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Harry L. Hopkins, Secretary

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Alexander V. Dye, Director
N. H. Engle, Assistant Director

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(A Summary of Trade and Economic Conditions in China During 1938)

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GENERAL RESUME

General: During 1938 there were continued dislocations to trade, industry, finance and general economy, further disruption to transportation facilities, hundreds of millions of dollars additional damage to property in scores of cities in the interior, and appalling human suffering as tens of millions of people were directly affected by war conditions. After 18 months of hostilities, no early end to the conflict could be foreseen. Approximately 180 million of China's people were in the so-called "occupied" regions at the end of 1938 while an estimated 270 million were in territory still controlled by the Chinese National Government. The Japanese sponsored "Provisional Government of North China" at Peking, and "Reformed Government of Central China" at Nanking function in the "occupied" territory. The program for economic exploitation under large Japanese holding companies, with 51% official capital, bore evidences of having acquired considerable momentum at the end of the year.

Agriculture and Crops: In 1938 China enjoyed the unusual phenomenon of a third successive year of good crops, rice production especially assuming bumper proportions. In the "occupied" regions, Chinese farmers to some extent refrained from growing large crops from which Japan could reap economic gains and developed a more self-contained economy. Japanese plans envisage the development of agriculture in Japan, Manchuria and North China on a complementary rather than a competitive basis, with emphasis on cotton production. In Chinese controlled territory the policy has been to encourage production of food crops for self-sufficiency and of export crops, as well as to spread cotton production to make up for lost cotton growing territory.

Transportation and Communications: At the end of 1938 about 2/3 of China's railway mileage was in the "occupied" regions and 1/3 still under Chinese control, with rolling stock largely in Chinese hands and "occupied" regions short of equipment. In Chinese controlled territory a considerable amount of new construction of railways was completed, furthered and projected.

Increasing dependence on highway transportation was a feature of transportation trends in West and Southwest China, with the spectacular completion of the 700 mile Burma-Yunnan highway the outstanding development.

Shanghai and North China cities were linked with Japan by commercial aviation services. Air routes connecting new centers of Chinese Government activity continued active. Kunming, capital of Yunnan, is being developed as an air transport center, connections with French Indo-China and Hong Kong functioning and services to Rangoon to be developed early in 1939. Plans for regular services to connect Chungking with Sinkiang and Soviet Russia were under way at the close of the year.

Commercial ocean tonnage entering Shanghai in 1938 was about 40% below normal, with American ships omitting calls at this port. Reorganization of American services, however, under plans to construct and add 3 large liners augured well for continuance of American trans-Pacific shipping. In North China shipping passed increasingly into Japanese hands. The Yangtze remained out of use as a commercial highway except for some resumption of Japanese traffic toward the end of the year.

The Chinese Government sought to improve telecommunications generally. Radio-telephone services between Chungking and Moscow were inaugurated in September. Shanghai-Japan telephone services were resumed. Telecommunications generally in the "occupied" regions were controlled by Japanese interests.

GENERAL RESUME (CONT'D)

Industry: Fears that diversion of Japanese capital to North China would hinder the five-year Manchurian development scheme for key industries were dispelled in the latter part of the year as capital sufficient for furtherance of all necessary projects for war production economy was forthcoming. "Nationalization" of industry proceeded rapidly in Manchuria. In North China Japanese interests took over considerable numbers of Chinese industrial plants. proceeded with expansion in the textile industry, besides rehabilitating the destroyed Tsingtao cotton mills and furthering plans for comprehensive development of iron production. Shanghai industries returned to probably 50% of normal. The Chinese Government furthered the transfer of industrial plant equipment from threatened areas for reestablishment in West and Southwest China and promoted mining and power projects in the Southwest. Most of the Kwangtung Provincial Government's industrial plants near Canton were badly damaged or destroyed.

Building and Construction: In Manchuria construction activity which is not essential to "war emergency" plans and economy is being discouraged. Industrial construction and rehabilitation at Tientsin and Tsingtao was largely Japanese. Shanghai, due to the congestion of population in the foreign controlled areas, had an active building year. Extensive damage to property occurred at Canton, Hankow, and scores of smaller cities over wide areas in the interior. There was considerable construction in West and Southwest China cities for both housing and industrial plants moved from threatened areas.

Finance: The Chinese yuan, as a result of the introduction of fiat currency by the newly created "Federal Reserve Bank" in North China, underwent a 45% drop in foreign exchange value, seeking a level around 8d or 16¢ U.S. Currency. Expansion of these issues offers a further serious threat to the Chinese monetary system in that displaced Chinese legal tender notes can be used in the open exchange market to secure foreign currency credits. Yuan 1.2 billion worth of loans were issued by the Chinese National Government during the year, bringing the national debt up to a figure of yuan 6 billion or about US\$1.8 billion at stabilization rates. Payments on most Chinese foreign obligations, because of the loss of chief revenue producing areas, are to be on a deferred or partial payment schedule in 1939.

Foreign Trade: Exports and imports held up to near normal levels in gold values, Japanese trade showing remarkable upward strides and the trade of other leading trading countries falling off sharply. Japan supplied nearly 65% of the imports into North China and 46% of the imports into all China, supplanting the United States, formerly in first position. The "yen-bloc" scheme as applied increasingly to the trade of Japan, Manchuria and North China, is thus seen to be achieving rapid results in its aims to tie the three regions into a self-sustaining economic bloc. Under plans for the further implementation of the system, the outlook for the trade of the leading countries other than Japan is unpromising. By December, 1938, American sales to China, as recorded in the Chinese Customs statistics, had dropped 60% below the level which prevailed just prior to the commencement of hostilities, while Japan's recorded sales had jumped up 31%. China's exports to the United States for that month were 51% below the figure for July, 1937, while exports to Japan were up 34%.

SUMMARY OF GENERAL CONDITIONS

General: At the end of 1938, hostilities had been under way for 18 months. During the year there were continued dislocations to trade, industry, finance and general economy, further disruption to transportation facilities, wide scale destruction of property in scores of cities in the interior to the value of additional hundreds of millions of dollars, and appalling human suffering as tens of millions of people were directly affected by war conditions. The devastation was especially great at two important industrial and trade centers - Canton and Hankow - which were "occupied" in October.

The territory "occupied" since the commencement of hostilities in July-August, 1937, estimated at about 390,000 square miles, together with the previously affected areas, including Manchuria, totals 976,000 square miles, or 22.6% of the area of China, embracing an estimated 180 million people with possibly 270 million people in the 3,338,000 square miles* of territory remaining under Chinese control. "Occupied" areas of the country include not only an important portion of the principal agricultural and mining resources, but also those centers in which the major developments in modern industrialization have occurred. The area remaining under Chinese control, however, contains vast agricultural and extensive mineral resources, both of which are capable of considerable expansion. To that area, there has been an important migration of technical talent and capital which are now active in developmental work. There has also been a limited migration of the general populace and of educators and students to the Chinese controlled areas. This movement is bound to have permanent effects in the development of the latent resources of hitherto neglected sections in West and Southwest China.

In the "occupied" regions, despite continued widespread guerrilla activities and the existence of Chinese local governments operating independently of the occupying forces and honeycombing the region, the trend toward recovery and increase of trade with Japan, noted in the middle of the year, was more and more apparent. The large Japanese controlling enterprises, 51% officially capitalized, namely the North China Development Company and the Central China Development Company, by the end of the year were well launched on their activities which involve monopolistic control of public utilities, railways, shipping, telecommunications and mining enterprises, besides operation of industrial and trade organizations. In fact, at the end of the year, the program for economic exploitation of the "occupied" areas of China in manifest disregard of the rights and interests of third party nationals bore evidences of having acquired a considerable momentum.

NOTE: *The area comprises 954,000 square miles of accessible or utilizable territory embracing the whole of Szechwan, Kweichow, Shensi, Yunnan and Kwangsi Provinces, and part of Kwangtung, Hunan, Kiangsi, Chekiang, Fukien, Hupeh, Anhwei and Honan Provinces; about 496,000 square miles of less accessible territory comprising part of Suiyuan Province and all of Kansu, Ninghsia and Sikang Provinces; and 1,887,000 square miles of outlying and border provinces such as Mongolia, Tibet, Sinkiang and Chinghai.

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Agriculture and Crops: During 1938 China generally enjoyed the third successive year of good crop production at about average levels. Rice was a bumper crop and tea production was greater and quality better than in 1937. Wheat, cotton and flue-cured tobacco production was much below average. Miscellaneous food crops turned out well. The carryovers of cotton and tobacco were larger than usual, offsetting in part the year's short crops. The cotton supply was about sufficient for domestic needs, but large takings by Japan necessitates imports from India and America for Shanghai mills. The winter wheat crop in China in 1938 is estimated roughly at 37 million bushels, or one of the smallest crops in recent years and much below the 1931-1935 average of 76 million bushels. The small production was due to reduced acreage as the yield was better than for the previous year and the quality good. Wheat supplies are insufficient for the large coastal consuming centers, hence a considerable volume of wheat or flour imports are also necessary.

Prices received by farmers, especially in the "occupied" areas, averaged low compared with those for the years prior to the hostilities. This fact, together with the activities of the "guerrilla" organizations which seek to prevent economic exploitation by inducing farmers to plant less acreage to export crops, were directly responsible for the lower output of cotton and tobacco in 1938, and may have the effect of continuing the curtailment of these and other cash crops in 1939. On the other hand, it is part of the Japanese program to endeavor to expand the cultivation of cotton in North China in order to secure greater supplies from this nearby source for Japan. There was some destruction of agricultural commodities by guerrilla bands on transportation routes in North China during the year.

Farm economy has generally reverted to a more self-sufficient basis both in the "occupied" regions and in Chinese controlled territory. The Chinese Government, in the areas under its control, has sought to encourage the growing of food crops adequate for self-sufficiency as a primary objective, and has also aimed at greater production of exportable crops. By the distribution of specially grown cotton seed, it has sought to extend and to expand the growing of cotton in West and Southwest China to offset the loss of cotton growing regions. Irrigation projects in the Southwest have been furthered under joint Central and Provincial Government auspices. The Chinese authorities are also endeavoring through Government banks to finance increased silk production in Szechwan Province in efforts to offset the loss of silk producing areas in East Central and South China. The 1938 silk cocoon crop in China is estimated as 30% below 1937.

