusih since the cessation of large scale military activities in that area. Other Wusih filatures such as the Chen Yi, Ta Chen, Yuan Kong and Shun Chong plants are expected to resume operations in the near future. A total of about 3,000 workers will be employed. It is reported that some 20 Japanese technicians will direct operations in those plants.

Trade Conditions in Shanghai during May 1938. (Cont'd)

Other Chinese owned or governmental industrial plants reported "taken over" or formally confiscated by Japanese authorities are:

- (1) The Lunghwa Cement Works, one of the biggest Chinese cement factories and a privately owned property, has been taken over by the Onota Cement Works.
- (2) The Lungtan Cement Works, also a privately owned factory located near Chinkiang, has been taken over by the Banshio Company. Work is said to have resumed there.
- (3) 5 Chinese owned flour mills, all privately owned, have been taken over by the Japanese Flour Mill Company and the Nisshin Flour Mill.
- (4) The Pukow Chemical Works, Chinese National Government owned,, has been taken over by the Tohokoatsu Company.
- (5) The Kiangnan Dockyard, sequestered by Japanese authorities, is now being operated by the Mitsubishi Shoji Kaisha. The dockyard was Chinese Government owned property.
- (6) All Chinese owned tobacco factories in occupied areas are being taken over by the Japanese Tung Hwa (East Asia) Company. Operations have already been resumed in a number of these plants; others are in the process of being repaired.
- (7) A large privately owned soap factory in Nantao has been taken over by a Japanese company.
- (8) The alcohol plant in Shanghai, a joint Chinese Government and private enterprise will soon be taken over by Japanese interests, so it has been announced.

The regime in Pootung ordered all factories in the western extra-Settlement area to re-open before May 31. Failure to do so, according to the regimes official notice, would lead to seizure. Over 30 factories are in this area representing a total pre-hostility value of yuan 10 million.

Building Construction and Real Estate: No new buildings of any size are being constructed at the present time nor are any known to be contemplated. The repairing of public works damaged during the hostilities and a few minor commercial structures represent the chief building activities during the month. Sino-British interests have sold the Kiangwan Race Course to Japanese interests at a reported price of yuan 800,000. The property, badly damaged during the local hostilities, embraces about 67 acres of land, and is understood to have been heavily mortgaged to the Hong Kong and Shanghai Banking Corporation.

Trade Conditions in Shanghai during May 1938. (Cont'd)

According to reports, the Japanese are contemplating the construction of a large drydock in Shanghai, the plans to be drafted before the end of the summer. Local real estate authorities report that land values in the Hongkew and Yangtzepoo districts in many instances have decreased from 50% to 90%, while building evaluations have risen appreciably as a result of the increased prices now obtaining for many building materials.

Currency and Exchange: The Ministry of Finance spokesman at Hankow emphatically denied all rumors emanating from Shanghai to the effect that the financial authorities intended to change the currency system by introducing an inconvertible currency unit. The National Financial Conference convoked at Hankow early in June passed resolutions to secure better coordination between the national financial authorities and the local financial institutions; to bring about an effective realization of the plans outlined in the Regulations Governing the Improvement of Local Finance announced on April 29, and to accord financial aid to farmers and handicraft workers in the interior. According to official statement, this move is calculated to increase the production of vital commodities in time of emergency but is not aimed at any change in the currency system. However, during May the financial authorities at Hankow decreed that both personal and business remittances from the interior to the Japanese occupied areas are to be either discouraged or limited in order to conserve financial resources and prevent flight of capital to occupied areas.

Effective June 11, the North China Japanese sponsored "Provisional Government" officially banned circulation of Chinese National legal tender notes bearing imprints of provinces or cities south of Shantung Province. Such notes were either exchanged by the public for the note issue of the "Federal Reserve Bank" or handed over and accepted by the branch office of the Chinese National Government Banks in North China as deposits or remittances to Shanghai. No attempt has yet been made to introduce the new currency notes into Shanghai, where the currency system of the National Government still prevails. However, in view of these developments there is a growing tendency, attributable to currency differences and other financial restrictions, to believe that three separate financial regimes may be evolved in North China, Shanghai, and the areas under Chinese control. Extensive business connections between these three regions now exist, but it is possible that in the future, should further official measures be taken, the barriers between domestic trade will increase.

The Currency Reserve Board at Hankow announced that the total note issue of the four Government Banks at the end of May was yuan 1,705.3 million, an increase of yuan 26 million over the previous month. Total cash reserves at the end of May was stated as yuan 1,114 million in value, consisting of gold and silver bullion and foreign currencies held abroad.

