

THE BANK OF CHINA

Review of Industrial Conditions by the General Manager: Able Summary of Situation

The annual meeting of shareholders of the Bank of China held in the building of the Chinese Bankers' Association on May 16, was made notable by a very able statement on trade and financial conditions in China during the past year by Mr. Chang Kia-ngau, the general manager. The balance sheet and profit and loss account of the bank for the year ended December 31 last as submitted to the shareholders were as follows:

ASSETS	
Capital Uncalled	\$ 289,500.00
Cash on Hand	22,961,482.17
Loans on Call	362,533,537.30
Investments in Securities	65,085,113.84
Fixed Loans	110,350,044.49
Bank Premises, Furniture, etc.	8,304,496.53
Reserves Against Notes in Circulation	203,847,443.89
	\$773,371,618.22
LIABILITIES	
Capital Authorised	\$ 25,000,000.00
Reserve Funds	1,223,058.44
Reserve Against Bad Debts	1,251,000.01
Current Deposits	465,731,257.90
Fixed Deposits	69,721,895.98
Drafts Issued	4,511,017.23
Notes in Circulation	203,847,443.89
Net Profit for the Year	2,085,944.77
	\$773,371,618.22

PROFIT AND LOSS ACCOUNT	
To General Expenses	\$5,278,760.28
To Cost of Printing Bank Notes Written off, Depreciation or Premises, etc.	4,188,885.79
To Bad Debts Written off and Other Expenses	1,146,393.13
To Net Profit for the Year	2,085,944.77
	\$12,699,985.97
By Undivided Profit from Last year's Account	\$ 36,458.79
By Interest	6,727,834.28
By Profit on Remittances and Exchange	3,688,052.18
By Profit on Investments	2,246,740.72
	\$12,699,985.97

In addressing the shareholders the Chairman said:—
The 19th Year of the Republic of China (1930) was very disappointing from a business-man's point of view. Hundreds of millions of dollars were lost last year by our people as the combined result of civil warfare in northwest China and bandit disturbances in other parts of the country, while the world trade depression and the silver slump added considerably to our difficulties. Our duty, as bankers, is the promotion of trade and industry, and the protection of public interests. What adversely affect the economic and financial condition of our people at the same time handicaps our own progress.

In view of this difficult situation my colleagues and I have been very cautious in our undertakings during the past year. We did the best we could, but regret that much of what we would wish to have done has had to be left undone. We shall, however, neglect no opportunity, so that the Bank of China may grow with our country, and may prove more and more useful to the general public. It is hoped that members of the community will give us their co-operation and assistance, so that we may be of greater service to our clients in the future.

I am glad to report to you that, despite chaotic conditions in this country and economic depression abroad, the Bank of China experienced an even better year in 1930 than in the preceding year. Our continued progress was due partly to our success in bringing into practice various lines of improvement in the bank's service, and partly to the strong confidence of the public in the Bank of China resulting from our sound business policy. The following statement gives a comparison of our operations in 1930, as compared with 1929.

Deposits: On December 31, 1930 the total of current deposits with the bank amounted to \$416,388,815.56, representing an increase of \$33,603,230.09 over the previous year's total. Fixed deposits totalled \$69,686,902.03, an increase of \$14,377,896.11. The sum total of current and fixed deposits thus increased by \$47,981,126.20. The outstanding feature in this respect was that the increased deposits with the bank were from private individuals and business organizations, while the total of government funds deposited with us decreased considerably last year. This may be regarded as a sign of progress in the bank's operation resulting from our efforts to co-operate with trade and industry.

We have, since the reorganization of the Bank of China as an international exchange bank, devoted ourselves to the service of the general public, and have tried to avoid

duplicating the efforts of the Central Bank. I am pleased to report that the Bank of China has been very successful in this new business policy, and has been able to follow the guiding principles outlined in my last annual report. The following figures indicate the sources of our deposits in 1930, as compared with 1929:

Deposits by Official Organizations	Decreased	Increased
	\$3,939,945.96	
Deposits by commercial and industrial organizations	\$31,466,485.17	
Deposits by individuals and private organizations	\$16,957,454.91	

The total of call loans outstanding on December 31, 1930 was \$309,229,557.53, a decrease of \$4,424,150.52 over the figure for 1929. Fixed loans in 1930 increased by \$12,931,420.91 over the 1929 total, and amounted to \$109,384,845.82. The policy we have maintained throughout with regard to our loan service has been the promotion of trade and industry. This is demonstrated in the following figures, which largely explain why the standing and reputation of the Bank of China with the general public has improved steadily.

DISTRIBUTION OF THE BANK'S LOANS IN 1930, AS COMPARED WITH 1929.	
Loans to the Government	Decreased \$3,215,629.82
Deposits with other banks	Decreased 21,826,410.45
Loans to factories and firms	Increased \$11,090,340.45
Loans to private organizations and public utilities	11,649,343.73
Loans to individuals	2,239,760.88

Note:—The items "Current Deposits" and "Loans on Call" in the December, 1930 balance sheet include amounts in foreign currencies equivalent to \$46,000,000 Chinese Currency, being time deposits and short term call loans handled by our foreign department which were not due on December 31, 1930. These amounts are not included in the foregoing comparative statements of deposits with and loans made by the Bank in the last two years.