Thus, in the Chinese controlled areas, many measures have been put in force during the year by the Chinese Government looking toward agricultural conservation and development, and toward marketing control to meet the needs of the emergency. Experiment and research activities have been shifted from points in the eastern part of the country and re-established in West China, centering in Szechwan Province. An Agricultural Promotion Commission under the Executive Yuan and the Agricultural Credit Bureau of the Ministry of Economics have initiated many projects for agricultural improvement. Working through provincial agencies and commercial banks, wherever possible, they have directed their efforts toward increasing facilities for loans to co-operatives to promote the production particularly of foodstuffs. Grain

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Agriculture (Continued):

storage facilities have been greatly enlarged. Facilities for marketing foodstuffs and tung oil have also been increased. The National Government Industrial Mobilization Bill, of October 7, 1938, provides, among other things, for control of agricultural production as well as distribution. Price fixing measures will also apparently apply to agricultural products. The Military Affairs Commission has exercised some such control over foodstuffs, and especially cotton, in the past year. Such measures as prohibition of rice exports have been put in force.

In the "occupied" areas of China, the Japanese authorities appear to be directing their plans toward co-ordinating agricultural production to the needs of Japan, China, and Manchuria, with particular attention directed to rice, tea, silk, raw cotton, wheat, and livestock. Production quotas for the three areas for certain products are proposed. The aim will be to increase production to supply primarily needs of the three areas, to increase exports, and to avoid destructive competition in the yen-bloc countries. Japanese specialists have been brought from Japan and Manchuria, to work in the newly founded North China Industrial Production Institute at Peking. An Agricultural College is being established at Peking as part of Peking University, and developed under the advice of Japanese specialists. At the present time the enrollment is small, being about 35 persons, of which 10 are Japanese, but provisions are made for 200. In the present unsettled state of affairs in North China, it is extremely uncertain as to how rapidly these institutions will be able effectively to further their aims.

The 1938 cotton production in China is estimated at about 2.2 million bales of 500 lbs. net as compared with 3.4 million bales in 1937, and with 2.9 million bales as the 1932-1936 average. The 1938 cotton crop in Manchuria is estimated at 70,000 bales of 500 lbs. net, compared with an estimated production of 86,600 bales in 1937.

Production of flue-cured leaf tobacco in the three growing areas in North China in 1938 is estimated at about 81 million lbs. as compared with an estimated production of 210 million lbs. in 1937. Due to disturbed conditions, the 1937 crop was not wholly marketed until the 1938 crop began to come on the market. Thus there was a mingling of the two crops during the 1938-39 marketing season. A large part of the 1937 crop was consumed in the growing areas and part was spoiled by damage owing to conditions arising from the hostilities and the generally unsettled conditions. An unusually large part of the 1938 crop is undoubtedly being held back by the farmers and disposed of only slowly owing to uncertain conditions regarding price and as to the outlook for new planting. The 1938 flue-cured tobacco crop in Manchuria is officially estimated at 12.5 million lbs. compared with 7.7 million lbs. in 1937.

The 1938 oil seed crop in China was about the same as 1937, with some increases in sesame seed and linseed, but with decreases in peanuts, rapeseed and cottonseed. The tung nut oil crop was estimated as about equal to the good 1937 crop. Larger production is expected in 1939 but transportation problems may prove a serious obstacle to its export movement. Large increases in soy bean production in China are estimated to have taken place at the expense of other crops owing to abnormal marketing conditions. Tea production was especially good in Kiangsi and Anhwei Provinces during 1938 and exports are expected to exceed those of the past season both in quality and value.

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Agriculture (Continued):

Production of oranges in the Swatow district of South China is estimated as 30% greater than in 1937, but the quality was not as good. The production is largely marketed at Chinese coastal ports, besides being shipped abroad to British Malaya, Siam, Netherlands India and French Indo-China, the exportable quantities this season being larger than last year.

Rice production in all China not including Manchuria, in 1938, is estimated at 63.3 million short tons of rough rice, as compared with 61.1 million short tons in 1937, with a 5 year average of 55.2 million short tons. Particularly large increases were reported in Szechuan and Hunan Provinces. As a war measure the Chinese Government has encouraged the development of a system of rice storage throughout the country in special warehouses. The carryover of rice from the 1937 crop was larger than usual both due to the difficulty of moving rice from producing centers to important coastal markets, and to conservation policies. The carryover from the 1938 crop is expected to be even larger than from the crop of the previous year. Despite the large rice production, the various restrictions enforced against its movement and transportation problems are likely to make imports of rice necessary for certain districts during 1939.

Heavy rains and floods in North Manchuria adversely affected the wheat crop which, in spite of the increased area planted, resulted in production possibly 20% less than last year. Imports of flour are necessary. The millet crop was also adversely affected but not to such a great extent as wheat.

Present plans in Manchuria envisage a gradual scaling upward of production of wheat, rice, fodder crops and oil seeds as well as cotton, tobacco, wood pulp and sugar beets up to 1941. New lands are being opened up in North Manchuria with settlers from South Manchuria, and several agricultural projects are being developed employing young colonists from Japan. Fifty-five mechanized farms of about 10,000 acres each are being planned on which to settle Japanese immigrants.

In furthering the aims of the five-year plan the Department of Industry established an agricultural college in Mukden, recruited large numbers of Japanese farm experts to direct agriculture, aided in the formation of farmers' cooperatives which now number 76 and passed laws calculated to further agricultural plans generally. The Government liberalized the cotton control law by removing the penalties imposed on farmers for planting seed not obtained from the Manchuria Cotton Company, the cotton purchasing, ginning and importing monopoly, increased the capital of this company from yen 2 million to yen 10 million, guaranteed loans of yen 8 million by the "Central Bank of Manchu" to farmers, and established national and provincial seed improvement bureaus. It also placed rice cultivation under Government control and made the purchase of rice a Government monopoly, establishing a state company for this purpose.

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Transportation and Communications (Railways): At the end of the year about two-thirds (or 6,500 kilometers) of the railway mileage of China proper was in Japanese "occupied" territory and one-third (or 3,200 kilometers) in the Chinese controlled areas. Throughout the year there was an acute shortage of rolling stock in both Manchuria and North China, but a virtual glut of railway equipment on the Chinese controlled lines due to its removal prior to the Chinese withdrawal from the now "occupied" areas.

Some portions of railways in East Central China were decommissioned and the rails and equipment were transferred to Central China for construction of new lines westward and southwestward from the Canton-Hankow Line. The Hengyang-Kweilin Railway (also known as the Hunan-Kwangsi Railway), rushed to completion in 10 months' of construction activity, began operating in September. Its extension across Kwangsi Province (850 kilometers) to French Indo-China was actively under construction during the year, as was the Hunan-Kweichow Line. Work on the roadbed and bridge approaches on the Chungking-Chengtou Railway in Szechwan Province, was furthered during the year, though no route or means remained open or available by which rails, rolling stock, bridge steel and other heavy equipment could be brought in. Plans for the early construction of the projected Yunnan-Burma (773 kilometers) and Yunnan-Szechwan (774 kilometers) railways were under way at the end of the year.

Spectacular was the performance of the Kowloon-Canton and the Canton-Hankow Railways, which, despite almost daily bombings, continued up to the fall of Hankow and Canton in late October to serve as the main highway of commerce between Central China and the outside world, besides serving military needs. The main portion of the Canton-Hankow line is still in Chinese hands, though its termini are in "occupied" territory. The Lung-Hai Line from Chengchow (junction with the Peking-Hankow Line) westward to Sian, capital of Shensi Province, is also operating under Chinese control.

Patching up of war-damaged railways in the "occupied" areas has proceeded during the year. Practically all lines have resumed operations, with the exception that about 400 kilometers of the middle section of the Peking-Hankow Line is in Chinese held territory, hence through traffic is impossible. Repairs on the Tientsin-Pukow Line were gradually effected and traffic pushed southward from Tientsin, the expectation being that through traffic between Shanghai and Peking would be possible early in 1939.

Due to the removal of the major portion of the equipment to Central and South China, the railways in the "occupied" regions have been obliged to depend largely on rolling stock brought from Japan and Manchuria. Nothing like the full facilities of these lines can be restored without a large investment in passenger and freight cars, locomotives and other equipment. Temporary repairs to bridges will have to be made permanent at a later date. Operations in general have been delegated to the South Manchuria Railway, with personnel brought from Manchuria. Control has been continuously exercised by the Japanese military authorities who have primary claim on the facilities. Frequent interruptions to service occur in North China due to

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Transportation and Communications (Cont'd):

derailments and to destruction of cars or trains by guerrilla bands.

Construction on a new rail line connecting Tungchow, just east of Peking with Kupeikow pass on the Great Wall north of Peking, was completed during the year, thus providing rail traffic between Peking, via Kupeikow and Changte, capital of Jehol, to Manchuria by a route additional to the old Peking-Mukden line. Construction of the line westward from Changte to Dolonor was also believed to have been vigorously pushed during the year, although progress on this line was kept secret.

Railway construction in Manchuria has been limited to a few short spurs from existing lines to connect with new agricultural mining or industrial developments, new lines and extensions completed during the year including the Changte-Kupeikow line in Jehol aggregating 438 kilometers in length. There is at least a 30% shortage of rolling stock on the railways throughout Manchuria due to its withdrawal for use in North China. Serious delays to the movement of export goods from production areas to milling centers and to ports for export have resulted.

(Highways): The loss of rail routes and waterways, particularly the terminals of the Canton-Hankow Line and the Yangtze River between Kiukiang and Yochow (above Hankow) during the year, made Chinese areas more dependent upon highway transportation. Road construction was actively furthered, the outstanding development being the completion of the Yunnan-Burma highway, now in active use. This 650 mile road opened to motorized traffic an ancient trade route hitherto used only by pack animals or human carriers, connecting as it does in North Burma with rail and river routes leading to the port of Rangoon. The situation has made necessary the importation of large numbers of motor trucks for augmenting highway transport facilities over the numerous new trunk lines completed in recent years and now connecting the new centers of Chinese Government activity. Some of these trucks were purchased under British and American credits issued toward the close of the year. Plans for a larger use of animal drawn vehicles equipped with rubber tires were under way at the end of the year.

Following the cutting off of the important rail route from the British Colony of Hong Kong to Central China in late October, the highway route from Haiphong via Hanoi in French Indo-China into Kwangsi Province assumed greater importance, especially as the narrow gauge (1 meter) Yunnan Railway has distinct limitations in capacity. The Canton-Hankow highway was kept busy up to the fall of Canton and Hankow, supplementing the services of the railway. In West China, transportation over the Chungking-Kweiyang-Yunnanfu highway was especially heavy during the year. Greater dependence was also placed upon routes leading from Kweiyang to Kwangsi. Another important highway completed and put into operation during the year is that leading from Nanning in southern western Kwangsi through Poseh on the western border of the province to Kunming, capital of Yunnan, thus providing a fairly direct highway route between the latter city and French Indo-China. Evidences at the end of the year pointed toward the early development of highway transportation on a scale hitherto unknown in China.

