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(Covering Trade and Economic Conditions during January-February, 1939).

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GENERAL RESUME

In Manchuria economic activity is made increasingly to serve the furtherance of the enlarged and accelerated five year program for exploitation of basic resources and development of war industries, stringent governmental control being extended to nearly all commercial activity, particularly import and export trade. Recent authorized capital increases are for the purpose of augmenting production of railway rolling stock, tractors, munitions, and of new shipping tonnage for Japan-Manchuria-China commerce, besides expanding iron, petroleum and other mineral outturn and enlarging the capacities of associated industries.

More and more are these same policies being extended to the "occupied" areas of China, with the result that trade with Japan is sharply up, while the trade of third countries, including the United States, recedes. The extension of exchange control as of March 11 to embrace all North China ports in addition to Tsingtao and Chefoo, the placing of Shanghai and Central China outside the yen bloc for the time being, and efforts to expand the circulation of the "Federal Reserve Bank" fiat currency, it is deduced from announcements, will involve also restriction of imports, and has for a major objective the acquirement of foreign exchange credits. Foreign trading interests are apprehensive that the move will contribute toward a more complete monopolization of both exports and imports in Japanese hands, the exports being made to supply funds for consolidation of position. Various evidences indicate that there is so far an inadequacy of basic and operating capital for exploitation of the "occupied" regions.

Canton and Hankow remain dead cities commercially, with the exception of an influx of Japanese consumer goods, trade facilities being denied to others. Possibly 400,000 people have returned to the Wuhan cities, out of a former population of 1.2 million, and about the same situation obtains at Canton. The major portion of the hinterland of these two trading centers is cut off but some export products from nearby points are being taken out of Hankow by Japanese interests. Shanghai continues to mark time as to the basic outlook, its industrial activity at possibly a little better than half its former level, though its January foreign trade was 84% of the January, 1937 value.

In the Chinese controlled areas, particularly in West and Southwest China, progress is reported in the program to spread industrial cooperatives, to improve and develop highway and railway transportation, particularly with the objective of facilitating exports and essential imports, to encourage the reestablishment of machine industry as transferred from now "occupied" areas, to develop commercial air services and telecommunications with points abroad, and to direct agricultural production under the war emergency toward self sufficiency but also to serve export demand to as great a degree as possible. Hong Kong, due to a variety of circumstances has so far shown relatively small ill effects from the cutting of its direct trade routes to Chinese territory. China is perforce now depending for supplies on rail and highway routes through French Indo-China, on the new highway route from Burma, and on the trans-Sinkiang highway from Soviet Russia, while utilizing these and certain ports, still open, for moving exports.



## REGIONAL TRADE CONDITIONS

Trade Conditions in Manchuria during January-February, 1939.

(Condensed from the reports of Vice Consul Charles S. Millet, Harbin, and Consul William T. Turner, Dairen)

General: The outlook for retail and wholesale business is less promising than a year ago. Measured in terms of cash money, rural purchasing power is fairly high, but rising living and labor costs and most commodity costs, render actual value of farmers' income below former levels. Though the past year has been successful for many enterprises, possibilities for continued prosperity are doubtful. Stringent government control has been extended to nearly all commercial activities, particularly in import and export trade. The wheat situation is acute as is the question of railway facilities. Soy bean millers are enjoying considerable prosperity due to the firm Japan demand for the cakes.

Agriculture and Crops: The Government control over wheat and flour prices is not efficacious. Actual prices are 5% and 17% respectively above controlled prices. Plans are reported for importing 600,000 bags of flour from Shanghai. About 3.5 million tons of soy beans are available for export. From October, 1938, the beginning of the export season, through January, over 1 million tons were exported. To curb speculators, the Chosen Government has imposed an embargo on rice exports to Manchuria and North China. The Chinese in Manchuria do not consume rice as a staple diet, but the Japanese are likely to suffer from the depleted supply.

Transportation and Communications: Sungari River passenger traffic in 1938 totalled 710,000 persons, a slight decrease from 1937. Government plans for purchase and administration of Sungari shipping are being realized. Manchurian yuan 5.6 million has been allotted for the purchase of 60,000 tons of privately owned ships. The ships and wharves of the Sungari Shipping Guild will be under the control of the Directorate General of State Railways. Government plans are to expand the business until revenues amount to M. yuan 8 million, compared with the former M. yuan 6 million. The Hsinking-Chungkiangchen air line (250 kilometers) was opened January 8. The Dairen Kisen Kaisha has announced that 14 new steamers with a total tonnage of 70,000 would be added to its fleet by 1941 at a cost of yen 25 million for coastal traffic between Japan, Manchuria and China. The South Manchuria Railway Company plans the construction of 450 kilometers of new railways for lumbering purposes and as feeders to pulp mills. The Manchuria Telephone and Telegraph Company has ordered loud speaker assemblies from Japan to be installed in public places in 20 cities in Manchuria for dissemination of propaganda, etc.