The total of our investments in securities on December 31, 1930 was \$65,085,113.84, an increase of \$31,874,523.82 over the preceding year's figure. Sixty-two and a half per cent. of the investments made by the bank in public and government bonds are silver loans and 37.5 per cent. in gold currencies. In order to reduce the amount of risk in government and public loan bonds our policy has been diversification in investment and careful selection of securities rather than concentration on only one or two kinds of loan investments.

For the purpose of our balance sheet the value of domestic loan bonds has been calculated at 80 per cent. of their market price, while foreign loans were calculated at 80 per cent. of their market price and again reduced by 20 per cent. to allow a margin for possible loss in exchange. Thus, to ensure absolute reliability in the valuation of the assets of the bank as stated in the balance sheet, provision has been made to cover fluctuations in both the market price of the loan bonds and in the rate of exchange.

Bank Premises, Furniture, etc.—The land, buildings and furniture owned and used by the bank for business purposes in 1930 have been valued at a total of \$8,304,496.53, which is an increase of \$1,918,212.22 over the 1929 total. This increase is due chiefly to the purchase by the bank of the land and buildings, situated in Jinkee Road between the Bund and Yuen Ming Yuen Road for the purpose of erecting new premises for the head office and the Shanghai office of the bank. At the same time, land was also bought in Hongkew district and on Yates Road in Shanghai for the purpose of building suitable offices for our Hongkew and western district agencies in Shanghai. The total cost of land and buildings thus purchased in 1930 at Shanghai amounted to \$1,600,000. We bought these properties before the boom in the Shanghai realty market, and, accordingly, the present value of the land bought last year is considerably higher than their cost to us. The available space both for the head office and the Shanghai office of the bank is at present inadequate, but it is considered inadvisable to undertake rebuilding at the present exorbitant price of building materials. Instead, it is proposed to set aside each year a definite amount out of the bank's surplus profit to provide funds for the bank's new buildings in Shanghai.

The total value of the bank's notes in circulation on December 31 last was \$203,847,443.89, being only \$6,119,156.91 more than the total a year previously. The amount of the notes issued by our Shanghai branch,

however, decreased from \$131,902,715.00 to \$130,612,680.00, a decrease of \$1,290,035.00. This was chiefly due to unsettled conditions in the interior districts of China and the stagnation of trade which caused a surplus of funds at the commercial centres. We are opposed to any tendency to inflate note issues, and accordingly restricted our issue in order to maintain normal conditions in the financial market, considerations of profit being sacrificed for the benefit of the general public.

Cost of Printing Bank Notes:—As it did not seem to us right to include in the bank's assets the cost of bank notes printing, an announcement was made in my last report to you that we would endeavour to eliminate this item from the balance sheet within one or two years. I am glad to say now that, because of the successful operation of all branches of the bank last year, we have been able to write off the entire amount within one year, and are thus able to eliminate this item from the assets side of the 1930 balance sheet. I feel sure that our shareholders will be pleased at the successful operation of the bank and the conservative basis on which our assets have been valued.

Most of the leading branches of the Bank of China have been used to handling international exchange operations, but this line of our activity has been extended since the establishment, on July 1, 1930, of a foreign division in the head office of the Bank. Unfortunately, trade conditions the world over were dull, and exchange rates have fluctuated so widely that it has been impossible to carry out our plans for the foreign department to the fullest extent.

We follow the principle of safety first, but we are always ready to assist Chinese business men in the promotion of import and export trade with foreign countries. We have always been able to satisfy our clients and have done the best we could to assist them. Foreign mercantile houses which had previously had nothing to do with Chinese banks are now opening accounts with the Bank of China, and the number of our foreign clients is increasing from month to month. Individual merchants and firms, as well as public organizations, in the interior of China, whose credit is unknown to foreigners and whose securities are not acceptable to manufacturers abroad, make their purchases through us.

Within the short period of six months the Bank has handled import and export bills and extended credits up to \$3,000,000 United States currency. The business activity of our London agency has also kept pace with other branches of the Bank, and is steadily increasing. We propose soon to establish an office at Osaka with the permission of the Japanese Government and the cordial co-operation of the Japanese banks in that city, and it is hoped that Sino-Japanese trade will prosper and benefit by this new development. We shall thus do our part in promoting international trade between China and Japan, and in rendering services to the merchants concerned.

The net profit of the bank for the year 1930 is \$2,085,944.77. After deducting 10 per cent., i.e., \$208,594.48, for the reserve fund, as provided in our articles of association, and a payment of \$1,729,735 as dividends to the shareholders on a seven per cent. basis, there remains a balance of \$147,615.29, which is carried forward to the credit of undivided profit account.

Although the amount of the bank's net profit for the year 1930 is not much more than that of the preceding year, the amount written off in respect of the cost of bank notes printing, and the allowances made in calculating the values of securities in our possession, increase the value of the bank's assets and safeguard the interests of our shareholders. These amounts mean not only an unseen profit for the shareholders of the bank, but also strengthen the bank's position in China's financial market.