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Transportation and Communications (Cont'd):

In Manchuria, motor bus lines, which are a monopoly of the South Manchuria Railway, were 12,000 kilometers in length -- almost double the routes in use a year ago. This figure represents approximately the mileage of motor roads in Manchuria. Construction was furthered on the Dairen-Harbin highway during the year.

In North China, highways were badly damaged by heavy military traffic, guerrilla activities and floods, with little new construction undertaken. Extensive repairs to the existing system were made, however, and new highways are projected for construction in 1939. Commercial highway transportation is to be monopolized under a company subsidiary to the South Manchuria Railway, as is the case with a similar concern operating in Inner Mongolia. In Shantung Province, roads and bridges, destroyed prior to the Chinese withdrawal from this region, remained mostly out of commission, though plans envisage reconstituting the highway system of the region.

In Shanghai and its hinterland, due to the limitations of railway service and to disruption from time to time of inland water traffic, highway transportation continued to be important, many Shanghai transportation companies operating under contracts with the Japanese authorities for the movement of supplies and commercial goods between Shanghai and cities to the west and south as far as Wuhu and Hangchow.

Marked progress has been made in extending and improving the highways linking Foochow with interior points in western Fukien and with the roads of Kiangsi Province, and in surfacing and banking of all trunk lines in Fukien except those along the coast which were cut and allowed to go into disrepair for strategic reasons. Roads leading into the interior from the ports of Amoy, Swatow, Kwongchowwan and Pakhoi are believed to have been cut for strategic reasons. At least 8 trunk highways in Kwangtung Province in South China were put out of business as a result of the hostilities in October. The most important of these was the road from Canton to Kowloon in the British Colony of Hong Kong, via Waichow, on which several bridges are reported to have been destroyed. Reports indicate that all roads leading out of Kwangtung into Kwangsi have been cut.

At the beginning of 1937, there were 98,860 kilometers of highways in China (exclusive of Manchuria) open to traffic, and 14,150 kilometers under construction. Approximately 30,000 kilometers of roads in the Japanese "occupied" areas have been more or less out of commission, or at least not available for commercial traffic, since the commencement of hostilities. Some 11,000 kilometers of new construction has occurred in areas still under Chinese jurisdiction. At the close of 1938 there were probably 80,000 kilometers of highways in China open to traffic though the majority were utilized mainly for military purposes.

February 15, 1939

SUMMARY OF GENERAL CONDITIONS (CONT'D)
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Transportation and Communications (Cont'd):

(Aviation): In Chinese controlled territory, commercial air services were active with several planes per day between Hankow and Hong Kong up to August when attacks on the services resulted in their curtailment and in resorting to night flying. After the fall of Hankow, services were mainly between West China cities and Hong Kong and Hanoi, in French Indo-China. Hong Kong assumed more importance as an air terminus with the extension of Air France services to the Colony, via Hanoi, and with the increased frequency of Imperial Airways services between the Colony, Australia and London. All first class mail between London and Hong Kong and vice versa is now carried by air. Trans-Pacific Clipper services to Hong Kong operated thrice monthly during the latter part of the year. Kunming, the capital of Yunnan Province, is to be included as a stop on the Hong Kong-India-London service of Imperial Airways under recently concluded arrangements. The China National Aviation Corporation (Sino-American) is to be permitted to operate between Yunnan and Burma and Yunnan and Hong Kong. Plans for air services between Chungking, Urumchi and Soviet Russia with connections for western Europe were being furthered at the end of the year.

The Japan Air Transport Company maintained fairly regular air mail service for the general public and passenger service, by military permit only and chiefly for Japanese passengers, thrice weekly between Japan, Shanghai and Nanking. Similar services were also developed between Japan, Tsingtao, Tientsin and Peking in the latter half of the year.

Air services were also developed between Manchuria and North China, between Peking and Inner Mongolia, and between Tientsin and Tsinan. All Japanese lines operating in North China are restricted to Japanese patronage. In November, the Japanese authorities inaugurated an air mail service between Hankow and Shanghai, accepting from the general public air mail letters subject to censorship. Peking news despatches in December stated that a Sino-Japanese concern to be known as the China Aviation Corporation with yuan 6 million capital has been organized to operate among other services the route from Shanghai to Canton formerly conducted by the China National Aviation Corporation (Sino-American).

(Shipping): Customs recorded commercial ocean shipping tonnage entering the port of Shanghai in 1938 totalled nearly 5.3 million tons as compared with 5.8 million tons in 1937 and nearly 8.4 million tons in 1936, the last normal year.

At the end of 1938 American scheduled trans-Pacific sailings still omitted Shanghai as a port of call, but, under the newly organized American President Lines' services, arrangements were under way to resume calls at Shanghai in February, 1939. The announcement that early construction will be undertaken of 3 super liners for addition to the American President Lines fleet augured well for the future of the American trans-Pacific services. The British, French, German, and Italian steamship services between Europe and the Far East continued to call at Shanghai throughout the year as did the Canadian Pacific Empress ships, but up to the end of the year the Japanese

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Transportation and Communications (Cont'd):

trans-Pacific services had not resumed calls at Shanghai, though Japanese services between Shanghai and Japan were augmented by placing one of the large trans-Pacific liners on a shuttle service between Shanghai and Kobe.

Foreign owned coasting vessels, mostly British, operating out of Shanghai to North and South China ports continued to do a thriving business throughout the year at increased freight rates, adding new vessels to their fleets and increasing sailings to Haiphong in French Indo-China. Traffic in and out of Shanghai on inland water routes gradually recovered, conducted by Chinese companies operating under Japanese permits at high or exorbitant rates compared with normal charges. Guerrilla attacks on this barge and junk traffic tended to lessen as the year advanced. Numbers of small craft under foreign flags operated between Shanghai and small ports in the Yangtze delta region, and to Chekiang coastal ports, keeping a good volume of local traffic moving, but were subject now and then to attacks by pirates, and to suspension for short periods when ports were closed by military authorities. On the north bank of the Wangpoo between the limits of the Shanghai International Settlement and Woosung several new docks and large numbers of warehouses have been constructed since the hostilities started. So far these appear to be in use mainly for military purposes.

The port of Dairen, because of its use as a military depot, and because of the large influx of materials and equipment for furtherance of the Manchurian five-year plan, has experienced unprecedented activity during the year, its harbor, wharves, and warehouses being in a chronic state of congestion. Vessels entering all Manchurian ports in the first 9 months of the year numbered 3,780 from which 3.3 million tons of cargo were unloaded, an amount 22% greater than in 1937. Plans are on foot to increase the capacity of the port of Dairen from 9 million to 16 million tons annually and also to raise the capacity of Port Arthur to 1 million tons annually.

A new wharf, completed in November at Hulutao Harbor in the Gulf of Peichihli, expands the facilities of the port to accommodate coal from the great Yih sien-Fuhsin coal basin north of the port, the development of Hulutao having been resumed in 1936 under the auspices of the South Manchuria Railway. Construction under the auspices of the Chinese Government by the Netherlands Harbor Works ceased at Hulutao in 1931 with the taking over of Manchuria by the Japanese forces.

Shipping tonnage entering the port of Tientsin in the first 11 months of 1938 totalled 2.2 million gross tons an increase of 22% over 1937. Domestic shipping of the port totalled 1.9 million tons, a 100% increase over the previous year. Japanese ships accounted for 61% of the ocean tonnage and 10% of coastwise trade in and out of Tientsin. Decreased towage and lighterage facilities for commercial purposes contributed to serious congestion of the port during the year. At Tsingtao foreign shipping was not permitted by the Japanese authorities to utilize the docking facilities but was obliged to load and unload in the open bay at much inconvenience and greatly increased costs for lighterage facilities. Increased Japanese shipping activity was noted toward the end of the year. A Japanese company was organized to operate the officially owned dock and warehouses valued at many millions of dollars.

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Transportation and Communications (Cont'd):

In the late summer and early fall months observers, according to reports in the public press, estimated the number of Japanese transports passing up the Yangtze at nearly 500 vessels per month. Toward the end of the year it was evident also that there was a considerable amount of commercial traffic by Japanese shipping to ports in the Lower Yangtze as far westward as Wuhu, while some few Japanese ships also negotiated traffic to Hankow. To all others the facilities of the Yangtze were denied, the issue presenting a serious problem to foreign business interests desiring to resume trade with the ports of the Lower Yangtze, which have been cut off for the past year and a half.

Shipping on the Yangtze west of Kiukiang was active during the first 7 months of the year but Hankow was the eastern terminus of traffic on the river following the fall of Kiukiang. After the fall of Hankow in October and the advance of the Japanese forces as far up river as Yochow, only the Upper River from Ichang westward was open to navigation under Chinese auspices. The congestion of upbound cargo at Ichang awaiting onward shipment to West China became especially bad in the autumn due to the inadequate facilities for handling the large quantity of dismantled industrial equipment bound for West China.

Because of the conditions surrounding the hostilities, the handling of cargo at the port of Foochow in the Min River was conducted entirely by non-Japanese and non-Chinese coastal traffic during the year. Due to seizure of the port of Amoy in May commercial shipping entering the port fell off about 50% in the year ending October 31. British coastwise ships enjoyed the major share of the trade in and out of the port of Swatow which continued at fairly high levels in spite of threats from time to time of possible Japanese occupation of the port. The Japanese naval blockade made Chinese coastal shipping impossible.

Navigation of the Pearl River between Hong Kong and Canton continued almost without interruption until October 13. Dutch contractors for the Chinese Government continued work on the port of Whampoa about 10 miles down river from Canton up to the middle of October. After the fall of Canton, Japanese ships drawing 15-16 feet of water were making use of Whampoa, working alongside the dock, but there were no evidences of any continuance of work on the harbor development. Steamer traffic between Hong Kong and Canton following the occupation of Canton in October was limited to Japanese men-of-war and transports and to a few foreign gunboats which began to operate between the two points in November. At the end of the year there were no assurances that commercial traffic could be resumed at any early date.

Hong Kong enjoyed an enhanced amount of ocean shipping traffic during the year because of the diversion to Hong Kong of a considerable portion of China's import and export trade which formerly passed through the port of Shanghai, and because of the heavy movement of official supplies and materials. Freight movements up the coast from Hong Kong fell off during 1938, but increased to Kwangchowwan and Haiphong, particularly in the latter months

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Transportation and Communications (Cont'd):

of the year after the cutting off of direct rail communication between Hong Kong and interior China. Traffic to the nearby port of Macao (Portuguese Colony) also increased after the fall of Canton. Cargo congestion at Hong Kong, because of diversions from Shanghai, threatened to be serious early in the year, but at the year end the accumulation of cargo assumed a more or less normal status.