Industry and Construction: Harbin flour mills operated quietly, with Indian corn now being milled for the laboring and farming classes. Good wheat flour at official price was difficult to obtain. Wheat flour production in 1938 was 4.6 million bags compared with 10 million bags for the previous year. The outlook for 1939 is poor. Harbin contracted construction was valued at M. yuan 427,000 for January, an 8% increase over January, 1937. Wholesale prices of 49 important staple articles in Dairen during December, 1938, showed an advance of 24% over prices in December, 1937. Official price control over flour, cement, gunny bags and lumber, appears totally ineffective. Critics claim the measures are designed to further the interest of large importing and distributing firms (practically all Japanese). A Kwantung Province Price Committee was created by ordinance February 14 to act as a governmental consultative agency, to investigate costs and make recommendations as to prices, upon the basis of which price standards are to be established to prevent profiteering. - 3 -



## REGIONAL TRADE CONDITIONS (CONT'D)

Trade Conditions in Manchuria (Cont'd)

Electric lighting is now being supplied to 87,000 houses in Dairen, a 16% advance. Two additional electric generating plants are under construction to be completed in June. By 1941 transmission lines supplying upwards of 80,000 additional k.w.h. from the Yalu River Dam project are planned. A newly organized private concern capitalized at yen 20 million is to be entrusted with a 10 year project for reclaiming tidal flats of Dairen Bay.

The Dairen Machinery Company increased its capital on February 22 from yen 10 million to yen 30 million. Trebling of the capital is said to be necessitated by the progress of hostilities in China and the Manchurian 5-year industrial development plan. The company is actively engaged in the production of locomotives and railway materials, tractors and munitions. A branch factory in North China is under consideration. The Dairen Chamber of Commerce and Industry on February 24 adopted a resolution urging the Japanese Government to take a strong stand regarding the fisheries question with U.S.S.R. Approximately 800,000 tons of Manchurian lumber were consumed in 1938 for building purposes. Production for 1939 is estimated at about 1.4 million tons, most of which will be used in North Manchuria as in the southern part Japanese imported lumber can undersell the native product due to low ocean transportation costs.

Finance, Banking and Exchange Control: The Chinese New Year passed satisfactorily in North Manchuria with no bankruptcies. Collections are normal, credits tight with native banks reluctant to advance loans. The flow of money has been reduced due to the order given to the "Central Bank of Manchu" to restrict same. Commencing April 1, Chinese residents in Kwantung Leased T. will be permitted to carry Government postal life insurance, hitherto restricted to Japanese. The Dairen money market is easy, collections normal, interest rates low and deposits increasing. There is a growing tendency among the Chinese to invest in goods and real estate as tangible assets instead of currency. Permits to import goods from abroad are granted very sparingly and every effort is made by the authorities to conserve foreign exchange and to encourage exports to countries from which foreign exchange may be obtained. Travellers report increasing difficulty in obtaining permission to carry funds abroad. The S.M.R. Co. is reported to be subscribing M. yuan 120 million over a 5 year period to the projected North China Traffic Company established in March, 1939, with a capitalization of M. yuan 300 million.

The Manchurian Trade Control Law, revised by Imperial Ordinance on February 17, added 10 additional commodities, including soy beans. Associations or guilds are to be established for controlling exports. A tax is to be imposed on exports of certain of these products to "yen-bloc" countries and a bonus or subsidy to be granted for exports to third countries. The object of the measure is to increase exports to third countries of beans and peanuts to obtain foreign exchange. The law has not yet been put into effect nor has a parallel law been enacted in Kwantung Leased Territory, without which no effective control of exports from Manchuria would be possible.

Foreign Trade: Total exports from Manchuria to all countries during the first 10 months of 1938 totalled M. yuan 597 million, an increase of 16.8% over the same period of the previous year. The U.S. advanced from sixth to fifth place with 1.68% of the trade, while Japan ranked first taking 56% of total exports. However, total American trade represented a 35% reduction in value. Total imports into Manchuria from all countries were M. yuan 704 million, a 44% increase over the same period of the previous year. Japan supplied 77.7%, and the U.S. furnished 8.14%. In 1938 German trade with Manchuria officially totalled Reichsmarks 104.1 million. Exports to Germany were valued at Reichsmarks 76.9 million (of which soy beans represented 91%) and imports from Germany totalled Reichsmarks 27.2 million.



## REGIONAL TRADE CONDITIONS (CONT'D)

Trade Conditions in North China during January-February, 1939.

(Digested from reports of Frederick W. Hinke, Consul at Tientsin and Richard M. Service, Vice Consul at Tsingtao, and from other sources).

Agriculture and Crops: Spring crops have been favored by an open winter. Due to export embargoes and license systems, the wool and cotton trade with foreign markets is at a standstill with only small supplies filtering into Tientsin from the interior. In efforts to derive foreign exchange, the Japanese authorities have interfered with parcel post receipts of fur and wool from Shantung and Inner Mongolia. At certain interior points, Chinese dealers have been forced to sell cotton to the Japanese military at a reported rate of 200 native bales per day at prices nearly 50% below Tientsin market prices.