Inter-bank selling spot rates in the open Shanghai market for the Chinese yuan sustained an almost continuous decline from May 16 to June 13; quotations ranging from US\$0.22-5/8 or 10-15/16d to US\$0.16 1/2 or 8d, the latter rates being the lowest on record in Shanghai exchange. Unfavorable military developments; frantic buying by speculators, traders, and hoarders; and the holding off in

Trade Conditions in Shanghai during May 1938. (Cont'd)

liquidation by overbought positions caused this rapid decline in open market rates. The selling rates of U. S. Currency Notes by the small exchange shops reached an even lower level on June 13 being quoted at US\$0.15-5/8. Rates reacted sharply on June 15, rumored to be due to indirect official support, when a high of US\$0.19 or 9-1/4d was reached.

It is difficult to ascertain the trend of the exchange market in Shanghai at present, particularly in view of published expectations that the exchange rates may reach a much lower level if official exchange allotments are withdrawn in the future, as well as many other factors beyond the control of foreign or Chinese banks. Financial circles in Shanghai seem to agree, however, that in the absence of untoward occurrences on a larger scale than is reasonably to be expected, the exchange rates in Shanghai may become a little steadier. Demand for gold bullion for hoarding has been unusual in Shanghai during the past month gold bar prices reaching a high of yuan 2,050 in the middle of June as compared with the official parity of yuan 1,150.

Aside from urgent business requirements and import exchange cover for commodities not recommended by the financial authorities at Hankow, most importers are reluctant to settle their exchange requirements in the open market at erratic and low rates. In view of the highly competitive market which exists in Shanghai and with the impaired purchasing power of the people, merchants are practically refraining from placing new orders abroad unless their buyers are willing to make cash payment in specific foreign currencies. For goods already arrived in Shanghai but not yet delivered and for goods in transit, importers are making applications through their banks to the Shanghai Office of the Central Bank for weekly allotments at official selling rates of US\$0.29 1/2 or 1/2-1/4d. There is yet no official indication that the weekly allotments will be withdrawn from Shanghai, but financial and business circles do not consider such a possibility unlikely in the near future.

Up to June 17 about Pounds Sterling 3.8 million or US\$19 million had been officially allotted to the Shanghai exchange banks in 14 weekly allotments with the amount decreasing each week. On June 10 the Central Bank in Shanghai revised the allotment system and instituted a preference list of commodities. Hitherto, the exchange banks were given a lump sum allotments to distribute to the importers at their discretion. The new system requires individual importers to fill in a prescribed form detailing requirements. The Central Bank now informs applicants through their respective banks of the specific amounts of official exchange allotted for each application. The four categories for consideration of applications are: (1) Preferred commodities, (2) Non-Preferred, (3) personal exchange requirements not involving flight of capital and (4) commodities entirely excluded from official exchange. Percentages of distributions for allotments amongst the first three categories have varied from 25% for "Preferred" and "Personal Requirements" to 3% for "Non-Preferred". Commodities falling within the "Preferred" consideration list do not necessarily receive allotments, as applications are now scrutinized from the standpoint of whether or not the items will be beneficial to China rather than to the city of Shanghai alone.

Trade Conditions in Shanghai during May 1938. (Cont'd)

Much latitude appears to be given to official discretion. The revised system however represents an improvement over the previous one. Importers are severely crippled by the complicated procedure requiring that the full amount of cash against total exchange applied for be deposited at time of making application, while they may not have to wait many weeks before the entire amount of official exchange becomes available. This tying up of funds for an indefinite period with no certainty as to the amount of official exchange to become available causes severe hardships in business dealings.

It is generally realized that the Chinese National Government has been liberal towards the financial and commercial interests in Shanghai by making such allotments available from its limited foreign exchange resources held abroad at a time of unprecedented crisis. The Hankow financial authorities have been hampered by not being able, on account of technical difficulties, to acquire export exchange bills and remittances from abroad in the occupied areas.