Trade conditions in all parts of the world, with the exception of possibly France and the Netherlands, were most disappointing last year. For example, the value of the total foreign trade of Great Britain dropped considerably in 1930 as compared with the preceding year; imports dropped 14.4 per cent., and exports decreased 21 per cent. The foreign trade of the United States for 1930 declined 30.4 per cent. in imports and 26.7 per cent. in exports. Japan's foreign trade of 1930 also fell off considerably; imports decreased 30.3 per cent., and exports dropped 31.6 per cent. Complete statistics of the foreign trade of Germany for 1930 are not yet available, but the value of her imports for the first ten months of the year was 24.1 per cent. below that of 1929, while her exports to foreign

countries dropped 8.6 per cent. Even in the case of France, which suffered perhaps least of all from the depression, imports increased by only 1.1 per cent., whereas exports declined 14.6 per cent. from the 1929 level. The widespread trade depression and unemployment experienced in the United States, Great Britain, Japan and Germany, the leading nations of the world, have extended equally to other countries engaged in world trade.

A most serious aspect of the situation has been the increasing menace of unemployment. The total number of the unemployed in the world was reported at the end of 1930 at approximately 11,800,000, more than double the number in 1929. These figures do not include the innumerable idle hands in China.

So much has been said and written about the causes of the present world economic crisis that it is scarcely necessary for me to deal with this subject in detail. Mass production, combined with poor distribution and decreased consumption of agricultural and other staple articles, has resulted in the accumulation of heavy stocks of unsold commodities in most countries. In the United States alone there existed at the end of 1930 unsold stocks of wheat amounting to 10,310,000 tons, and raw cotton 1,350,000 tons.

In order to protect the interests of the producers, various countries have resorted to artificial measures to maintain the price of their own particular line of products. The policy adopted in the United States and Canada of purchasing wheat through government and private institutions with the object of maintaining prices above an economic level may for the time being help the farmers and other producers, but in the long run may very well create still greater difficulties. When the people of one country cannot use up all the commodities they produce it is only natural that they should try to dispose of them abroad. In the meantime, other governments raise their tariff rates to protect their people against dumping from abroad. In addition, tariff walls, by closing markets to foreign products, tend to stimulate production for domestic consumption rather than for export, and while readjustment is taking place create new hardships and financial loss to all producing countries.

Monetary influences have also played an important role in the present trade depression of the world. Silver has slumped badly, causing considerable disturbance to eastern trade. At the same time concern is expressed at the present

	Rice (Saigon)	Wheat No. 1	Canadian No. 1	Kerosene (Am. Mid.)	Cotton Rate on London	Shanghai T.T. Rate on London
Jan.	\$10.731	\$5.525	\$5.325	\$3.746	\$53.925	2s 0.25d.
Feb.	10.341	5.875	5.675	3.878	50.675	1 11.25
Mar.	10.693	5.750	5.550	3.889	49.350	1 10.5
Apr.	11.272	5.700	5.500	3.888	52.925	1 11
May	11.231	5.625	5.425	5.156	33.675	1 9.875
June	11.765	5.750	5.550	5.695	61.875	1 5.9375
July	13.217	5.600	5.400	6.358	58.375	1 6
Aug.	12.396	5.600	5.400	6.471	51.000	1 6.625
Sept.	12.241	5.550	5.350	6.587	47.400	1 7.375
Oct.	9.467	5.250	5.050	6.554	45.600	1 7
Nov.	9.005	5.200	5.000	6.535	47.875	1 7.0625
Dec.	8.839	4.850	4.650	6.521	46.800	1 5.5

Mention was made in the course of my last annual report to you to the effect that silver had dropped to 21½ pence per ounce during 1929, and that it had set a low record for the last half century. It declined to an even greater extent last year, with the extremely low rate of 14½ pence per ounce in December. Such a radical change in the money market has had important effects on Chinese national finance, as well as on economic and social conditions. We shall deal with its effects on China by first looking at the disadvantages.

Added Cost in the Service of Foreign Loans:—China's foreign loan and indemnity obligations are secured mainly on the Customs, Salt and Railway revenues, and are paid in gold. No less was sustained by the Government in the service of the loan and indemnity obligations charged on the Customs revenue last year, on account of the introduction of the gold unit system of collecting import duties, but the actual cost in silver, as compared with the preceding year, was at least 30 million taels more owing to the fall in the rate of exchange.

The payments due in 1930 on the Salt and Railway loans, however, had to be made as usual despite heavy losses in exchange. The amounts due last year on the Anglo-French Loan of 1908, the Hukuang Loan of 1911 and the Crisp Loan of 1912 totalled 700,000 pounds sterling, and the amounts paid by the Chinese Government on the Peking-Liaoning (Kin-Feng), Cheng Tai, Shanghai-Nanking, and Shanghai-Hangchow-Ningpo Railway Loans aggregated at £370,000, or a com-

mal distribution of the gold reserves of the world. According to investigations made at the end of November, 1930, the total gold reserves of the world were about 2,230,000,000 pounds sterling, of which the United States of America held 38.5 per cent., France 18 per cent., Great Britain 7 per cent., and the rest of the world only 36.5 per cent. or 800,000,000 pounds sterling. In recent years gold has continued to flow to the United States of America and to France, with the result that gold reserves in other countries are proving inadequate. Serious consequences may arise from this situation when trade shows signs of recovery, unless a greater measure of international co-operation is forthcoming.