Japanese cotton milling interests and local authorities at Tsingtao have formed an association which hopes by 1945 to increase North China cotton cultivation substantially, the production to be used primarily for Japanese mills in Japan, China and Manchuria. It is too early to state to what extent the Chinese farmers will respond to this project.

Transportation and Communications: A bridge to connect the Japanese and Italian Concessions at Tientsin is being built by the Japanese military. Soviet economic control of Outer Mongolia was strengthened by the reported opening of a 600 kilometer railway line connecting Ulan Bator with Verkhne-Udinsk on the Trans-Siberian Railway. The new 200 kilometer Tatung-Ningwu Railway in Shansi, which connects with the Peking-Suiyuan Line at Tatung, has been opened for traffic. The re-opening of the Hsuehchow-Hwai River sector of the Tientsin-Pukow Railway was announced, with restoration of through traffic to Pukow promised in the near future. During January and February, North China railway traffic continued to be interrupted spasmodically by Chinese guerrilla forces.

Parcel post rates between North China and Japan were reduced 60% on January 1. Postal services with the Wuhan area have been restored. Money order services with Inner Mongolia have also been resumed. The Tientsin-Japan radio-telegraph services were resumed as were telephone services between Tientsin, Peking and Shihchiachwang. Telephones in the British and French Concessions, however, have not yet been connected with lines of the Japanese "North China Telephone Administration". On February 12, the Chung Hwa Aviation Company (Sino-Japanese) inaugurated a tri-weekly Peking-Changchun air service. Inner Mongolia is reported to have completed 4,800 kilometers of highways in 1938 at a cost of yuan 2.6 million.

Restrictions imposed on foreign shipping at Tsingtao remained in force during January and February. Vessels other than Japanese are still denied access to the Tsingtao wharves. A cargo measuring fee is now being collected by the lighter monopoly in addition to the already exorbitant charges levied by this Japanese controlled company. Reports state that the Tsingtao-Tsinan Railway is soon to be incorporated in the new Japanese "North China Transportation Company". Rolling stock on this line is still inadequate.

Industry and Building Construction: The capacity of Tientsin cotton mills was increased from 317,000 to 393,000 spindles from July to December, 1938. In addition, 62,000 spindles are now being installed, and 90,000 spindles, 4,806 doublers and 2,100 looms have been ordered from Japan for 3 new mills to be built here during 1939. It is reported that new spindleage is not yet operating due to the local raw cotton shortage. It is believed that during the next 3 months, Japanese cotton mills in Tientsin and Tsingtao will witness



## REGIONAL TRADE CONDITIONS (CONT'D)

Trade Conditions in North China (Cont'd)

a sharp curtailment in operations due to last year's reduced cotton plantings in North China. Since September, 1938, Tientsin mills have been operating at about 85% of rated capacity, but Japanese controlled allotments to local mills are reported to have been recently cut from about 314,000 bales of 500 lbs. to 180,000 bales. In Tientsin, a large cement plant and cigarette factory are planned by Japanese interests reputedly involving an expenditure of yuan 10 million and yuan 15 million respectively. Preparations are under way in Tsingtao for the construction of a large Japanese Army hospital. Cigarette factories in Tsingtao have done unusually good business since January 1. Nearly 90% of the production is by one large foreign plant. Tientsin coal mining interests are enlarging shafts at the mines and have purchased additional heavy equipment preparatory to expansion of output.

Finance and Banking: On March 10 the Japanese sponsored "Provisional" regime in Peking instituted regulations which require exporters to obtain, as a prerequisite to Customs clearance, certificates from the "Federal Reserve Bank" showing the sale to that bank of the foreign currencies derived from 12 categories of exports; Central and South China to be treated as foreign countries, exchange rates to be fixed at 14d or 27 $\frac{1}{2}$  U.S. Currency to the "F.R.B." yuan. Effective February 20, the Peking regime placed a further arbitrary devaluation on National Government notes and announced that their circulation and conversion to "F.R.B." notes would be prohibited after March 10. Despite these announcements, "F.R.B." notes were quoted in Tientsin at a discount of 31 per mille on February 28, and at times the discount at Tsingtao has been even greater than at Tientsin. Tsingtao Customs receipts for January and February reached the 1936 and 1937 levels of approximately yuan 2.5 million. Collections by the Tsingtao Consolidated Tax Bureau for February were just under yuan 1.75 million, 50% of which is derived from cigarettes. As taxes of necessity must be paid in "F.R.B." currency, efforts to circulate the latter are not wholly unsuccessful, but it is understood that in January and February special permits could be secured to carry Chinese legal tender notes up country for the purchase of export produce at points where the "F.R.B." notes are unacceptable. It is believed this practice will have to be continued as produce from many areas under Chinese guerrilla control cannot otherwise be obtained.