(Telecommunications): The Chinese Government in the areas under its control sought to improve and develop telecommunications generally throughout the year and to move valuable equipment from threatened areas to points in West China. It also attempted to develop greater telecommunications facilities from those areas with countries abroad. The Government broadcasting station formerly at Nanking was re-erected at Chungking early in 1938, and is the second largest in the Far East, said to have 35 kilowatt capacity. Three thousand automatic telephones were added to the telephone system of the wartime capital, Chungking, during the year. It is expected that early in 1939 radio-telephone services will be functioning between Chungking and Kunming, capital of Yunnan Province, and between Chungking and Urumchi, capital of Sinkiang. Steps are also being furthered to develop radio-telephone services between Chungking and countries abroad, in addition to the service begun in September between Chungking and Moscow.

In Fukien Province, telephonic and telegraphic facilities were expanded during the year, the wartime capital Yungan being connected with other leading cities by telephone services. Hitherto no telephone system had existed at Yungan. Arrangements had been completed at the end of the year for connecting the long distance telephone system of northern Fukien with the Kiangsi provincial telephone system. Radio-telephone services which linked the port of Swatow with other cities in China were put out of commission early in the hostilities and have not been resumed. Extensive telephone developments connecting main points in Kwangsi Province had been completed by June, 1938, and telephone connections between Kweilin and Hong Kong were established in May.

Radio-telephone services were established between Hong Kong and Chungking in September via Canton but were suspended in October with the fall of Canton. The Colonial Government of Hong Kong was endeavoring at the end of the year to make the arrangements for establishment of radio-telephone services with other parts of the world.

In Manchuria expansion and improvement in telecommunications continued throughout the year. Early in 1938 news reports indicated that the "longest underground telephone cable" in the world had been laid between Tokyo and Hsinking (formerly Changchun) in Manchuria, and would shortly be put into use. Radio-telephone services already function between Japan and Manchuria. Press despatches also state that the telegraphic capacity between Mukden and Japan has been doubled by the installation of a special new type high speed telegraph cable between Mukden and Antung to connect with one already installed in Korea.

SUMMARY OF GENERAL CONDITIONS (CONT'D)
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Transportation and Communications (Cont'd):

In North China the North China Telegraph and Telephone Company, a subsidiary of the North China Development Company (Japanese), was organized in early August to take over all telecommunications in the region. Direct radio service between Peking and Hankow was resumed in December. At Shanghai the Central China Telecommunications Company, a subsidiary of the Central China Development Company, was organized to control all communications in Central China, the Japanese interests supplanting the Chinese Government's former participation in the operations of the foreign cable and radio companies, messages being subject to censorship. Long distance telephone services in the "occupied" areas were restored to some degree during the year, but were subject to disruption from time to time. Radio-telephone services were resumed between Shanghai and Japan in November.

Radio and telegraphic communications between Shanghai and the Chinese controlled areas continued to be routed at more than double the expense, through Hong Kong during the year. The Japanese authorities on November 20 announced increases in the rates on radio messages from Shanghai to all points abroad except Japan, the increases being stated as necessary due to the fall in the value of the Chinese yuan in relation to the Gold Franc. Rates to such points as New York and London were raised approximately 40%, but rates to points in America were subsequently restored to former levels. Reductions of nearly 60% were made in rates on messages from the "occupied" areas of China, including Shanghai, to Japan.

There were indications at the end of the year that the Japanese interests would attempt shortly to restore the radio stations in the outskirts of Shanghai which formerly furnished radio-telephone services between Shanghai and the outside world as well as between Shanghai and interior cities of China. These stations were destroyed by bombing operations early in the hostilities.

At Canton at the end of the year, following the Japanese occupation in late October, telegraphic services with Hong Kong had been reestablished but telephone services remained unconnected. In the city only about 400 telephones had been restored to use out of the 10,000 telephones in use prior to the occupation of the city.

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Industry: In Manchuria early in the year it appeared that the diversion of available Japanese capital to North China threatened the furtherance of the Government's five-year developmental scheme for heavy key industries and basic resources. However, by the end of the year it was evident that ample capital is forthcoming for amplification and speeding up of all projects necessary to war production economy. The nationalization of industry in Manchuria has proceeded rapidly with only a few minor industries remaining in private hands. The Government's plans include increases in the production quotas originally aimed at for iron, steel, synthetic fuel oil, coal, hydro-electric power, pulp, salt, gold, light metals, lead and copper to high levels by 1941. Total investment in Manchurian state commercial enterprises at the end of the year was estimated at yen 1.5 billion.

In North China, Japanese interests took over the principal Chinese enterprises including 12 flour mills, 14 electric power plants, 6 cotton mills, certain woolen mills, match factories and numerous miscellaneous factories. At Tsingtao, the rehabilitation of the Japanese textile mills was expedited by Japanese Government grants in aid, but Chinese industrialists felt no inducement to return to that area.

Japanese effort in North China during the year has also been directed toward increasing coal and salt production for export to Japan, besides laying plans for tapping iron ore resources in Chahar and Shansi Provinces and for developing blast furnaces for the supply of pig iron for expanded Manchurian and Japanese steel plants, also toward installing iron foundries adequate to meet the needs of the area. The program envisages self-sufficiency in these products by the countries in the economic bloc.

Shanghai industrial production has returned to possibly 45% or 50% of pre-hostilities capacity, but any further recovery will be dependent upon the opening up of the Yangtze Valley to normal trade. The present degree of recovery is due to the fact that many small and medium sized Chinese enterprises have been resuming production in temporarily improvised premises on leased land in the International Settlement and French Concession with equipment salvaged from the Chinese municipal areas prior to their occupation by the Japanese forces. The recovery is also due to the fact that an outlet is found in the immediate hinterland of Shanghai where supplies were cut off for many months and where stocks are abnormally low and in Shanghai itself where consumptive capacity has risen materially with the large influx of well-to-do refugees from other parts of the country. Undamaged or slightly damaged Chinese plants in the "occupied" part of the International Settlement have, for the most part, been recommissioned under Japanese auspices.

While some of Shanghai industrial output is shipped to Chinese controlled areas under special arrangements for a refund of the Consolidated Tax at Shanghai on goods obliged to pay such a Tax on entering Chinese territory, the policy of the Chinese Government has been to frown on the use in its territory of products of Japanese controlled Chinese mills in the "occupied" areas and to encourage industrial self-sufficiency in its areas by the promotion of so-called "industrial cooperatives", using

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Industry (Cont'd):

available machines and expanding handicraft industry, Government banks aiding in the financing of these developments. The Chinese Government has endeavored further to provide essential industrial goods for the populace in its areas by encouraging the dismantling of large numbers of plants in threatened areas prior to their occupation, moving the machinery to new locations in West and Southwest China. This movement is calculated to have permanent effects in decentralizing industry, which was previously concentrated largely at the coastal ports and Hankow, and in scattering it to less vulnerable points throughout the consumptive areas. At Hankow and Canton, at both of which points industrial developments have been increasing rapidly in recent years, there was considerable destruction of industrial equipment by bombing and upon the Chinese evacuation from these districts.

The Chinese authorities have also been directing their attention increasingly to plans for speeding up the development of mineral resources in Central, West and Southwest China, particularly coal, copper, tin, tungsten and antimony, as well as to the establishment of additional power plants, machine shops, textile mills and various other installations.

The silk industry in the "occupied" territory in East Central China has been put under control since October 1, 1938, the management of all the Chinese silk mills and filatures, except those operating in the International Settlement in Shanghai, having been taken over by a newly formed Japanese Sericultural Industry Company of Central China.

At Foochow, lumbering, sawmill and allied industries were active during the year in supplying fir and pine timber and cut lumber to Shanghai, Tsingtao, and to other devastated areas, prices for the products ruling from 75% to 150% higher than those prevailing prior to the hostilities. At Foochow production of cotton piece goods, cotton hosiery, matches, paper, sugar, alcohol, brushes, flashlight cells, and a number of other commodities was stimulated to supply demand in Chinese controlled territory. The Chinese fishing industry off the Fukien coast was unable to operate because of the naval blockade, the waters being invaded by Formosan fishing craft. The linen drawn-work and embroidery industry (handicraft) at the port of Swatow in Kwangtung Province, continued almost uninterruptedly during the year, the output being valued at US\$4 million. These products go largely to the American market.

At Canton and vicinity, at least 10 of the Kwangtung Provincial Government industrial enterprises, involving a capital investment aggregating more than US\$10 million, were partially or wholly destroyed either by bombing prior to the fall of Canton or by fire and dynamiting at the time of the Chinese evacuation from the area.

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Industry (Cont'd):

Considerable industrial expansion was in evidence in the British Colony of Hong Kong in 1938. Among the more important new enterprises undertaken were an ink factory, a plant for the manufacture of Chinese sauces, a peanut oil factory, and several small cotton textile plants producing cheaper grades of piece goods (moved from points in China) and supplying Chinese demand. A fair range of consumer goods industries manufacturing articles for shipment to countries abroad, continued usual output in Hong Kong during the year. The large cement plant worked at full capacity supplying government demand in Hong Kong and at Singapore.

Some of the Chinese Government enterprises, including certain of those under the National Resources Commission, were transferred to Yunnan Province, where various projects, some of them under joint provincial and Central Government auspices, are being furthered, involving the establishment of additional power units, machine shop industries, a copper mine, a copper refinery, various transportation enterprises, irrigation projects and coal mines as well as expansion in the tin industry. Kunming, capital of the Province, is destined to be an important railway center when the Yunnan-Burma and Yunnan-Szechwan Railways are built to connect with the Yunnan-French Indo-China line.

Building and Construction: At Harbin approximately yuan 13 million of building construction contracts were awarded during the year, but the provincial authorities toward the Year end were classifying all forms of construction on the basis of their importance in the restrictive economy of Manchuria under the present "war emergency" and with regard to the furtherance of the Government's five-year industrialization plan. At the end of the year it was difficult to get permits to construct anything not directly contributing to these two situations. In general, construction costs in Manchuria were rising throughout the year due to the large scale demand for materials for the construction of the various state enterprises and those being furthered under the five-year plan by Japanese industrialists, the increased costs and shortage of materials contributing to the restrictive measures on private or non-essential construction. At Dairen during 1938 there was about yen 13 million worth of new building construction, largely residential, but the same rigid restrictions as applying in Manchuria generally were beginning to affect Dairen with the outlook for a definite slowing up in new construction at that port.

At Tientsin industrial building construction was largely Japanese, the buildings for a large paper company, an assembly station for motor trucks, being included in construction done during the year, besides buildings for dyeing establishments, while in the British Concession there was a substantial building boom chiefly for residential purposes and financed by Chinese, the construction value amounting to yuan 5.5 million as compared with less than yuan 2 million in 1937. An influx of Chinese well-to-do refugees and of large numbers of Japanese added to the housing shortage at Tientsin. Some residential construction was also done at Peking, and work

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Building and Construction (Cont'd):

on rehabilitation of national monuments was continued. The evidences are that the Japanese are encouraging a complete refurbishing of the palaces and public buildings of the old imperial regime with the idea of fostering tourist trade. At Tsingtao new construction was principally related to the rehabilitation of the Japanese cotton mills destroyed in 1937. At Tsinan, provincial capital of Shantung, a large new edifice was started to house the provincial regime but little other new building or rehabilitation was attempted.