Now, let us see the adverse effects on China of the world economic crisis. More than 400,000 Chinese residing in the South Seas were thrown out of work on account of general trade depression. A great number of these overseas Chinese were forced to return to China because they could not make an honest living abroad. Thus, instead of hundreds of thousands of Chinese leaving China to make fortunes in foreign countries, no less than 100,000 overseas Chinese came back to their homes in Fukien, Kuangtung and other provinces during 1930.

The amount of money remitted to China by overseas Chinese during 1929, when the exchange rate averaged \$15 silver per pound sterling, totalled \$300,000,000 Chinese currency, but remittances by overseas Chinese to their families in China dropped in 1930 to \$250,000,000 Chinese currency, figures at \$20 per pound sterling. Thus, in silver currency Chinese remittances from abroad dropped one-sixth last year, but expressed in terms of gold it declined about two-fifths. This is an important factor which directly affects both our national finance and the exchange situation.

On the other hand, the fall of commodity prices in Europe and America has been advantageous to China. Take wheat and raw cotton, for example. Our mills at Shanghai and in other industrial centres were able to buy wheat and raw cotton at low costs, and thus were able to operate throughout the year, despite the continued warfare which prevented native wheat and cotton coming from the interior. Had wheat and cotton risen in price to the extent of the fall in exchange, the mass of people of this country would have had to suffer heavy loss in the purchase of food and clothing. The following tables show the monthly average of wholesale prices of rice, wheat, kerosene oil and raw cotton in China during 1930, together with the average rate of exchange for the same period.

	Rice	Wheat	Kerosene	Cotton	Exchange Rate
Jan.	\$10.731	\$5.525	\$3.746	\$53.925	2s 0.25d.
Feb.	10.341	5.875	3.878	50.675	1 11.25
Mar.	10.693	5.750	3.889	49.350	1 10.5
Apr.	11.272	5.700	3.888	52.925	1 11
May	11.231	5.625	5.156	33.675	1 9.875
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Nov.	9.005	5.200	6.535	47.875	1 7.0625
Dec.	8.839	4.850	6.521	46.800	1 5.5

bin total for the Salt and Railway loans of more than one million pounds sterling. Converted into Chinese currency at \$18 per pound sterling, the total amount of silver dollars required to meet China's foreign obligations secured on the salt and railway revenues in 1930 well exceeded \$20,000,000 Chinese currency, representing an additional cost of about seven million dollars as compared with the amount for the preceding year, when the exchange rate averaged about \$11 Chinese currency per pound sterling.

Despite the lower world price in 1930 of certain of the commodities which China imports, the result of the silver decline has been an appreciable increase in the silver cost of imported goods as a whole. Even goods manufactured in China have become more expensive than formerly because of the increased cost of imported raw materials. The price of salt also increased, because of a surtax of 30 cents per picul imposed by the Government to provide for the additional cost of foreign loan service. In addition, the various Chinese Government Railways revised their tariff schedules on account of the high cost of railway materials imported from abroad. The Shanghai-Nanking, Shanghai-Hangchow-Ningpo, Taokow-Chinghua, and the Kiaochow-Tsinan Railways raised their charges by 20 per cent., while the Peking-Hankow, Tientsin-Pukow, Peking-Suiyuan and the Lung Hai Railways increased their rates by 15 per cent. Thus, the costs of food, clothing, rent and transportation were all increased in 1930.

The Shanghai cost of living index number, as compiled by the Ministry

of Finance, rose from 107.9 for the year 1929 to 121.4 for 1930 (figured on the basis of costs in 1926 as 100). The increase in the income of the mass of the people of China did not follow at the rate of increase in the cost of living. Wage earners in this country are the most hard hit by the depreciation of silver value.

The increase in the cost of machinery and building materials following the silver decline will necessarily retard national reconstruction and industrial enterprises in China. Those who wish to purchase foreign machinery and materials are inclined to wait for steadier prices resulting from the stabilization of silver. Plans for the rehabilitation of the various railways are affected by the high cost of engines, wagons, sleepers and other necessary materials and equipment.

The depreciation of silver has, however, had compensations for China. Our exports to foreign countries for the year 1930 totalled Hk. Tls. 894,843,594, being Hk. Tls. 120,843,724 less than the total for 1929, or a drop of 11.9 per cent. Trade depression, however, was universal in 1930. But for the general economic crisis throughout the world, China's export trade in 1930 would probably not have shown any decrease at all.

Owing to the increase in the cost of imported merchandise, consumers in China have turned their attention to native products, and thus provided a stimulus to our domestic industries. Woollen textiles, cotton piece goods, chemical products, rubber goods, enamelware and cosmetics manufacturers have had a busy and successful year in producing substitutes. This situation is very interesting, as it provides employment for labour in China, and gives an impetus to the industrialization of the country.

Although the benefits arising from exchange depreciation may offset the disadvantages of silver decline so far as China is concerned, the present situation is detrimental to the trade of the world as a whole. Since the economic structure of the world is affected by the depreciation of silver, we must pay close attention to the serious silver problem.

According to statistics derived from reliable sources, the total world production of silver in 1930 was 243,700,000 ounces, being 17,000,000 ounces less than the total production of the white metal in 1929. The stock of demonetized silver available in 1930 amounted to 71,500,000 ounces as compared with 67,000,000 in 1929. Thus, the total supply of silver in 1930 was 315,200,000 ounces, or 12,700,000 ounces less than that of 1929. As to the cotton, 123,000,000 ounces, India imported a total of 94,500,000 ounces, and the rest of the world used up 28,100,000 ounces. Adding to these amounts 35,500,000 ounces of silver used in arts and industries, the grand total of ascertained consumption of silver last year was 281,100,000 ounces. The amount of silver unaccounted for at the end of 1930 was therefore 34,100,000 ounces, as compared with 28,900,000 ounces in 1929, or an increase of 5,200,000 ounces.