Foreign Trade: Demand for imported wheat and wheat flour continued heavy. North China exporters, in anticipation of exchange and trade controls endeavored to clear out their stocks and were cautious in entering into forward contracts for delivery after March 10, the date for enforcement of exchange control. During the past 2 months, the bristle trade has been inactive, demand for walnut kernels "spotty" but shipments of strawbraid have been exceptionally heavy. Fur exporters have been handicapped in obtaining supplies from interior points by various restrictions imposed by the ruling authorities. Several Tientsin German firms recently advanced credits to the Kalgan Inner Mongolian regime for electrical machinery to the extent of £100,000, to be repaid in camel wool. Wool deliveries against this loan are reported to be slow and unsatisfactory. Declared exports from Tientsin to the U.S. totalled US\$721,000 in January and US\$710,000 in February as compared with US\$752,000 in December, 1938. In Tsingtao all firms encountered considerable difficulty in their efforts to conduct an import-export business due to Japanese attempts to acquire foreign exchange from North China exports and to increase the circulation of "F.R.B." currency. It became increasingly evident that the authorities were determined to utilize North China trade for the bolstering of the "F.R.B." currency and also to promote Japanese shipping at the expense of third parties.



## REGIONAL TRADE CONDITIONS (CONT'D)

Trade Conditions in Central China during January and February, 1939.

(Digested from the report of Vice Consul Robert M. Taylor  
at Hankow and from other sources)

Agriculture and Crops: Weather conditions favor the growing spring wheat, barley and broad bean crops in the immediate area around Hankow. Under Japanese auspices cotton is arriving from up-country districts. Estimated stocks of produce stored in Hankow at present include about 4,700 short tons of wheat, the equivalent of 73,000 bales of raw cotton of 500 lbs., 20 million lbs. of flue-cured leaf tobacco and 6,700 short tons of rice.

Transportation and Communications: No commercial shipping or airplane services are yet operating out of Hankow. While the Peking-Hankow Railway is operated from Hankow northward to Sinyang, Honan, (about 110 miles) by the Japanese for military uses, it is reported that beyond that point the line has been practically obliterated. The Canton-Hankow Railway is used for Japanese military purposes from Wuchang southward to Puchi, Hupeh, (65 miles), while the military also operates the Lung-Hai Railway between Hsuechow, Kiangsu, and Kaifeng, Honan. In February, the Japanese controlled radio station at Hankow began accepting messages for such points as Kiukiang, Pengpu and Chinkiang in addition to its service to Shanghai. Telephone service within the Wuhan cities remains suspended.

Industry: No important factories have resumed operation in the Wuhan cities since this center was occupied by Japanese forces, aside from one large foreign cigarette factory. Electricity and water, while restored in some sections of Hankow, are not yet available throughout the entire city.

Finance and Banking: While foreign banks continue to operate, none of the Chinese banks has reopened outside the French Concession at Hankow. Credit is extremely tight. Military yen notes, nominally valued by Japanese at the rate of yen 1.00 to yuan 1.25, have fluctuated in value from yuan 1.17 down to yuan 0.95, but by February 28 were being quoted by money-changers at yuan 1.18. The heavy drop was reported due to the sudden circulation of yen 700,000 just before Chinese New Year, February 18, but forceful measures served to bolster the value of this fiat currency.

Foreign Trade: Non-Japanese foreign trade continued dead at Hankow and its revival is dependent upon the reopening of the Yangtsze River to unrestricted commerce. However, in Hankow there is a considerable sale to the public of recently arrived Japanese goods in shops throughout the city, Chinese merchants in some instances being forced to take delivery besides which these supplies are virtually the only consumer goods available. Considerable purchasing of raw cotton, ramie and tung oil has been done by Japanese merchants from stocks on hand at prices far below Shanghai quotations, and shipment has been made under official cover without passing Customs. Considerable quantities of Chinese-owned goods are stored in foreign warehouses.

General Comment: The Wuhan cities -- Wuchang, Hanyang and Hankow -- are located 600 miles up the Yangtsze at its confluence with the Han River. Hankow is often referred to as the "Chicago of China" and was the most important interior collection and shipping point for export and import trade for a vast region about half the size of the United States. Since the occupation of Hankow and surrounding territory in October last, the center has been cut off from most of its trade hinterland.



## REGIONAL TRADE CONDITIONS (CONT'D)

Trade Conditions in East Central China (Including Shanghai) during January-February, 1939.

(Prepared by the office of the American Commercial Attache)

General: Intermittent disturbances continued in the Shanghai-Nanking-Hangchow region, but economic life remained at an improved level despite abnormal conditions. A fair volume of foreign trade was done at Shanghai. January imports were 86% and exports 77% of the values for January, 1937. This was possible because of (1) the consumptive capacity of the permanent and refugee populations in the foreign controlled sections of the city, (2) the partial and gradual restoration of collection and distribution from and to the immediate hinterland, and (3) the fact that some export products can still move from Chinese controlled areas coastwise to Shanghai. Living costs for Shanghai factory workers have increased 52% over July, 1937. Charges for gas and electric current were again increased.