A further anomalous situation has arisen regarding the sympathetic lowering of the exchange value of the Japanese yen in the open market of Shanghai, despite the official stabilization parity of the Japanese yen at 1/2 or US\$0.28 7/8 in Japan. Due to the official Japanese policy of maintaining at par the Japanese yen and the North China "Federal Reserve Bank" yuan note (which latter is at par with the Chinese yuan) as a result of the formation of the Japan "Manchukuo"-North China currency bloc, it is possible to obtain in the open market at Shanghai, Bank of Japan yen notes against the Chinese legal tender notes at a fractional premium or at times even at a discount. Profits are netted by those importing goods from Japan through the payment of Japanese yen notes to their banks, as well as by those making remittances to Japan from Shanghai to pay for exports from that country. The Japanese authorities and the North China regime are reported to have concluded a recent agreement to prohibit the flow from Japan and North China of Japanese yen notes into Shanghai.

Banking and Credit: The Dragon Boat Festival Settlement in early June passed in Shanghai without any unfavorable business or financial results. Creditors assumed a general attitude of forbearance realizing the futility of attempting to force debtors to liquidate outstanding obligations contracted prior to the outbreak of hostilities. New business has been transacted mostly on a cash basis, thus, within this sphere a more healthy tone prevails. During the first half of 1938, owing to conservative policy and cautious commitments, most of the banking institutions have operated on a profitable basis, while business houses have generally managed to make their overhead expenses. Enormous losses sustained by all as a result of hostilities around Shanghai in the second half of last year are not taken into account in this 1938 period.

Conditions in Shanghai during May (Cont'd)

Cash stringency has been further increased. In early June wei wah (blocked bank deposits) cash discount rates soared to a high of 8%, creating much uneasiness. The modern Chinese banks continue to observe the official order in not accommodating cash against wei wah checks or orders, and only the native banks and small exchange shops have been accepting wei wah at a discount. When discount rates rose steadily in June, the Joint Reserve Board of the Shanghai Modern Chinese Bankers' Association announced that it would accommodate requests of member banks on behalf of merchants with cash against wei wah at a fixed rate of 5%, if the cash requirements were found to be of legitimate business necessity.

It is presumed that the action was not taken without tacit understanding of the financial authorities at Hankow, and it marks the revision of an official policy adopted last August to create a tight money situation in China. The change is evidently necessitated by the fact that business did not remain entirely at a standstill after the outbreak of hostilities, and that legitimate commercial requirements must be served. The Board's announcement had a steadying effect and open market discount rates declined to around 5% during the first half of June.

Foreign Trade: Recorded imports into Shanghai during May amounted to Gold Units 8.1 million or yuan 18.3 million, being an increase of nearly 20% over April imports, but a decrease of 71% from May 1937. Exports from Shanghai during May amounted to yuan 12 million or Gold Units 5.3 million, a decrease of 1% from April exports, but a decrease of 71% from May last year. In the May recorded imports, the United States supplied 40% of the monthly total, Great Britain 15%, Germany 12%, Netherlands India 7%, French Indo-China 6%, and Japan 1%. Of the May exports, Hong Kong took 32% of the total, United States 27%, Great Britain 22%, Germany 6% and Japan 1%.

During May leading import commodities in the recorded trade were: leaf tobacco, petroleum products, metals and machinery, rice and paddy, and paper products. Leading export commodities were: egg products, cotton yarn, piecegoods, hides and skins, tea, raw silk, and leaf tobacco.

Shanghai handled 24% of China's total recorded May imports and 21% of China's exports.

During the January-May period, imports into Shanghai totalled Gold Units 37.8 million of yuan 85.4 million, registering a decrease of 71% from the corresponding period of 1937. Exports totalled yuan 57.7 million or Gold units 25.6 million, a decrease of 72% from the same period of last year.

The adverse trade balance for Shanghai during the first 5 months of 1938 aggregated yuan 27.7 million, as compared with an adverse balance of yuan 93.4 million for the corresponding period of 1937, and yuan 90.6 million during the same period of 1936. The adverse balance of trade during May amounted to yuan 6.3 million, as compared with yuan 3.2 million for April.

Trade Conditions in Hankow during May 1938
(Digested from report of Vice Consul Robert M. Taylor)

Agriculture and Crops: The spring wheat harvest in Honan and Hupeh Provinces is believed greater than normal and of good quality. May weather conditions were favorable to the growing rice, cotton and tobacco crops. The Agricultural Credit Administration is reported to be extending credit to the provincial authorities of Hunan, Szechwan and Kwangsi for the establishment of granaries and for the storage of farm products mortgaged through rural cooperative loan societies. Sites for 16 granaries in Szechwan have already been chosen.