Imports of silver into the whole of China last year according to Chinese Customs records totalled 102,559,947 Haikuan taels, and exports of silver bars and coins were valued at 35,554,029 Haikuan taels. The net import of raw silver into this country was thus Hk. Tls. 67,005,918. The following table shows the value and distribution of silver imports into, and exports from, China during 1930:—

Countries Imported from and Exported to	Imports from China Hk. Tls.	Exports to China Hk. Tls.
European countries	3,148,526	1,043,419
American	40,729,073	256
Hongkong and Macao	35,464,347	30,391,481
Saigon and Tonkin	18,838,277	744,915
Singapore Straits	—	756,598
Java	—	58,063
India, Burma, etc.	1,728,069	1,772,706
Japan, Korea, etc.	2,651,655	645,259
Philippine Islands	—	141,332
Total	Hk. Tls. 102,559,947	35,554,029

Statistics suggest that the blame for the depreciation of silver should not be placed on India, since the Indian Government sold only 29,000,000 ounces of silver last year, while imports into India for the same period amounted to 94,500,000 ounces, which represented an increase of 20,000,000 ounces over 1929. Nor can the cause of the silver slump be attributed to China, because China bought 123,000,000 ounces last year, which amount was only 13,700,000 ounces less than that of 1929. The real cause of the silver decline appears to lie in the general decrease in commodity prices throughout the world and in the fact that production of silver far exceeds present demand. Unless international trade returns to normal or the production of silver is restricted, it will be difficult to stabilize the

value of silver. (We do not expect silver to return to its original position in the exchange market, but it should at least be stabilized. If silver should continue to fluctuate, or should drop to still lower levels, China will not be the only country to suffer. The stabilization of silver is far more important to the world than the rehabilitation of silver.

Accordingly, I approached the International Chamber of Commerce in March this year in my personal capacity with the suggestion that the time had arrived for the convening of a conference to discuss the possibility of international co-operation to stabilize the value of silver. I suggested that, unless the nations concerned with silver are willing to co-operate and to make sacrifices, it will be impossible to stabilize the value of silver. My suggestions were most sympathetically received, and the Executive Committee of the Chamber, which represents the national committees in all the principal countries, decided to refer the matter to the Annual Conference which is being held in Washington during the present month.

If the silver-producing countries of the world, such as the United States, Mexico and Canada are willing to make sacrifices, and China and India, the leading consumers of silver, will also co-operate in a scheme to stabilize the value of the white metal, it should not be impossible to solve the problem. Both the Indian and Chinese Governments have already expressed their willingness to co-operate to this end.

On account of the serious depreciation of silver and the wild speculation in the Shanghai Gold Bar Exchange, the Chinese Government decided last year to place an embargo on the export of gold. This embargo was enforced on May 15, 1930. The result of the embargo was that the price of gold bars in China fell below parity, thus stimulating smuggling, which has been carried on to a considerable extent. The amount of gold smuggled out of Shanghai during the last half of 1930 totalled about 25,000 bars, valued at Hk. Tls. 17,000,000. The amount of gold exported from Hongkong last year totalled 44,166,293 Haikuan taels, and that shipped out of north China totalled from three to four million Haikuan taels.

The total value of gold shipped out of China last year was thus somewhere between 60 and 70 million Haikuan taels. Gold has, moreover, continued to leave China in the early part of 1931. This situation is contrary to the expectations of the Chinese Government in placing an embargo on the export of gold. It is hoped that our Government will soon remedy this situation, or else gold will continue to flow out of China, and a serious problem will exist when the time comes for us to adopt a gold standard of currency in the future.

In view of the unprecedented slump in silver, the extensive military disturbances in China, and the serious economic depression of the world generally, it was natural to expect a sharp decline in the value of China's foreign trade in 1930. The statistics just completed by the Chinese Maritime Customs for the year, however, reveal a less serious situation than might have been anticipated.

The total foreign trade of China (excluding treasure) was valued at 2,204,599,336 Haikuan taels, representing a decrease of only 77 millions or 3.3 per cent. from the 1929 level but an increase of 17 millions over that of 1928, which was the previous highest on record. Net imports of foreign merchandise into China increased from Hk. Tls. 1,265,778,821 in 1929 to Hk. Tls. 1,309,755,742 in 1930, an advance of 3.4 per cent. while exports of Chinese products abroad dropped from Hk. Tls. 1,015,687,218 in 1929 to Hk. Tls. 894,843,594 last year, a decrease of 11.9 per cent.

The value of the Haikuan tael dropped from 2s. 7½d. to 1s. 10½d. in 1930, and when this fact is taken into consideration it will be found that, on a sterling basis, the net value of foreign imports into China dropped from 167,781,617 pounds in 1929 to 123,810,119 pounds in 1930, which represented a considerable decrease in the volume of commodities

*Since this report was written news has reached Shanghai that the Conference at Washington has passed a resolution as follows:—
"The International Chamber of Commerce, realising the serious consequences of the present silver situation to the economic condition of the world, considers the convocation of a conference during the current year for the purpose of seeking a solution of the problem at which all interested bodies may be heard, to be eminently desirable, and urges the National Committees to bring the matter to the attention of their respective Governments."

bought last year, while exports of Chinese products dropped from 134,578,556 pounds in 1929 to 84,562,719 pounds in 1930.