Transportation and Communications: Rail passenger traffic increased between Shanghai-Nanking-Hangchow, the regularity of services being occasionally upset by disturbances. Shipping traffic to Yangtze River ports above the Kiangyin boom continues to be denied to non-Japanese vessels. Ocean shipping tonnage entering Shanghai increased 9% over January, 1937, though river and coastal tonnage decreased 60%.

Radio-telephone services between Shanghai and Japan continued to function. Direct radio-telegraphic services were re-established under Japanese auspices at the end of February between Shanghai, Kiukiang, Hankow and North China cities. Postal services between Shanghai and Yangtze ports as far as Hankow have been restored.

Industry and Construction: Small scale Chinese industries continued to resume operations in the foreign controlled areas of Shanghai. Cotton mills, flour mills and silk filatures operated at capacity, though difficulty in securing raw materials from the interior has resulted in large orders being placed abroad for cotton and wheat. Industrial plants in the "occupied" areas of Shanghai and inland cities function under Japanese auspices. The Central China Silk Company (Japanese) operates the Chinese owned silk filatures at Soochow, Wusih and Kashing and has bought up nearly the entire cocoon supply. Construction permits for Chinese dwellings and shops numbered nearly 400 in the foreign controlled areas of Shanghai during the first two months of the year, being on a somewhat lower scale than in the late months of 1938. Warehouse construction permits continued fairly numerous.

Finance and Banking: Open market foreign exchange rates for the yuan at Shanghai opened on January 5 at 16 $\frac{1}{2}$ ¢ U.S. Currency and closed on February 28 at 15-7/8¢. The lowering trend was due to apprehensions of ill effects of the North China currency crisis. The formation in early March of the £10 million Sino-British stabilization fund has had a steadying effect on the market. Hoarding demands drove gold bar prices up to yuan 2,200 at the end of February, but later they declined. General business and banking settlements at the China New Year period, February 18, were made without major business failures, but with many accounts outstanding since the commencement of hostilities extended by banks. Chinese legal tender notes continued in use in the foreign controlled areas of Shanghai and in the Chinese guerrilla controlled areas honeycombing the nearby "occupied" regions, but in the Japanese "occupied" cities and towns yen and military scrip were much in evidence.



## REGIONAL TRADE CONDITIONS (CONT'D)

Developments in the Chinese Controlled Areas

(Prepared in the office of the American Commercial Attache, Shanghai, from various sources including a report of Vice Consul Stephen C. Brown, Kunming, Yunnan)

Agriculture and Crops: Plans are being furthered in Yunnan for improvement and diversification of agriculture. Training classes have been inaugurated for cooperative workers, also for technical personnel for the activities of the Tea Improvement Commission. A major project is the introduction or extension of cotton growing of both the native and American types in the Province. Rice prices, despite normal production last season, are up 20% due to the influx of people into the Province and other war conditions. Price regulation is to be undertaken by the Bureau of Social Affairs.

Transportation and Communications: About 600 trucks are actively in operation over the 700 mile highway route between Kunming and Chungking via Kweiyang, with expectancy that 900 additional trucks will be in service by mid-March. Merchants are obliged to pay yuan 2,600 per truck for one way freight haulage between the two points, but charges are expected to come down with the addition of more trucks and with the completion of a direct highway, upon which work is being rushed, from Kunming to join the Yangtze at a point some distance above Chungking, thus cutting the trucking distance down by half and utilizing water transport part way. Several private parties have come over the 650 mile Yunnan-Burma highway, but up to mid-February no considerable quantities of freight had been handled. Improvements to surfacing, curves and bridges are proceeding to prepare for all-weather traffic, which is expected to be under way soon following truck deliveries due shortly. Warehouses are being constructed at Lashio, the rail terminus in Northern Burma, to store cargo awaiting transport over the highway.

Ground was broken in late December for the Yunnan-Burma and Yunnan-Szechwan Railways, and rapid progress is already reported on the construction of roadbeds. The Kweilin-Liuchow section (about 70 miles in length) of the Hunan-Kwangsi Railway is reported to be nearing completion. Through traffic was begun in early January over a 1,000 mile rail route from Kiehwa in central Chekiang Province via Nanchang, Chuchow and Hengyang to Kweilin, the present terminus of the Hunan-Kwangsi Railway. The service is linked by highway truck traffic with ports on the Chekiang coast. There is considerable freight congestion at Kunming as trucking facilities have been inadequate to move away even the 6,000 to 8,000 tons of freight coming in over the railway monthly from Haiphong. Capacity of the railway line is to be increased to 12,000 tons monthly shortly with the arrival of additional rolling stock.