New building at Hankow was at a standstill throughout the year, except for impermanent refugee structures in the early part of the year. There was extensive destruction of property by bombing, throughout the year and on the occasion of the withdrawal of the Chinese forces both at Hankow and at other cities in Central China (the Wuban cities being the chief sufferers) though the damage has been heavy at leading centers in nearby provinces.

At Shanghai, in the southern half of the International Settlement and in the French Concession, particularly in the western districts, there was considerable building activity both to furnish housing for several hundred thousand self-supporting Chinese refugees from interior and coastal points, and for resumption of industrial activity on the part of numerous small and medium sized plants which had removed their machinery and equipment from threatened areas of the city outside the foreign controlled areas prior to "occupation". Some of the construction consists of good grade apartment houses, but a great deal of it is cheap terraced low-priced dwellings, while the buildings for the industrial units are mostly of a temporary nature.

In the aggregate, there has been a virtual boom of construction activity. Large projects planned or begun at the time of the commencement of hostilities have been held in abeyance. Landlords have profitted and are rapidly raising rents, with virtually all space occupied under conditions which must be described as congestion, since upwards of 4 million people are believed to be crowded into the two foreign controlled sections of the city. Chapei, Nantao, Pootung and large sections north of Soochow Creek within the Settlement area are still largely devastated wastes, but Japanese interests have done some rehabilitation of housing, and of slightly damaged plants, north of the Creek and are planning to develop the Kiangwan area for residential purposes, besides utilizing the Chinese Civic Center, where some repairs have been carried out, the buildings having been very badly damaged during the hostilities.

Damage at Amoy when the port, including Amoy Island, was occupied by the Japanese in May, was apparently not as extensive as has been the case at other strategic ports or cities "occupied", but a great amount of property was largely out of use for the balance of the year due to the departure of the population. Building construction was at a standstill.

At Canton an 8 storey office building housing a 3,000 seat theatre was completed during the year, but other construction was negligible. Destruction of property by bombing and by fire and other means upon the Chinese withdrawal in October was extensive, large numbers of banks, hotels, retail establishments etc., etc., being wiped out. Industrial plant construction in Kwangsi and Kweichow Provinces, partly under Government auspices or encouragement, represented in part transfer of these activities from threatened areas.

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Building and Construction (Cont'd):

At Kunming, Provincial capital of Yunnan, considerable construction of buildings for new Government enterprises was furthered throughout the year, besides which considerable new housing and hotel construction was pushed in attempts to provide for an influx of several tens of thousands of residents from "occupied" areas, many of them possessing technical talents and busying themselves in the extensive new industrial, mining and transportation developments in the Southwest. Ten new Chinese bank buildings and a number of new hotels were reported under construction at the end of the year.

At Hong Kong construction of dwellings and apartments was active throughout the year, as stimulated by the large influx of refugees from various disturbed areas of China. Shortages of cement and hardwoods hampered construction somewhat. Rents rose and landlords generally profited. Recurrent and new public works construction to the extent of about US\$850,000 is provided for in 1939 budgets, but construction of office buildings or of new enterprises other than housing is being held in abeyance pending a clarification of Hong Kong's outlook under the unpromising trends of the year.

Finance (Currency and Exchange): The issuance of fiat currency in North China beginning March 10, 1938 under the auspices of the "Provisional Government of North China" at Peking to the extent of yuan 150 million during the year and efforts to tie the "occupied" regions into the yen-bloc constituted a serious threat to China's monetary system. These developments necessitated the departure by the Chinese authorities from the foreign exchange management basis to exchange rationing. The latter was done, as of March 13, 1938, at the stabilized rates in force prior to the hostilities, but in restricted weekly allotments, with the result that open market trading at declining rates developed, the yuan suffering a 45% drop in exchange value. However, in Chinese controlled territory exchange control was enforced on a list of specified exports at former stabilization rates. The open market rates naturally restricted imports and the Government acquired a goodly portion of the remittances from Chinese abroad. These were offsetting advantages. While a fairly healthy balance of international payments obtains and this tends to support the open market rates for the yuan, there are adverse factors pointing toward ultimate lower rates, especially in the "occupied" territory where control measures are becoming more difficult for the Chinese authorities and where efforts to support the open market work to the advantage of the North China regime and others seeking to establish foreign currency balances abroad.

The yuan, up to March 10, 1938, the date of issuance of the "Federal Reserve Bank" currency in North China, fluctuated within narrow limits at the Chinese Government's stabilization levels (around 29½¢ U.S. Currency to the yuan), having held to a remarkably steady level for 2 years and 4 months under the "foreign exchange managed" basis. When open market trading developed following the inauguration of the rationing of exchange to merchants under weekly allotments, there was a rapid decline to a low for the first half of the year of 16½¢ or 8d, but for the balance of the year, efforts to stabilize the "open market" rates held the level at around 16¢ or 8d, though on two or three occasions the rate dropped as low as 15½¢ or 7-7/8d. Closing rates for the year were at 16-13/32¢ U.S. Currency and 8-15/32d. (The rates quoted are inter-bank spot selling rates).

February 15, 1939

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Finance (Cont'd):

The issues of "Federal Reserve Bank" notes in North China were at first arbitrarily fixed at par with the yen and with Chinese legal tender notes. Later in the year, for purposes of furthering the displacement of the latter, an arbitrary discount of 10% against the Chinese notes was officially fixed, but despite this move, the Chinese legal tender notes were actually at a premium of several percent over the "F.R.B." notes at foreign trading centers in North China, due to the exchangeability of the Chinese legal tender notes in the open market for foreign exchange and to the fact that the "F.R.B." notes have no such direct exchange value.

(Foreign and Domestic Debt, Loans, and Payments): The Chinese authorities met all foreign obligations secured on the Customs revenues in 1938, besides a considerable portion of the payments secured on other revenues. However, the loss of principal areas yielding Customs, Consolidated Tax and Salt revenues, has forced the Ministry of Finance to announce that beginning with January, 1939, payments on foreign and domestic obligations will have to be on a deferred and partial basis limited to the proportion of revenues collected in the Chinese controlled areas (possibly 10% to 15% of the total) unless arrangements can be made for the Customs and other collections in the "occupied" areas to be applied to payments secured thereon. While the Chinese authorities can probably obtain a larger portion of the exchange credits accruing from remittances from Chinese abroad, through newly opened branch banks in Southeastern Asiatic countries, and can develop a considerable degree of self-contained economy, thus restricting ordinary imports, the export movement appears likely to be seriously obstructed by the cutting off of main ports and trade routes. Hence it appears probable that any considerable financing of required imports for the Chinese controlled areas will sooner or later be dependent upon foreign credits.

In early December, 1938, the Ministry of Finance at Chungking officially revealed that China's total national indebtedness on July 1, 1937, amounted to yuan 4.5 billion, presumably including all unserviced items and defaulted payments on loans which had not been reorganized and on which payments had not been resumed by that date. Of this sum 60% consisted of domestic loans and 40% foreign obligations. Following the commencement of hostilities in July-August, 1937, two domestic loans, the National Liberty Loan (yuan 500 million) and the Kwangsi Currency Loan (yuan 17 million) were issued. In 1938 six loans were issued, some in terms of foreign currencies, presumably to facilitate subscription by Chinese abroad. The total of these six loans in terms of national currency at officially stabilized conversion rates is approximately yuan 1.2 billion. Some of these issues have not been fully floated. At the end of the year plans were being made to issue a yuan 500 million Southwest Construction Loan.

Chinese external loan issues secured on Customs revenues, as quoted on the London market in 1938, fluctuated between 50% and 90% of their pre-hostilities levels, with year end prices at about 75% of those levels. Issues secured on salt revenues fared less favorably, being quoted at the year end at but 50% of pre-hostilities levels. Leading domestic loan issues, floated prior to the hostilities as quoted on the Shanghai "curb" market, at the end of the year were at prices about 50% of par or at about 63% of pre-hostilities levels. - 20 -

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Finance (Cont'd):

Two known foreign short term credits were obtained by China toward the end of the year, namely: US\$25 million from the United States, and £500,000 Sterling from Great Britain, the two being equivalent at official rates to about yuan 96 million.

Outstanding obligations of the Chinese National Government at the end of 1938 were officially announced as totalling yuan 6 billion, an increase of about 33% as compared with the position just prior to the commencement of hostilities. It is estimated that the foreign portion is equivalent to about US\$565 million, while the domestic debt is calculated at yuan 4.2 billion.

(Banking): The Hankow branches of the 4 Chinese Government banks served as headquarters for the first 8 months or so of 1938 though head offices were nominally moved to Chungking, and Hong Kong branches functioned in the handling of much of the important business. Numerous branches of both Government and private banks have been opened in the new centers of governmental activity in West and Southwest China. The Government banks have expanded financing activities to intensive development of industrial, agricultural, and commercial enterprises in those areas in pursuance of the official program to bring about as great a degree of self-sufficiency as possible. These investments are expected to have significant importance in economic progress, especially when peace is restored.

Chinese banks continued during 1938 to enforce the official limitations on withdrawals from deposits adopted at the outbreak of hostilities, namely 5% weekly with a maximum of yuan 150 per week from any one account, irrespective of the size of the balance. Even in North China, Chinese banks have continued to enforce these withdrawal restrictions.

In Shanghai where the financial turnover has recovered somewhat since the beginning of 1938, an ingenious practice has been developed whereby amounts can be drawn against these blocked bank deposits and transferred to the blocked credit of another depositor in the same or another bank, but not withdrawn except at the restricted rate per week. Holders of blocked balances draw so-called "wei wah" (or transfer money) checks against which they can secure cash in the open market at a discount from those who have surplus cash on hand. Discount rates for this sort of transaction ranged from $\frac{3}{4}\%$ to 8.5% during the year depending upon the amount of surplus cash available in the market and the demand. The "wei wah" credit has become a definite part of the financial system in Shanghai. Deposits made in old or new accounts since the hostilities started have not been subject to the withdrawal restrictions.

Foreign banks in Shanghai were able gradually in 1938 to clear up most of the snagged inward bills representing import shipments diverted to other ports of the Far East at the outbreak of hostilities. Under the uncertain times, their policy has been to maintain a restrictive attitude toward new credits.