Transportation and Communications: Traffic on the Canton-Hankow Railway continued without serious interruption. There were only occasional periods when car space for export shipments was unobtainable. It is understood that the authorities have decided to doubletrack the Changsha-Chuchow section of the line. By the end of May about 100 miles of the Lung-Hai Railway had been severed from the Central China rail system. Services on the Peiping-Hankow Railway south of the Yellow River continued. The China National Aviation Corporation inaugurated a twice weekly passenger and mail service in Szechwan Province connecting Chungking with Luchow, Ipin (Suifu) and Kiating.

Industry and Building Construction: During May the 3 cigarette factories maintained the capacity levels of the preceding month, producing 680 cases of 50,000 cigarettes per day. Production of cotton yarn and cloth was also maintained at capacity levels by 5 of the 6 Wuhan mills. The 5 flour mills operated at 50% capacity during most of the month, but shortly before June they were again operating at capacity. The Reconstruction Finance Corporation is reported to have taken over the plant of the Hunan Electric Light & Power Company at Changsha. It was announced that mechanical, electrical and civil engineers have been sent from Changsha to Changteh, Hunan, to arrange for the construction of the premises of the Hong Chung Cotton Mills, a joint enterprise of the Bank of China and the Hunan Provincial Government.

Finance and Banking: Foreign exchange control measures were implemented in May by proclaiming that a list of 24 products, (which includes all the important export products of Central China) could not be passed by the Customs for export until a certificate was produced showing that the foreign currency proceeds from the export sale of the produce would be turned over to the Bank of China or the Bank of Communications. There was no improvement during May as to the amount of foreign exchange available at the official rate. The Hupeh Provincial Government plans to float a reconstruction loan to the amount of yuan 5 million - the bonds bear 6% interest and are redeemable in 12 years. The Central Executive Committee of the National Government is reported to have approved the flotation of a yuan 100 million bond issue for the relief of war refugees.

Foreign Trade: Prices abroad for Central China products have dropped considerably compared with prices when freight facilities were at a premium. May declared exports to the U. S. were valued at US\$148,000 as compared with US\$2.7 million in May 1937 and US\$108,500 in April 1938. Of May declared exports to the U. S. bristles (46 short tons) comprised 55% of the value; wood oil (269 short tons) 27%; goatskins (23 short tons) 7% and tea (52 short tons) 5%. The January-May declared exports amounted to US\$976,000 as compared with US\$9.8 million during the same period in 1937.

Trade Conditions in Yunnanfu during May 1938
(Digested from report of Consul Paul W. Meyer)

General: An upward trend in trade and industry is in evidence in Yunnan Province. The National Government is taking an active interest in the development of the province and is receiving the full cooperation of provincial authorities. The general outlook for American trade appears to be bright.

Agriculture and Crops: On the Yunnanfu plain, the harvest of winter wheat and bean crops was good, although some damage was done to the wheat crop by heavy unseasonable rains during the harvesting period. The bean crop was completely harvested before the rains commenced. As a result of these rains, ample water is now available for the planting of summer rice.

Transportation and Communications: Freight traffic on the Yunnan-French Indo China Railway continued to be heavy although capacity amounts have not yet been reached. Surveying work on the proposed Szechwan-Yunnan Railway continues. Unconfirmable reports indicate British interests are endeavoring to obtain contracts for the construction of a railway from Burma to Yunnanfu. The Burma-Yunnanfu motor road is not yet open to through traffic but construction work is being energetically pushed. It has been announced that the National Government is shortly to take over control of principal motor roads in the province. The Eurasia Aviation Corporation, continues to operate a semi-weekly service between Yunnanfu and Hong Kong via Chengtu and Hankow. Direct service between Yunnanfu and Hong Kong via Liuchow in Kwangsi Province is contemplated but arrangements have not yet been completed.

Industry and Building Construction: As a result of conditions in China generally, Yunnanfu is undergoing a process of industrial development. While some of this development is of an emergency nature, there is also considerable industrial activity of a purely commercial type. The National Government appears to be intent upon the development of agriculture and mining in the province. The local cotton mill established during 1937 is now operating on a 24 hour basis with a daily output of approximately 26 bales of yarn and 120 pieces of cloth of 42 yards each. Raw cotton supplies are largely imported from Burma as the market demand in Yunnan's cotton growing areas is greater than production. Building activity is increasing rapidly. The local supply of building materials can scarcely keep pace with the demand. Residential construction predominates, but during May work was started on several large industrial plants. There appears to be little or no supervision of building activities on the part of the Municipal Government.