Kunming will be only 5 days distant by air from London when the new joint services of the Imperial Airways and China National Aviation Corporation between Kunming and Rangoon begin in early April. Test flights covered the distance in 6½ hours. The C.N.A.C. has completed arrangements for early inauguration of Chungking-Hanoi air services via Kunming, hitherto serviced only by the Eurasia Aviation Corporation. Negotiations are under way looking toward the establishment also of Air France services between Hanoi and Chungking. Plans are reported to be progressing for linking Chungking via Hami and Alamutu with Moscow by commercial air services.



## REGIONAL TRADE CONDITIONS (CONT'D)

Developments in the Chinese Controlled Areas (Cont'd)

An automatic telephone system is in process of installation at Kunming to replace the old manual system. Radio-telephone service between Chungking and Urumchi, Sinkiang, was inaugurated in early February. Chungking-Kunming radio-telephone service is scheduled for inauguration March 15.

Industry: Numbers of new industrial enterprises for Yunnan Province are being planned, and progress is reported on construction of the several industrial projects under Government direction. The national authorities plan shortly to promote handicraft industries in the rural areas throughout Yunnan, organizing handicraft cooperatives, extending loans for the projects, and training the populace in methods. A paper mill of 5 tons daily capacity is to be established at Kunming with machinery recently ordered from Germany.

Plans for the establishment of a hydro-electric plant on the Tatu River in western Szechwan near the borders of Sikang, are being furthered by the Ministry of Economics. The British Boxer Indemnity Refund Board of Administration is planning to finance 5 investigation groups to survey agricultural, mining and geological resources in Sikang, Szechwan, Kweichow and Yunnan Provinces.

The products of the Chinese Government's wolfram mining enterprises, it is officially announced, are to be handled by the Peking Syndicate Ltd., a British corporation which for many years has had extensive coal mining interests in North China.

Foreign Trade: In January, imports into the Chinese controlled areas as recorded by the Customs, amounted to Gold Units 3.7 million in value, an amount equivalent to US\$2.5 million, or 10.4% of the total imports into China. Direct exports abroad from the Chinese controlled areas, not including shipments to Shanghai from those areas for re-export, amounted to yuan 18.3 million or US\$5.5 million or 21.7% of the total exports of all China for the month. If the estimated shipments to Shanghai for re-export are added, the figure would be about yuan 24.5 million, equivalent to about US\$7.4 million or 36% of the total exports from all China.

Shipments imported into Kweiyang and Chungking via Kunming, Yunnan, consist chiefly of piece goods, light machinery, electrical goods, paper and sundry goods. The freight movement from Chungking to Kunming consists chiefly of Szechwan tung oil and bristles for export through French Indo-China and Hong Kong.

Basic Information: The West China war-time capital of the National Government is at Chungking, Yangtze River port in Szechwan Province, important source of supply of tung oil, goat skins and bristles, largely purchased by the American market, and of Szechwan silk, Chinese herbal and other medicines, and various other export products. The Province is about 156,000 square miles in area, hence is larger than Japan Proper, or almost as large as California. Its population is estimated at nearly 60 million, or nearly half that of the United States. It has important deposits of salt, iron ore, coal, mercury and copper, as well as gold and some indications of petroleum.



## REGIONAL TRADE CONDITIONS (CONT'D)

Trade Conditions in Canton during January-February, 1939.  
(Condensed from the report of Vice Consul Walter Smith)

Local business was unfavorably affected by the continued presence in Canton and vicinity of armed bands of robbers and looters, the risk in transporting goods to the city through disturbed territory, and the circulation of military notes of fluctuating value. The Pearl River remained closed to commercial navigation and the railways serving Canton are still out of commission. A Japanese gunboat carries mail every 3 days between Canton and the Portuguese Colony of Macao. Local telephone services were further restored, 850 subscribers being served, but service to Hong Kong remained cut. Non-Japanese foreign import-export firms remained idle, although increasing amounts of Japanese merchandise were imported duty-free by transports.

All important industries remained closed and construction activity was negligible. Reconstruction of the old city power plant proceeded under Japanese auspices and principal streets were again lighted. Japanese and Formosan experts are reported to have inspected the Kwangtung provincial sugar mills, cotton spinning mills, paper, sulphuric acid, caustic soda, fertilizer and cement plants, to determine the cost and feasibility of repairing them. Installment payments are still due various foreign firms for machinery installations in these plants. Credit was tight and the Chinese New Year debt settlements (February 18) were reported less successful than usual. The continued return of the poorer classes to Canton tends to increase the volume of retail business in necessities, but trade was restricted almost entirely to consumer goods. Numerous shops selling Japanese merchandise were opened, but only those selling foodstuffs did any considerable business. Beans from Manchuria and rice and sugar from Formosa have been brought in by the Japanese but a rice shortage may arise in April unless more adequate imports are arranged.