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Foreign Trade: Despite probably the most widespread disturbances in China's history, China's recorded foreign trade for 1938 was but 10% in gold values under last year and very slightly under 1936, the last normal year. There are strong indications also that there was a large unrecorded trade both in imports and exports. The fact of near or actual normal trade demonstrates again that despite temporary disruption here or there in the country, the Chinese people of necessity quickly revert to their basic economic life when conditions assume even temporarily a reasonable degree of quiet.

Factors which held up the trade volume to a level only slightly below normal included: (1) Controlled takings of export commodities by Japan in much larger than normal volume, notably salt, coal, cotton, wool, scrap iron and pig iron from North China. (Raw cotton exports accounted for one-seventh of China's total exports during the year, 90% of same being taken by the Japanese Empire). (2) The success of the Chinese Government in moving out a large volume of export commodities from Central and West China over the Hankow-Hong Kong rail route up to mid-October, despite the continual bombing of the line, especially exports of tung oil, tungsten, antimony, bristles and tea. (3) Egg products, which move principally to Europe and which constituted 6½% of the total value of exports, despite forebodings early in the year due to a shortage of chickens and disrupted transportation conditions in the region of Shanghai and Tsingtao, were three-quarters normal in quantity with the value greater than in 1936 and only 6.6% under 1937. (4) Cotton yarn exports, apparently mostly from Japanese mills in Shanghai, to India and other Asiatic areas increased and cotton piece goods exports held up to normal value. (5) Linen embroidery, drawn-thread and cross-stitch work exports, which go mainly to America, held up to near normal volume, this category of exports accounting for nearly 5% of total exports for the year.

Factors accounting for the nearly normal volume of import trade included (1) In North China "occupied" regions the large takings of exports by Japan were to a **great** extent replaced by Japanese consumer goods, mainly cotton and woolen goods and rayon, in what is tantamount to barter trade, due to purchases and sales in the same currency, (this situation is explained by the fact that farmers fear reprisals by the guerrilla forces for having "Federal Reserve Bank" or yen notes in their possession, hence quickly convert cash receipts for crops into virtually the only available merchandise, viz. Japanese goods); (2) Large flour imports into North China which were occasioned by the short wheat crop; (3) Imports of machinery from Japan, plants and for new Japanese installations; (4) Some flight of capital into commodities such as indigo and dyes, imports of which held up fairly well despite the much lower distribution and consumption; (5) Some items of chemicals held up or increased for the reason that domestic plants were destroyed or out of production; (6) The fact that the Hong Kong-Hankow rail route was open most of the year, permitting ready ingress to Chinese controlled areas of essential imports including a large increase in imports of unspecified goods under the heading of "sundries" believed to be Chinese Government purchases partly secured from Europe on a barter basis; (7) The large volume of import cargo diverted to various Far Eastern ports at the commencement of hostilities in 1937 was gradually brought to Shanghai or

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Foreign Trade (Cont'd):

disposed of in Chinese controlled areas, being mostly cleared up during the year, much of it at a loss; (8) Rice imports into Chinese controlled areas increased partly due to the restrictions on the movement of rice from the Lower Yangtze Valley to South China, which necessitated imports from abroad to the latter area; (9) Another possible explanation of a near normal import trade is that coastal regions, which are apparently the chief consuming areas for import goods, at least intermittently were accessible for most of the year to trade, while large numbers of the well-to-do Chinese fled from cities in disturbed or threatened areas in the interior to coastal cities, chiefly to the foreign settlement areas of Shanghai, and thus continued to consume imported articles.

An analysis of the monthly foreign trade statistics shows that imports from Japan, which were very small in January, 1938, gradually rose to 73% of the imports into North China in December, 1938, and to 46% of the imports for the latter month into all China, surpassing all other nations and supplanting the United States, hitherto in first position. Hence, the evidences are that the yen-bloc system, together with various restrictions, commodity monopolies, and control of exchange (which was operative at Tsingtao for most of the year) and of transportation in the "occupied" areas is showing results in rapidly augmenting imports from Japan and in directing more and more of the export trade into Japanese hands. Manchuria and North China are being tied more and more into the emergency economy of Japan and the restrictive policies enforced in Manchuria are gradually being extended farther south.

While imports into China from the United States and its possessions in 1938 dropped off only about 20% as compared with each of the two previous years, a more accurate index of the trend is shown by comparing the position for December, 1938, with the last normal month prior to the hostilities, imports for December, 1938, from the United States being nearly 60% below those for July, 1937. Exports to the United States last year were 46% below the previous year and nearly 30% below 1936, whereas December, 1938, exports to the United States were 51% below July, 1937.

As an emergency measure dictated by the exigencies of the times the Chinese National Government assumed a larger control over exports, developing trading organizations under both the Ministry of Finance and the Ministry of Industry for handling the various leading export products, and enforcing exchange control on a considerable list of specified exports in order to secure for Government account the foreign exchange credit accruing from export trade. The Foreign Trade Commission of the Ministry of Finance was especially active in organizing transportation facilities and procedure for moving Central and West China products out over the Hankow-Hong Kong rail route, allotting space for both Government and private shipments, providing war risk insurance by collaboration of the Central Trust of China, arranging financing for exporters in some cases by Government banks, arranging highway and inland water route shipments for certain goods, air transport for valuable merchandise, and by every possible means endeavoring to keep a large volume of export goods moving to ports for shipment. Part of this business represented Government barter transactions with Europe in return for various types of machines and equipment for Government plants. A re-routing of these merchandise shipments inward and outward became necessary after the fall of Canton

February 15, 1939

SUMMARY OF GENERAL CONDITIONS (CONT'D)
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Foreign Trade (Cont'd):

and Hankow in October, highway and water routes being resorted to for the most part, while the port of Haiphong in French Indo-China assumed greater importance as an entrepot.

Tables accompanying this report show the chief commodities in China's import and export trade for 1938 which figure in Chinese-American trade as well as the percentage of the whole trade in major items supplied by or taken by the United States. The total value of trade with the United States is shown at the foot of the import and export tables. Items in China's recorded exports to the United States which showed marked heavy decreases during the year as compared with 1937 were tung oil, skins and furs, tin, raw silk, wool, tungsten, egg products, cottonseed oil, peanut oil, teaseed oil, sesame seed, walnut kernels, vegetable tallow, and antimony. These decreases are due to two leading factors (1) wool, cotton, skins and furs were "monopolized" products on which exports were prohibited under military regulations in North China, (2) the United States was a depressed or inactive market for most of the year.

In the import trade from America, petroleum products, tobacco, automotive equipment, canned goods, chemicals, lumber, leather, wheat flour, rubber tires, and certain other items held up to normal or increased, while metals, machinery and tools, paper, photographic supplies, dyes, raw cotton, electrical goods, and numerous other items fell off sharply. It is important to bear in mind that December, 1938, import trade from the United States and months toward the end of the year generally were poorer than was the case in the first part of the year, as the influx of diverted 1937 cargo became cleared up and new business dwindled. (Leaf tobacco was a notable exception.)

Thus, the trend in import trade from non-Japanese sources was downward at the end of the year with indications that it would continue downward in 1939 so long as the various adverse factors arising from the hostilities are present.

The Chinese authorities are fairly certain to be obliged to restrict the imports of non-essentials under emergency economy measures. In the "occupied" territories new tariffs or regulations of one kind or another, including expansion in fiat currency issues in North China, may be expected with results unfavorable to non-Japanese trade. The low value of the Chinese yuan is already a deterrent to the importation of most lines of goods and no early improvement is to be foreseen so long as the adverse factors affecting the yuan continue.

The outlook for export trade in 1939 has some unpromising aspects:

- (1) Poor winter weather in East Central China augurs unfavorably for crops and disturbances in "occupied" areas generally may result in lower agricultural export commodity production, not to mention discouragement on the part of farmers over low cash returns for their 1937 and 1938 output.
- (2) Banks are hesitant in some cases to finance exports.
- (3) Additional commodities may be "monopolized" because of the emergency economy demands of Japan, precluding their movement to non-Japanese markets.

China's recorded imports from abroad in 1938 were valued at Gold Units 385.6 million, a decrease of 8% from 1937, and a decrease of 7.4 % from 1936. Exports were valued at yuan 762.6 million (calculated at the official stable

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Foreign Trade (Cont'd):

zation level of 30¢ U.S. Currency) representing a decrease of 9% from the previous year, but representing an increase of 8% over 1936. Imports from the Japanese Empire (including imports from the Kwantung Leased Territory) accounted for 23.76% of total imports as contrasted with 18.12% in 1936, and with 20.57% in the first 7 months of 1937. Imports from the United States and the Philippines accounted for 17.32% of total imports as compared with 20.07% in 1936 and with 19.38% in the first 7 months of 1937 (a period when foreign trade was accelerating).

Exports to the Japanese Empire, including Kwantung Leased Territory, in 1938 accounted for 21.71% of the total, compared with 19% in 1936 and a little less than 16% in the first 7 months of 1937. Exports from China to the United States and the Philippines, adjusted to include transshipments through Hong Kong, accounted for 19.6% of the total compared with 30% in 1936 and 35.2% in the first 7 months of 1937.

A study of the trade of 1938 on a regional basis indicates that imports into North China (Tsingtao and all ports north) totalled Gold Units 139.4 million of which 64.28% was from the Japanese Empire. Imports into Shanghai amounted to G.U. 119.8 million of which 17.75% was from the Japanese Empire. Exports from North China ports are calculated at yuan 374.3 million in 1938 of which yuan 143.6 million or 38.35% went to the Japanese Empire. Exports from Shanghai totalled yuan 223.8 million of which 9.67% went to the Japanese Empire.

It is estimated also that 67.21% of China's total imports entered Japanese "occupied" areas (including Shanghai) while 78.42% of China's total exports for the year were made from those areas. However, from 15% to 20% of the exports from Shanghai are believed to have originated in Chinese controlled areas, reaching Shanghai through ports just to the south of Shanghai. Hence the exports actually originating in Japanese controlled areas in 1938 may more correctly be estimated as somewhere between 72.5% and 74% of China's total exports for the year.

The steadily increasing flow of imports from Japan into the "occupied" areas of China is indicated by the monthly returns of trade. In January, 1938, imports into China from the Japanese Empire, including the Kwantung Leased Territory, amounted only to Gold Units 1.16 million, of which G.U. 960,000 entered North China and G.U. 200,000 entered Shanghai, the lowest figures for the year. By December, imports into China from the same sources had reached G.U. 13.78 million for that month, of which G.U. 9.28 million entered North China (representing 75% of the total imports into that region) and G.U. 4.5 million of trade entered at Shanghai. At Shanghai the month of December registered a high for the year for imports from Japanese sources - amounting to 38% of total imports into the port for the month.