Business goes on in this country under the most trying circumstances. The natural tenacity and perseverance of the Chinese people seem to enable them somehow or other to surmount their immediate difficulties. When war breaks out in one section of the country, trade goes to and prospers in another section. Thus, the decrease in the value of the foreign trade of Dairen, Antung, Tientsin, Chefoo, Hankow, Canton and Kowloon last year was offset by the increase in the value of trade at Shanghai, Nanking, Swatow, Tsingtao and Harbin.

The port of Shanghai contributed 51 per cent. of China's total import trade and 35 per cent. of her exports abroad. Despite a falling off in the volume of its trade, Dairen maintained second place in the total value of China's foreign trade for 1930 with a share of 14.4 per

Countries Imported from	Value in Haikuan Taels.		Percentage of Total	
	1929	1930	1929 Per cent.	1930 Per cent.
Japan	323,141,660	327,164,867	25.22	24.63
United States	230,843,677	232,277,286	18.02	17.49
India	54,479,464	132,168,471	4.25	9.95
Great Britain	119,148,969	108,257,932	9.3	8.15
Germany	67,075,824	69,105,357	5.23	5.2
Dutch East Indies	55,898,356	48,360,659	4.37	3.64
Belgium	25,773,388	27,456,827	2.01	2.47
France	18,185,138	16,956,885	1.42	1.28
Canada	38,476,967	13,517,476	—	—
Hongkong	214,481,099	218,369,933	30.18	27.59
All others	133,716,749	134,566,293	—	—
Total	1,281,321,291	1,328,231,986	100.00	100.00

Of the principal articles imported into China from the various foreign countries, the value of cotton goods dropped from Hk. Tls. 174,226,776 to Hk. Tls. 140,888,808, woollen goods dropped from Hk. Tls. 44,723,417 to Hk. Tls. 24,804,424, sugar dropped from Hk. Tls. 98,760,546 to Hk. Tls. 89,390,806, while raw cotton advanced from Hk. Tls. 91,123,857 to Hk. Tls. 132,265,669, machinery increased from Hk. Tls. 29,886,503 to Hk. Tls. 44,288,207, and chemicals increased from Hk. Tls. 34,254,517 to Hk. Tls. 46,904,944. Low silver values discouraged imports of such commodities as could find substitutes in domestically manufactured goods or cheaper grades of similar lines of supply.

Imports of wheat dropped from 5,663,857 piculs to 2,762,240 piculs, wheat flour dropped from 11,935,448 piculs to 5,188,243 piculs, but rice imports increased from 10,824,065 piculs in 1929 to 19,892,784 piculs in 1930. The total value of

Countries Exported to	Value in Haikuan Taels.		Percentage of Total	
	1929	1930	1929	1930
Japan	256,428,320	216,555,242	25.25	24.2
United States	173,580,754	131,880,076	13.59	14.74
Great Britain	74,334,237	62,669,051	7.32	7.00
Russia and Siberia	55,986,381	55,413,027	5.51	6.19
Netherlands	39,542,554	44,943,678	3.89	5.02
Korea	39,783,845	44,174,507	3.92	4.94
France	56,319,131	42,699,749	5.54	4.77
Germany	22,467,702	23,361,413	2.21	2.61
Turkey	64,540,764	22,150,223	5.34	2.48
India	17,814,817	11,706,699	1.75	1.30
All others	87,062,526	81,271,794	8.61	9.09
Hongkong	173,580,754	158,018,091	17.09	19.6
Total	1,015,687,318	894,843,594	100.00	100.00

With Chinese products cheapened considerably in foreign markets, and the cost of imported commodities raised in China, as the result of the depreciation of silver, China had a good opportunity to develop her agriculture and industry during 1930. Unfortunately, however, the demand for Chinese agricultural products abroad decreased on account of the general economic depression throughout the world, while Chinese industries suffered from the effects of unsettled internal conditions. The operations of the Chinese cotton mills, flour mills and silk filatures were affected by the shortage and poor quality of domestic supplies of raw materials. Our raw silk industry, especially, was very hard hit. The four mills of China had comparatively better experience in 1930 than the silk filatures, but their business on the whole was disappointing. Cotton mills in China did not show much improvement over the 1929 results.

Our cotton mills last year suffered first from internal warfare and then from the general trade depression caused by bandit and communist disturbances in the interior. The demand for cotton piece-goods decreased considerably because of the decreased purchasing power of the people in the interior districts of China. Transportation troubles and poor crops of domestic cotton forced the mills to buy raw materials abroad. It was, in fact, difficult for the cotton mill-owners to keep their machines in operation and avoid a loss.

Cotton yarn prices increased somewhat at the end of the year on account of orders from the interior, placed with the object of escaping payment of the new consolidated

tax. There were one or two failures among the cotton mills of Shanghai at the end of the year, but their losses were not so much the result of trade depression as the outcome of exchange speculation.