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Trade Conditions in Hong Kong during January-February, 1939.  
(Condensed from the report by Consul Howard Donovan)

January imports decreased by 34% compared with January, 1938, but are not unsatisfactory when compared with the same month of 1936 or 1937. Exports showed a 2% increase in value due to shipments from accumulated stocks of South China produce, increased Hong Kong production of export goods and continued arrival of China produce (tung oil, wolfram, etc.) by devious routes. Cargo congestion was less serious. There is no indication as to when normal rail and steamer traffic with Canton and South China will be restored. Passengers and mail are carried intermittently by river boat but there is no freight traffic on this route. British vessels still call at Hoihow, Hainan Island, but report that there is no inward or outward movement of freight. Pan-American Airways reduced trans-Pacific passenger rates by 20% with the introduction of the new large Clippers in early March. The largest vessel ever built in Hong Kong dockyards (506 ft. - 10,000 tons) was launched in February, another of the same size to be launched in May. Building construction was fairly active, but there was a falling off in new projects. The refugee situation became worse after air raids along the border, with at least 10,000 people in government refugee camps in early March.

The reports of Hong Kong industrial and other business enterprises for 1938 were generally favorable and there were no business failures of importance. Hong Kong Government revenues for January were considerably higher than for January, 1938, due largely to increased license fees and excise taxes. In general, Hong Kong business men view the outlook optimistically, though some business enterprises are obviously unfavorably affected by the dislocations arising from the extension of hostilities to South China.



Principal Items of China's Imports for January, 1938 and 1939, in which America's trade is a factor, are as follows:

Commodity	Unit	January 1938		January 1939	
		Total	Am.Share	Total	Am.Share
Cotton, raw.....	Quintals	8,388	1	93,969	12,387
Brass & Copper.....	Gold Units	185,172	36,409	146,614	45,624
Iron & Steel Tubes, ungal...	Quintals	8,175	81	6,242	27
" " " Rails, "	"	16,214	---	5,378	---
" " " Plates & Sheets..	"	12,098	6,649	35,395	4,928
" " " Tin Plates.....	"	11,315	6,862	18,778	11,473
" " " Tubes, gal.....	"	6,490	19	6,843	27
Prime Movers & Parts.....	Gold Units	81,709	5,230	63,230	4,911
Machinery & Parts (n.o.r.).	"	443,850	72,764	575,671	42,951
Machine Tools.....	"	63,652	25,136	66,921	8,976
Aircraft & Accessories.....	"	20,523	---	7,991	---
Motor Tractors, Trailers and Trucks.....	Pieces	499	239	228	211
Motor Cars & Busses.....	"	33	34	150	91
Motor Accessories.....	Gold Units	68,001	50,239	133,159	54,981
Scientific Apparatus.....	"	71,714	17,256	123,784	20,255
Electrical Fittings (n.o.r.)	"	37,366	9,394	114,267	4,471
Telephone & Tel. Material..	"	97,864	8,385	119,222	429
Radio - Sets & Parts.....	"	36,908	38,179	131,200	52,581
Salt Herrings.....	Quintals	1,633	446	130	35
Shrimps & Prawns, Dried....	Kilograms	33,911	36	65,892	24,317
Milk, condensed, evaporated and Milk Food.....	Gold Units	89,387	7,112	47,615	3,692
Wheat.....	Quintals	---	---	1	1
Wheat Flour.....	"	35,476	13,167	97,362	23,954
Cigarettes.....	Case 500's	37,283	908	39,217	4,854
Leaf Tobacco.....	Kilograms	1,175,855	1,175,346	3,074,615	2,827,842
Aniline Dyes.....	Gold Units	74,652	6,435	349,021	10,272
Artificial Indigo.....	Kilograms	131,648	9,072	106,783	2,421
Printing Ink.....	Quintals	544	456	1,331	10
Sulphur Black.....	"	689	---	7,258	13
Paint & Varnish.....	"	60,329	14,925	115,963	18,440
Gasoline, Naptha & Benzine.	Liters	10,648,482	4,939,881	10,856,665	2,078,983
Liquid Fuel.....	Metric Tons	14,708	4,878	18,839	5,197
Kerosene.....	Liters	20,000,114	6,898,532	31,869,585	11,786,080
Lubricating Oil.....	"	3,960,221	3,359,239	2,769,103	1,439,961
Paraffine Wax.....	Quintals	23,956	2,975	28,383	3,502
Soap, Toilet & Fancy.....	Gold Units	2,330	265	38,700	5,372
Books & Music.....	"	146,126	40,887	186,281	93,151
Paper, Newsprint.....	Quintals	19,057	951	39,845	---
Paper, drawing, document, banknote, bond.....	Gold Units	15,362	9,013	257,380	2,367
Paper & Paperware (n.o.r.).	"	116,224	41,417	185,660	4,945
Leather.....	"	24,325	4,089	79,250	20,042
Timber, softwood.....	Cu.Meters	6,898	4,993	35,785	19,940
Asphalt.....	Quintals	1,774	1,632	11,220	5,240
Motor Vehicle Tires & Tubes.	Pieces	10,545	4,141	11,074	3,854
Photographic Material.....	Gold Units	80,807	25,675	144,577	32,542



March 15, 1939.