Finance and Banking: The Kincheng Bank and the Farmers' Bank have opened branches in Yunnanfu. The Yunnan provincial currency, which heretofore has appreciated in relation with national currency, is now approximately at the official rate originally set for these currencies - Yunnan \$10.00 to yuan \$1.00.

Foreign Trade: No information is yet available on provincial imports or exports during May. The import trade appears to brisk but little export trade is in evidence. Szechwan products are gradually finding an outlet through Yunnan. After the direct motor road is completed some months hence, this trade may be considerable. It has been estimated that for a number of years past the export trade from Yunnan over the Yunnan-French Indo China Railway amounts to only about 12,000 tons per year.

Trade Conditions in Canton during May 1938.
(Digested from report of Vice Consul T. Eliot Weil)

Agriculture and Crops: Kwangtung crops were expected to bring average yields. Continued importation of duty-free rice prevented a serious shortage. The third silk crop, like the first and second 1938 crops, was approximately 50% larger than corresponding 1937 crops. Provincial government aid to Kwangtung farmers continued in the form of loans, notably to hemp and sugar cane growers. Settlement of war refugees on hitherto uncultivated land was undertaken by provincial authorities.

Transportation and Communications: Continuous bombing of the Canton-Kowloon and Canton-Hankow Railways by Japanese planes failed to cause serious interruptions. An acute shortage of car space for commercial shipments to Hankow continued owing to movement of Government supplies. Regular services on the Pearl River were maintained throughout the month by foreign-flag steamers. Following intensive air raids on Canton, beginning May 28, passenger traffic on steamers and junks, and on the Canton-Hankow Railway was especially heavy. The China National Aviation Corporation announced the opening of an airline between Kweilin (Kwangsi) and Hankow. Telephone service between Kweilin and Hankow was established.

Industry and Building Construction: Retail and wholesale trade and industrial activity were all approaching a standstill by the end of the month; thousands of refugees were leaving and prices of food and other necessities were rapidly rising. Factories producing native cloth, rubber-soled shoes and leather goods continued to operate, but were hampered by air raids which also closed most shops. Canton cotton mills were severely damaged by aerial bombs as was the provincial sugar mill at Tung Koon, the fifth provincial sugar mill to be bombed. There was no new building activity in Canton and no attempt has yet been made to replace buildings demolished in the air raids.

Finance and Banking: The Canton dollar fluctuated seriously, reflecting the decline of the yuan dollar. Enforcement of exchange regulations, under which exporters of most commodities are required to obtain "Certificates for Purchase of Foreign Exchange" from the Bank of China or Bank of Communications, caused a substantial loss of business to foreign exchange banks and a rapid decline in export trade. The bulk, if not all, of the Kwangsi "Currency Reserve" bond issue of yuan 17 million was reliably reported to have been taken up by the Central Government banks. Approximately CaC\$ 3 million in silver was reported requisitioned in Kwangtung during the month. Kwangtung provincial government receipts between March 1 and May 10 were reported to be yuan 6 million, approximately 1/3 being derived from "special taxes" on imports. Tax collections at this rate throughout the year would probably meet ordinary budget requirements of the province but with extra expenditures occasioned by the hostilities and the current business decline, there are no indications that corresponding amounts will be collected in coming months. The "special taxes" are tending to kill the trade on which they are levied. Credit was restricted; collections retarded.

Foreign Trade: Canton's foreign trade declined rapidly during May. Import values were roughly 30% less than in April although an estimated 75% greater than in May, 1937. The value of exports was approximately 80% less than in April but about equal to that of May, 1937. The import decline is mainly due to prohibitive prices of foreign goods resulting from the decline of national currency values. Export declines are believed due to exchange regulations requiring exporters to receive payments from abroad through designated Chinese banks in national currency only at fixed rates approximately 30% under market rates.

Trade Conditions in Hong Kong during May 1938.
(Digested from report of Consul Howard Donovan)

Transportation and Communications: Cargo bookings continued good for coastwise and river steamers out of Hong Kong while overseas cargo moved in good volume. One new trans-Pacific service with calls at Hong Kong was inaugurated during May with another one scheduled for July. Passenger rates on the air service from Hong Kong to Manila and from Hong Kong to Chungking are to be reduced on June 1. Radio telephone service between Macao and Lisbon was inaugurated May 1.

Industry and Building Construction: Business enterprises continued to report satisfactory earnings for 1937. Shipyards continued to work at capacity. Retail trade was good. Although actual building construction showed little increase in May, the next few months should see a definite increase. A Chinese sauce factory will be built in Kowloon at a cost of HK\$ 1 million while a new Government isolation hospital and a school building for army children will be built during the year. The housing shortage became so acute during May that the Government enacted rent restriction laws.