The number of spindles in the whole of China operated by Chinese mills increased about 140,000 over the figure for 1929 to a total of 2,476,000. In addition, 1,500,000 spindles were operated by Japanese mills in China. It is reported that the capacity of the Japanese cotton mills in China will soon be increased by 400,000 or 500,000 spindles, which indicates that the Japanese mills are far more progressive than our own cotton mills. It will be very serious for the various Chinese cotton mills if they do not take immediate steps to improve the source and quality of their raw material, their working efficiency, management and capital.

The flour milling industry in North China has been weak for several years, but showed signs of improvement during 1930. Conditions in the mills of North China were improved last year by the embargo on the export of foodstuffs from Shanghai to the Northern ports, and the flour mills of Tientsin, Tsingtao and Tsinan all had profits to report for the year. The flour mills of Shanghai and the Yangtze provinces, however, suffered on the one hand from lack of domestically produced raw material and on the other hand from the embargo placed by the Nanking authorities on the export of their products to North China. Their business was very poor until the North China markets were reopened at the termination of civil warfare in October.

On the whole, flour mills in China did not have a good year in 1930. There was only one new mill added to the list of manufacturers in China last year, and only one or two flour mills reorganized from among the old existing concerns. The total daily capacity of the flour mills of the whole of China in 1930 was about 250,000 bags of 50 lb. each, as compared with an average capacity of 200,000 bags per day in the three preceding years. Although the capacity of the flour mills has been increased, the amount of domestically produced raw material has been insufficient, and the market demand for locally manufactured flour has failed to expand. The result is that the mills operate at full capacity only five months in the year, and run on a 50 per cent. capacity during the other seven months. If it were possible for the flour mills in China to operate at full capacity the year round, foreign wheat flour might be unable to find a market in China.

The total production of raw silk in China is estimated at 400,000 piculs (1 picul is equal to 133½ lb.) for a normal year, but the actual production of this important commodity has been decreasing rapidly of late. It is reported that the total production of raw silk in China during 1930 was only about 270,000 to 280,000 piculs, as compared with 300,000 piculs in 1929. The principal cause of this decrease lies in the shortage and poor quality of the cocoons. The poor quality of raw silk produced commands low prices abroad, while cocoon shortage has increased production costs in China.

The general trade depression abroad, and the restricted activity of a large number of silk mills in the United States, also had adverse effects on our raw silk industry last year. Keen competition of Japanese raw silk in the American and European markets was also a severe blow to the Chinese silk industry. In fact, the raw silk trade of China in 1930 was at its worst since the advent of the Republic in 1912.

The export of white raw silk from China to foreign countries dropped 20 per cent. in volume from a total of 124,120 piculs in 1929 to 98,603 piculs in 1930. For a time over 70 of the 106 silk filatures of Shanghai, and 40 of the filatures of Wusih, suspended operations. The experience of the silk filatures of Kuangtung Province was about the same as those of Kiangsu and Chekiang.

Modern factories in China have benefited by the increased import tariffs on foreign products, the fall in exchange, government promotion of home industry and the patriotism of Chinese consumers. Practically all Chinese factories manufacturing substitutes for imported articles increased their activities during 1930, and made handsome profits for the year as compared with 1929. The following table gives the index number of modern industrial developments in Shanghai during 1930, as compared with 1929 (the basis for the year 1929 being taken as 100):

Cigarette factories	130
Cotton weaving mills	120
Hat factories	130
Enamelware factories	100
Cosmetics factories	110
Paper mills	110
Knitting mills	120
Food extracts	140
Soap factories	115
Rubber factories	250

It is, of course, impossible to give details of the great variety of Chinese factories, and the above table shows the increase in the activity of only a few of the leading lines of modern Chinese industry in Shanghai. The total value of the above mentioned factory products manufactured in Shanghai during 1929 is estimated at \$120,000,000 and, figured at an average rate of increase of 20 per cent., the value of factory products manufactured at Shanghai during 1930 cannot be less than \$144,000,000.

Although much of the raw material used may still be imported from foreign countries, the labour is entirely Chinese, thus providing new sources of employment for the working class of our people and improving social conditions. If our manufacturers will endeavour to improve their methods of production and the quality of their output, and our fellow countrymen will give preference to domestic products in their purchases and consumption, the general industrialization of China and prosperity throughout the country will be greatly stimulated.

I would suggest that our manufacturers should pay close attention to the following matters: (1) The improvement of the quality and source of supply of raw materials; (2) Concentration both of capital and qualified personnel on the expansion of industrial activities; and (3) Close attention to the

training of the workmen, so as to create a high standard of efficiency. Unless these results are attained, the government's promise of protection, and the people's talk of industrial promotion, will be futile. The future industrial development of our country lies in the hands of our industrialists, and only the Chinese factory owners themselves can look after their own welfare.

With regard to agricultural conditions in China, it is disheartening to observe the chaotic conditions in the country resulting from internal wars and banditry during the last ten or 20 years. Farmers are unable to remain on their land, and the soil is left uncultivated. Famine is reported here and there in this country every year. Poppy is grown in the frontier provinces instead of ordinary staple crops, with the result that China has to depend on foreign countries for a considerable portion of her food supplies.