In January, 1938, China exports to the Japanese Empire were valued at only yuan 5.15 million, of which yuan 4.95 million represented shipments from North China ports and yuan 200,000 from Shanghai, the lowest month of the year. In December, exports to the Japanese Empire were recorded as yuan 14.5 million in value, of which yuan 9.4 million was from North China and yuan 5.1 million from Shanghai. The largest export movement was in June when yuan 22.2 million moved to the Japanese Empire. Exports in June from North China to the Japanese Empire amounted to 67% of the total exports from the area.

SUMMARY OF GENERAL CONDITIONS (CONT'D)

Foreign Trade (Cont'd):

In December, 1938, imports into China from the Japanese Empire were 35% greater and, from the United States and Philippine Islands, 60% less than in July, 1937, the last normal month. Exports from China in December, 1938 to the Japanese Empire and Kwantung as compared with July, 1937 registered an increase of 33% and to the United States and Philippines a decrease of 51%.

Exchange and trade control in Manchuria limit the imports almost exclusively to equipment from abroad which is necessary to the augmented five-year development scheme for war industries, as much as possible of the required capital goods being obtained from Germany and Italy under the new barter deals for beans and vegetable oils. However, the capacity of the latter countries is apparently largely taken up with emergency demands at home, hence the United States may be a temporary leading source of supply of this equipment to Manchuria providing exchange can continue to be found in payment therefor. Other categories of imports into Manchuria are expected to continue heavily restricted. For example, it is announced that no import permits will be granted for leaf tobacco for Manchuria in 1939 from sources abroad other than Japan, Korea and North China.

The foreign trade of the British Crown Colony of Hong Kong in 1938, in terms of U.S. Dollars (based on 11 months' returns) showed a gain of only 0.2% over 1937 in imports although exports increased 13%. Hong Kong's exports are of greater interest to us than its imports in view of the fact that Chinese export products are shipped to that point for transshipment abroad and it is only from the Hong Kong export statistics that we can arrive at their approximate distribution to countries abroad. Imports destined for China, passing through Hong Kong, are accompanied by Chinese Consular Invoices, hence are entered in Chinese statistics according to country of origin. We have taken this into account in preparing the statistical tables of China's export and import trade, as accompanying this report, so that an exhaustive analysis of Hong Kong's trade for the year appears unnecessary.

Hong Kong continued to be the chief entrepot for the foreign trade of the Chinese controlled areas up until October when the rail, highway and water routes to Canton were cut by the hostilities. A fair volume of exports appears to continue through Hong Kong, reaching the Colony by various circuitous routes, but imports through Hong Kong have been hampered since that date.

Due to a large influx of self-supporting Chinese refugees into Hong Kong during the year, consumption of certain lines of consumer goods were undoubtedly larger for Hong Kong (and correspondingly less for China).

Japanese goods were boycotted in Hong Kong and Southeastern Asia generally throughout the year. Hence, Hong Kong manufacturers of consumer goods lines enjoyed a profitable year not only in supplying local consumptive demand but in exports.

Principal Items of China's Imports from January to December, inclusive, 1937 and 1938, in which America's trade is a factor, are as follows:

Commodity	Unit	Jan. to Dec. 1937		Jan. to Dec. 1938	
		Total	Am. Share	Total	Am. Share
Cotton, raw	Quintals	153,186	24,716	165,918	23,056
Brass & Copper	G.Units	5,625,715	2,069,002	2,012,938	599,727
Iron & Steel Tubes, ungal.	Quintals	138,543	1,686	75,167	639
" " " Rails, " "	"	913,311	97,243	97,945	61
" " " Plates & Sheets. "	"	777,134	188,566	260,714	109,095
" " " Tin Plates.....	"	463,697	258,818	246,274	163,025
" " " Tubes, gal.....	"	74,560	727	29,681	395
Prime Movers & Parts.....	G.Units	2,011,390	243,953	1,401,424	135,130
Machinery & Parts(n.o.r.)	"	10,023,317	1,575,393	5,306,510	577,346
Machine Tools.....	"	1,154,579	190,683	734,136	139,656
Aircraft & Accessories....	"	611,344	572,765	197,244	46,570
Motor Tractors, Trailers and Trucks.....	Pieces	4,391	3,520	4,813	4,007
Motor Cars & Busses.....	"	1,775	1,441	1,350	1,078
Motor Accessories.....	G.Units	1,553,730	1,314,666	2,198,320	1,289,337
Scientific Apparatus.....	"	2,580,657	546,821	1,071,306	176,125
Electrical Fittings(n.o.r.)	"	1,006,623	241,171	307,552	104,656
Telephone & Tel. Material..	"	1,107,235	49,446	702,423	60,184
Radio - Sets & Parts.....	"	1,568,472	867,451	524,625	440,653
Salt Herrings.....	Quintals	102,603	15,139	26,797	4,416
Shrimps & Prawns, Dried..	Kilograms	709,480	139,491	533,684	106,783
Milk, condensed, evaporated and Milk Food.....	G.Units	1,253,019	148,515	1,068,732	151,123
Wheat.....	Quintals	430,467	1	27	---
Wheat Flour.....	"	303,865	71,555	2,547,783	175,912
Cigarettes.....	Case 500's	220,625	40,027	681,268	44,164
Leaf Tobacco.....	K'grams	16,882,229	15,199,335	19,042,649	18,076,744
Aniline Dyes.....	G.Units	5,920,499	643,047	4,600,041	308,321
Artificial Indigo.....	K'grams	5,894,703	1,828,609	4,111,952	1,212,714
Printing Ink.....	Quintals	12,789	6,564	4,481	1,407
Sulphur Black.....	"	50,139	2,094	38,385	433
Paint & Varnish.....	"	2,062,176	499,923	1,313,380	233,560
Gasoline, Naptha & Benzine..	Liters	207,388,450	69,026,083	120,766,071	65,864,654
Liquid Fuel.....	Metric Tons	258,997	66,898	165,976	52,991
Kerosene.....	Liters	447,990,722	147,719,385	252,622,928	108,954,640
Lubricating Oil.....	"	47,362,692	36,781,513	26,356,202	18,875,299
Paraffine Wax.....	Quintals	342,310	31,192	333,971	33,487
Soap, Toilet & Fancy.....	G.Units	364,317	132,418	306,208	97,507
Books & Music.....	"	2,688,480	1,041,450	2,303,842	793,202
Paper, Newsprint.....	Quintals	1,102,720	6,085	391,308	3,694
Paper, drawing, documents, banknote, bond.....	G.Units	717,149	497,561	210,155	57,484
Paper & Paperware(n.o.r.)..	"	4,063,412	919,311	1,529,501	153,157
Leather.....	"	825,936	177,105	738,177	163,236
Timber, softwood.....	Cu. Meters	416,327	165,822	338,381	171,755
Asphalt.....	Quintals	108,222	66,265	53,113	16,769
Motor Vehicle Tires & Tubes.	Pieces	161,084	50,189	106,226	46,191
Photographic Material....	G.Units	2,222,482	1,001,895	2,063,567	711,475

February 15, 1939.

Principal Items of China's Exports from January to December, inclusive, 1937 and 1938, in which America's trade is a factor, are as follows:

Commodity	Unit	Jan. to Dec. 1937		Jan. to Dec. 1938	
		Total	Am. Share	Total	Am. Share
Bristles.....	Quintals	40,449	14,197	36,338	11,267
Egg Powder.....	"	94,520	36,959	59,411	4,412
Feathers, Duck.....	"	40,804	5,433	29,124	1,198
Sausage Casings.....	"	27,503	6,152	17,601	2,459
Goat Skins, dressed & undrs.	Yuan	11,888,814	9,297,679	2,522,144	283,761
Lamb " " " "	"	7,496,881	7,255,627	1,426,808	1,381,563
Weasel " " " "	"	4,036,814	4,014,682	1,833,165	1,425,477
Walnuts, Kernels.....	Quintals	51,541	30,625	33,352	11,469
Peanut Oil.....	"	414,765	121,981	242,515	50,775
Wood Oil.....	"	1,029,789	641,127	695,777	56,872
Oil, n.o.r. Tallow & Wax....	"	52,099	46,650	10,942	2,537
Sesamum Seed & Pulp.....	"	714,329	63,490	82,349	3,190
Tea.....	"	406,572	32,632	416,246	21,372
Silk, Raw.....	K'grams	8,207,646	2,338,298	4,867,560	1,032,777
Cotton, Raw.....	Quintals	381,869	94,911	1,365,622	89,035
Wool, Sheep's.....	K'grams	12,410,593	3,833,041	3,805,504	441,238
Drawn Thread & X-Stitch Work.	Yuan	28,009,436	18,058,859	27,027,298	17,493,958
Lace & Trimmings.....	"	8,474,256	6,222,041	7,503,915	4,889,227
Woolen Rugs.....	Quintals	16,660	6,275	12,349	5,163
Tungsten.....	"	165,178	23,804	123,577	750
Antimony.....	"	153,884	16,140	79,834	---
Tin, Ingots & Slabs.....	"	130,772	1,377	117,916	763
Hats, Buntal Fibre & Hemp....	Pieces	5,605,784	2,701,255	6,987,969	3,909,403
Fireworks.....	Yuan	1,803,899	7,980	1,505,696	872
Hairnets.....	Gross	725,467	131,161	597,455	199,176

Conversion Table to American Units of Measurements

1 Cubic Meter equals.....	423.7771 Board Feet
1 Imperial Gallon equals.....	1.2 American Gallons
1 Liter equals.....	1.0567 Quarts
1 Kilogram equals.....	2.2046 lbs.
1 Quintal equals.....	220.46 lbs.
1 Metric Ton equals.....	2204.6 lbs.
1 Ton (Long) equals.....	2240 lbs.
1 Ton (Short) equals.....	2000 lbs.
1 Pood equals.....	36 lbs.
1 Mow equals.....	1/6 Acre
1 Picul equals.....	133-1/3 lbs.
1 Kilometer equals.....	Approximately 5/8 Mile

PRINCIPAL IMPORTS INTO CHINA FROM AMERICA - - - 1938(1 Gold Unit = US\$0.6734)
000 omitted

<u>ITEMS</u> <u>(In order of Values)</u>	<u>Values in</u> <u>Gold Units</u>	<u>Values in</u> <u>U.S. Currency</u>	<u>% of</u> <u>China's</u> <u>Total</u> <u>Imports</u>
1. Petroleum Products			
Kerosene	6,480	4,364	49%
Gasoline	5,215	3,512	58%
Lubricating Oil	2,607	1,756	76%
Liquid Fuel	1,642	1,106	35%
Parafin Oil	433	294	11%
Lubricating Grease	173	116	67%
Asphalt	71	47	41%
	<u>16,026</u>	<u>11,195</u>	
2. Tobacco			
Leaf	8,231	5,543	96%
Stems	368	248	96%
	<u>8,599</u>	<u>5,791</u>	
3. Motors			
Trucks	5,306	3,573	78%
Cars	1,296	873	78%
Parts and Accessories	1,289	863	59%
	<u>7,991</u>	<u>5,314</u>	
4. Metals and Ores			
Tinned Plates (ungalvanized)	2,914	1,962	64%
Sheets and Plates (")	939	632	36%
Plates Cuttings	237	160	50%
Copper Ingots & Slabs	236	159	93%
Bamboo Steel	11	7	23%
Rails	2	1	21%
Miscellaneous	2,597	1,749	13%
	<u>6,936</u>	<u>4,670</u>	
5. Timber			
Soft Wood	3,122	2,102	44%
Hard Wood	435	293	28%
	<u>3,557</u>	<u>2,395</u>	