# China Monthly Trade Report

Principal Items of China's Exports for January, 1938 and 1939, in which America's trade is a factor, are as follows:

Commodity	Unit	Jan. 1938		Jan. 1939	
		Total	Am. Share	Total	Am. Share
Bristles.....	Quintals	2,389	445	3,377	1,367
Egg Powder.....	"	2,870	614	4,083	391
Feathers, Duck.....	"	1,933	91	2,546	92
Sausage Casings.....	"	1,152	320	1,556	325
Goat Skins, dressed & undressed..	Yuan	174,996	---	220,788	34,243
Lamb " " " "	"	16,695	16,695	351,029	340,679
Weasel " " " "	"	---	---	222,956	215,956
Walnuts, Kernels.....	Quintals	1,676	771	9,766	4,221
Peanut Oil.....	"	11,807	---	33,473	3,111
Wood Oil.....	"	51,907	3,092	23,277	65
Oil, n.o.r. Tallow & Wax.....	"	282	3	3,758	712
Sesamum Seed & Pulp.....	"	1,079	3	8,300	307
Tea.....	"	16,554	3,915	26,901	485
Silk, Raw.....	Kilograms	238,836	4,957	401,719	78,101
Cotton, Raw.....	Quintals	28,287	3,345	28,706	57
Wool, Sheep's.....	Kilograms	60,893	4,792	69,299	48,347
Drawn Thread & X-Stitch Work.....	Yuan	1,207,599	720,045	2,193,605	1,338,415
Lace & Trimmings.....	"	440,038	324,018	918,725	562,514
Woolen Rugs.....	Quintals	1,110	495	1,219	551
Tungsten.....	"	12,733	750	4,730	---
Antimony.....	"	3,483	---	---	---
Tin, Ingots & Slabs.....	"	14,925	---	10,027	---
Hats, Buntal Fibre & Hemp.....	Pieces	408,466	159,600	1,019,215	669,208
Fireworks.....	Yuan	149,408	33	3,189	---
Hairnets.....	Gross	37,243	13,378	160,196	40,039

## 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



March 15, 1939.

The Foreign Trade of the China Region in January, 1939: China's recorded imports in January amounted in value to Gold Units 35.2 million, equivalent to US\$25.4 million, an increase of 17% over the previous month, 34% over January, 1938, but only 64% of imports in July, 1937, the last normal month prior to the widespread development of hostilities. China's January exports amounted to yuan 67.4 million in value, equivalent to US\$20.2 million, an increase of 13% over the previous month, 57% over January, 1938, but only about 76% of the exports in July, 1937. Of China's January imports, 42% (of which 70% was from the Japanese Empire) entered North China ports, 47% entered at Shanghai,  $\frac{1}{2}\%$  at Hankow and Amoy and 10.5% into Chinese controlled territory. Nearly 43% of the imports were from the Japanese Empire (an increase of 44% over Japan's share of the trade in July, 1937), 15.3% from the United States (a decrease of 49% from July, 1937), and 6.2% from the United Kingdom (a decrease of 65% from July, 1937). Of China's January exports, 18% went to the Japanese Empire (a 12% increase over July, 1937), 24.4% to the United States (a decrease of 43%), and 6% to the United Kingdom (a decrease of 71%). The evidences are that there is a substantial unrecorded trade movement between Japan and the "occupied" areas of China.

The latest available figures for the trade of Manchuria indicate imports for the first 10 months of 1938 as valued at the equivalent of US\$197 million, of which 77.7% were from Japan, - only 8.14% from the United States. Hong Kong's January imports were 34% below January, 1938, but about the same as that for the same month in 1936 and 1937. Hong Kong January exports were slightly above January, 1938.

\* \* \* \* \*

#### Exchange Rates for Conversion Purposes

For the purpose of conversion of the four currencies mentioned in this report the following exchange rates for January and February, 1939, may be used:

	1939		
	January	February	
1 yuan (or Chinese Dollar)	US\$0.1633	US\$0.1594	(Open market interbank selling spot rates)
1 " " " "	US\$0.3000	US\$0.3000	(Official stabilization rates for export trade valuation)
1 Customs Gold Unit	US\$0.7208	US\$0.7207	(Chinese Maritime Customs average for trade valuation)
1 " " "	US\$0.3923	US\$0.3823	(For import duty payment computation)
1 Manchurian yuan (at virtual parity with 1 yen)	US\$0.272	US\$0.273	(American Consulate General, Harbin)
1 Hong Kong dollar	US\$0.2891	US\$0.2891*	(American Consulate General, Hong Kong)
			*Estimated

\* \* \* \* \*

*A. Bland Calder*

A. Bland Calder,  
Acting Commercial Attaché.