Finance and Banking: Credits and collections were normal with no important failures. Among companies which declared dividends were a tramway company, a Chinese bank, and a department store. Revenues exceeding budget estimates with excise taxes, postal receipts, and the Kowloon-Canton Railway showing the largest increases.

Foreign Trade: Total imports during the first 4 months of 1938 amounted to US\$ 682 million, an increase of approximately 21% over the same period of 1937. Total exports were valued at US\$57.5 million, an increase of about 36%. Imports from the United States amounted to US\$7.7 million, a gain of 163% as compared with January-April period last year, while exports to the United States were valued at US\$ 5.5 million, a gain of approximately 31%. The increase in imports is largely due to the fact that the shipping strike was in effect during the first 4 months of 1937. Principal increases in imports from the United States were recorded by leaf tobacco, wheat flour, gasoline and motor truck chassis. Leaf tobacco imports were largely for transshipment, but there has been an increase in its use by Hong Kong factories. Motor truck chassis were practically all intended for China. Wheat flour imports from the U. S. increased due to lower prices while higher Australian freight rates were also a factor.

Hong Kong Imports of Interest to the United States

		<u>1937 Jan. to April</u>		<u>1938 Jan. to April</u>	
	<u>Unit</u>	<u>From U. S.</u>	<u>All Countries</u>	<u>From U. S.</u>	<u>All Countries</u>
Motor Cars	No.	60	223	59	242
Motor Trucks	No.	2	7	48	52
Motor Truck Chassis	No.	118	144	1,785	1,851
Motor Accessories	HK\$	124,482	249,580	318,243	641,435
Wheat Flour	Lbs.	2,139,998	49,389,782	20,909,304	80,539,995
Gasoline	Imp. Gals.	649,766	3,844,653	3,305,761	5,865,002
Fuel Oil	Tons	7,485	56,863	4,316	78,063
Diesel Oil	Tons	1,187	11,866	208	14,668
Kerosene	Imp. Gals.	1,678,028	8,758,550	176,667	4,457,898
Lub. Oil	Imp. Gals.	508,359	1,017,143	1,365,676	1,635,761
Leaf Tobacco	Lbs.	296,918	2,760,669	1,484,634	4,499,956
Ginseng	HK\$	1,705,412	2,034,587	1,342,153	1,513,904

China's January-May Foreign Trade: China's January-May exports totalled G.U. 165 million or yuan 372.4 million, registering a decrease of 24% from the corresponding period of 1937. China's January-May exports totalled yuan 242.2 million or G.U. 110 million, a decrease of 37% as compared with the corresponding period of 1937. China's recorded imports in May amounted to G.U. 33 million or yuan 74.7 million, registering an increase of 11% over the previous month but a decrease of 32% from May, 1937. China's exports in May amounted to yuan 57.4 million or G.U. 25.4 million, registering an increase of 1% over the previous month but a decrease of 27% from May, 1937. The adverse balance of trade during May amounted to yuan 17.3 million as compared with an import excess of yuan 10.5 million for the previous month.

During May, Japan continued to supply North China with large quantities of wheat flour and cotton piece goods, and took from North China large quantities of raw cotton.

Further changes in the relative positions of leading countries in China's trade are indicated in the following table: (comparative percentages are made to include possessions and dependencies and adjusted to include estimated transshipments through Hong Kong)

	IMPORTS			EXPORTS		
	Jan.	April	May	Jan.	April	May
British Empire	12%	20%	20.4%	26%	27%	25.1%
United States	20%	20%	20.1%	16%	19%	19.2%
Japanese Empire	4%	18%	24.5%	12%	24%	24.6%

During May, North China ports handled 42% of China's imports, Central China ports 1%, eastern ports including Shanghai 25%, and South China ports 32%. Of China's May exports, North China ports handled 37%, eastern ports including Shanghai 21%, and South China ports 42%.

Exchange Rates for Conversion Purposes.

The average value of the yuan dollar in Shanghai during May, 1938, (based on the inter-bank selling spot daily closing rates as quoted in the open market) was US\$0.2381.

The average value of the Customs Gold Unit during May, 1938, was US\$0.6782.

The average value of the Hong Kong dollar during May, 1938, was US\$0.3066.

The approximate average value of the Manchurian yuan during May, 1938, was US\$0.295.

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