PRINCIPAL IMPORTS INTO CHINA FROM AMERICA - 1938 (Cont'd)(1 Gold Unit = US\$0.6734)
000 omitted

<u>ITEMS</u> (In order of Values)	<u>Values in</u> <u>Gold Units</u>	<u>Values in</u> <u>U.S. Currency</u>	<u>% of</u> <u>China's</u> <u>Total</u> <u>Imports</u>
6. Chemicals			
Caustic Soda	217	146	19%
Acids	122	82	40%
Miscellaneous	2,632	1,772	11%
	<u>2,971</u>	<u>2,000</u>	
7. Machinery & Tools			
Prime Movers	185	125	13%
Electric Machinery	155	104	18%
Machine Shop Tools	88	60	28%
Typewriters	66	44	40%
Pumping Machinery	61	41	14%
Office & Sales Machinery	54	36	55%
Sewing & Knitting	51	34	39%
Miscellaneous Items	1,392	937	6%
	<u>2,052</u>	<u>1,381</u>	
8. Paper			
Books (including old newspapers)	793	534	34%
Misc. paper & paperware	482	325	36%
Printing Paper	408	275	26%
Drawing paper Banknotes & Bond	57	38	27%
Wood Pulp	43	29	15%
Cigarette Paper	30	20	16%
	<u>1,813</u>	<u>1,221</u>	
9. Wheat Flour	1,615	1,088	7%
10. Dyes			
Indigo (Artificial)	852	574	21%
Aniline Dyes	308	207	6%
Sulphur Black	17	11	1%
	<u>1,177</u>	<u>792</u>	
11. Cotton, Raw	843	568	15%
12. Rubber Tires			
Motor & Inner Tubes	777	523	50%
13. Electric Fittings & Appliances	751	506	14%

PRINCIPAL IMPORTS INTO CHINA FROM AMERICA - 1938 (Cont'd)(1 Gold Unit = US\$0.6734)
000 omitted

<u>ITEMS</u> (In order of Values)	<u>Values in</u> <u>Gold Units</u>	<u>Values in</u> <u>U.S. Currency</u>	<u>% of</u> <u>China's</u> <u>Total</u> <u>Imports</u>
14. Photo			
Motion Picture Films	450	303	12%
Cameras & Accessories	76	51	19%
Photo Materials	50	34	36%
	<u>576</u>	<u>388</u>	
15. Medicines & Drugs	572	386	10%
16. Fresh Fruits			
Oranges	184	123	77%
Raisins	160	108	95%
Others	134	90	14%
	<u>478</u>	<u>321</u>	
17. Radio Sets & Parts	440	296	84%
18. Railway Sleepers	395	266	89%
19. Canned Foodstuffs	257	174	22%
20. Paints & Varnishes	225	152	16%
21. Leather	192	130	20%
22. Scientific Instruments	176	119	16%
23. Resin	160	108	91%
24. Milk Products	150	101	14%
25. Ginseng*	123	83	27%
26. Inks			
Printing Inks	75	51	48%
Inks	39	26	36%
	<u>114</u>	<u>77</u>	
27. Furs	110	74	46%
28. Office Supplies	103	69	16%
29. Toilet Preparations	91	61	14%
30. Toilet Soap	87	59	28%
31. Railway Supplies	73	49	3%
32. Dried Shrimps	67	45	24%
33. Aircraft			
Military	47	32	24%
Commercial	2,899	1,952	24%
34. Miscellaneous n.o.r.	2,687	1,809	32%
35. Other Items	<u>65,630</u>	<u>44,195</u>	

(Quantity very large, no estimates available)

GRAND TOTAL:

* Part from Hong Kong.

PRINCIPAL EXPORTS FROM CHINA TO AMERICA - - 1938
 (\$1.00 Chinese Currency = US\$0.30)
 000 omitted

<u>ITEMS</u> (in order of Values)	<u>Quantities</u> (in thousands of pounds unless otherwise specified)	<u>Values in</u> Chinese Currency	<u>Values in</u> U.S. Currency	<u>% of</u> Whole Trade
1. Tung Oil	94,793	24,324	7,297	62%
2. Textile Products				
Cross-stitch work		11,284	3,385	62%
Drawn-thread work		6,620	1,986	75%
Lace & Trimmings		4,889	1,467	65%
		<u>22,793</u>	<u>6,838</u>	
3. Bristles	2,484	11,890	3,567	42%
4. Skins & Furs				
Goat & Kid skins	Pieces 2,219	2,183	655	68%
Weasel Skins	" 621	1,425	428	75%
Lamb Skins	" 553	1,382	414	91%
Others		5,975	1,793	71%
		<u>10,965</u>	<u>3,290</u>	
5. Raw Silk	2,320	7,939	2,381	21%
6. Cotton Raw	196	6,660	1,998	7%
7. Tin	4,429	6,618	1,985	18%
8. Hats		5,926	1,778	50%
9. Tungsten	2,664	4,981	1,494	10%
10. Tea	12,682	4,556	1,367	14%
11. Woolen Rugs	1,138	2,818	845	45%
12. Feathers - geese & duck	2,398	2,512	754	37%
13. Peanut Oil	12,350	2,033	610	24%
14. Sausage Casings	542	1,741	522	22%
15. Tea seed oil	10,261	1,732	520	75%
16. Hair				
Horse & Goat	36	42	13	7%
Human	2,027	1,411	423	34%
		<u>1,453</u>	<u>436</u>	
17. Chinese Medicines		1,300	390	13%
18. Egg Products	972	1,251	376	3%
19. Firecrackers	4,405	1,060	318	70%
20. Walnut Kernels	2,528	803	241	38%
21. Buffalo & Cow Hides	1,946	715	215	17%
22. Wool				
Sheeps	972	514	154	7%
Camels	90	187	56	8%
		<u>701</u>	<u>210</u>	

PRINCIPAL EXPORTS FROM CHINA TO AMERICA - 1938 (Continued)

(\$1.00 Chinese Currency = US\$0.30)

ITEMS (In order of Values)	Quantities (in thousands of pounds unless otherwise specified)		Values in Chinese Currency	Values in U.S. Currency	% of Whole Trade
	000 omitted				
23. Curios			547	164	50%
24. Cotton Seed Oil		2,701	523	157	92%
25. Hair Nets	Gross	199	498	149	43%
26. Gourmet Powder			300	90	23%
27. Brassware		492	288	86	26%
28. Chinaware		455	270	81	32%
29. Bamboo			128	38	6%
30. Sesame Seed		703	77	23	6%
31. Nutgalls		246	29	9	9%
32. Vegetable Tallow		218	26	8	55%
33. Linseed		200	15	5	1%
34. Miscellaneous*					
Direct from China and from Hong Kong			14,024	4,207	
GRAND TOTAL:-			141,496	42,449	
			(From China 86,353 or	26,056)	
			(From Hong Kong 54,643 or	16,393)	

Note 1. There are included in most items the exports from Hong Kong to America, which originated in China and which Chinese customs returns show as having been exported to Hong Kong but which in reality went to America via Hong Kong as trans-shipments. The Hong Kong Trade Returns for the whole year were used as basis.

Note 2. *Miscellaneous Items include: Various skins and hides, sundry goods, peanut cake, other vegetable oils, earthen and stone ware, embroidered silks, wooden furniture, cotton rags, piece goods, metal-ware, musk, animal products, vegetables, silk cocoons, wearing apparel, apricot seeds, cotton socks, printed matter, cotton waste, dried lichees, fruits, glass-ware, rattan products, chemical products, textile products, and silver and gold wares.

EXCHANGE RATES

(For conversion purposes)

For the purpose of conversion of the four currencies mentioned in this report the following exchange rates for 1937 and 1938 may be used:

	<u>1937</u>	<u>1938</u>	
1 yuan (or Chinese Dollar)	US\$0.2930	US\$0.2147	(Open market interbank selling spot rates)
1 " " " "	US\$0.2930	US\$0.3000	(Official stabilization rates for export trade valuation)
1 Customs Gold Unit	US\$0.6655	US\$0.6754	(Chinese Maritime Customs average for trade valuation)
1 " " " "	US\$0.6655	US\$0.4915	(For import duty payment computation)
1 Manchurian yuan (at virtual parity with 1 yen)	US\$0.2872	US\$0.2825	(Based on Consular reports from Manchuria)
1 Hong Kong dollar	US\$0.3050	US\$0.3020	(Furnished by American Cons. General, Hong Kong)

According to the Chinese Maritime Customs, the equivalent of the Gold Unit, in which the values of imports are stated and in which duty payment is made, was at the average exchange for 1937 of yuan 2.271 and for 1938 of yuan 2.299.

SOURCES OF INFORMATION

The China Monthly Trade Reports for 1938, material submitted in weekly economic and financial radios by the office of the Commercial Attache, various Chinese and English language periodicals, material submitted by no less than three score American firms in China, and the reports of the American Agricultural Commissioner, Mr. Owen L. Dawson, were freely drawn upon in compiling this digest of trade and economic conditions in China in 1938. The statistical tables and certain other data on foreign trade represent analyses of the published statistics of the Chinese Maritime Customs which continues to maintain its integrated service for the whole of China. Specially prepared regional reviews for the year were of inestimable value and are acknowledged as having been received from the following Consular Officers:

Charles S. Millet,	American Vice Consul,	Harbin
Wm. R. Langdon,	American Consul,	Mukden
Wm. T. Turner,	" "	Dairen
Frederick W. Hinke,	" "	Tientsin
Carl O. Hawthorne,	American Vice Consul,	Tsinan
Quincy F. Roberts,	American Consul,	Chefoo
Samuel Sokobin,	" "	Tsingtao
Robert M. Taylor,	American Vice Consul,	Hankow
Robert S. Ward,	American Consul,	Foochow
Island C. Altoffer,	American Vice Consul,	Amoy
Whitney Young,	American Consul,	Swatow
Walter Smith,	American Vice Consul,	Canton
Howard Donovan,	American Consul,	Hong Kong

A. Blend Calder

A. Blend Calder,
Acting Commercial Attache.