The value of rice, wheat and wheat flour imported into China during 1930 amounted to no less than Hk. Tls. 164,000,000. Raw cotton imports into China last year exceeded Hk. Tls. 132,000,000. The total amount spent on imports of foreign agricultural products in 1930 was well over \$400,000,000. It is most unfortunate that we should have to import so much agricultural produce from abroad at a time when there were excellent crops in our own country. These were reported by the Statistics Bureau of the Central Legislative Yuan as follows:

ESTIMATES OF CHINA'S CROPS HARVESTED IN 1930

	Percentage of 1930 crops as compared with a normal year	Percentage of 1930 crops as compared with 1929
Rice	103	130
Wheat	102	130
Kaoliang	85	100
Millet	96	110
Cotton	80	90

According to these figures, the rice and wheat crops of China for the year 1930 were very good. Under normal circumstances China should not have bought so much rice and wheat from abroad. The cause of the crisis in China's food-stuffs market early last year was the failure of crops in 1929 and the interruption of transportation and communications resulting from internal wars. The rice and wheat produced last year could not reach the consuming market in time and in sufficient quantities to meet requirements. As a result, rice prices in Shanghai increased rapidly and made it necessary for people in the coastal provinces of China to import rice from Saigon. When domestic rice was harvested in the autumn, however, prices dropped rapidly, with the result that farmers who were obliged to buy rice at very high prices for their own consumption in the spring and early summer suffered losses which could not be covered by the low financial remuneration for their year's labour. Those who were able to store their rice for future disposal were not as badly hit as the great majority of the Chinese farmers, who were obliged to sell their rice immediately. Thus, the Chinese farmers did not receive the full benefit of last year's excellent crops.

The Chinese flour mills were obliged to buy foreign wheat because of the difficulties in drawing supplies from the interior districts of China, and because of the poor quality of last year's wheat crop. Although there was a decrease in the value of wheat imported into China last year as compared with 1929, the total volume of the 1930 imports of this commodity reached 2,762,240 piculs. Raw cotton production in China last year decreased by one million piculs, while the import of foreign cotton increased considerably as compared with 1929.

This is one of the factors that made India the third largest supplier to the China import market last year.

China's tea crops of 1930 were affected by the cold weather and excessive rainfall in the spring. The total production of Keemun red tea last year was estimated at 74,000 half chests, a decrease of about 20,000 half chests from the total for 1929. The production of green tea in Anhui amounted to 450,000 or 460,000 half chests, which compared favourably with 1929, but exports decreased 27 per cent. in volume and 36 per cent. in value. It is a pity that China should fail to maintain her original position in the world's tea market.

Another abnormal feature of the economic situation in China during the year under review was the accumulation of surplus funds at the various commercial centres of the coastal provinces. Among the reasons for this situation may be mentioned the following:—

The banks of Shanghai increased their issues of paper money by a total of about 30 million dollars.

The bank-note issues of Tientsin and Manchuria also increased about 30 million dollars. In Hongkong, too, note issues increased by 20 million dollars during 1930. It is, of course, necessary for the issuing banks to hold an adequate amount of cash in reserve against the notes they have put in circulation.

Lack of security for rich people in the interior:—The fighting between government and insurgent troops and bandits in the interior made life unsafe for the well-to-do, who flocked to the large commercial centres of the coastal provinces and brought with them all their cash resources, which were then deposited for safe keeping with modern and native banks.

Unfavourable rates of exchange for remittances to foreign countries:—In order to avoid the loss in exchange, foreign merchants in China ceased to remit to their own countries profits they had made in China, and, instead, invested their money in China. Thus, large amounts of money accumulated at the commercial centres during 1930. As will be seen from the following figures, silver stocks in Shanghai increased considerably:—

Stock on December 31, 1929—Tls. 79,520,000 and \$117,330,000.

Stock on December 31, 1930—Tls. 98,930,000 and \$152,500,000.

Increase—Tls. 19,410,000 and \$35,170,700.

Interest rates in Shanghai fall when silver piles up in the safety vaults of the banks in the commercial centres. The highest interest paid by the native banks of Shanghai during 1930 was .179 and the lowest .017, as compared with .256 and .056 respectively in 1929.* Interest rates paid by the modern banks of Shanghai, Tientsin and Hongkong during 1930 were also much below those of the preceding year.

When the banks were unable to employ their resources in trade and industry in the interior, because of military and bandit disturbances, circumstances forced them to put their funds into government and public bonds. The Government made four issues of domestic loans during 1930, with a total face value of \$174,000,000. After deducting the amounts due last year for payment of interest and for repayment of principal of old loans, the net sum raised by the issue of loan bonds during 1930 was \$56,000,000, which at present prices give an actual return of over 15 per cent. per annum. Such an attractive rate of interest did not fail to stimulate activity in the Shanghai bond market.

Meanwhile, the banks were active in the purchase of Chinese Government gold loan bonds. It is estimated that nearly 30 million dollars were invested by Chinese banks and individuals in such gold bonds during 1930.

Another feature deserving attention was the issue by foreign corporations in Shanghai of shares and debentures. In order to avoid possible future loss in exchange, foreign concerns here issued shares and debentures locally instead of raising capital abroad. The Shanghai Power Company, the International Investment Trust Corporation and various realty companies of Shanghai together raised more than 30 million taels in Shanghai last year, most of which amount represents investments by our fellow country-men.

The year 1930 was a very prosperous one for realty companies in Shanghai. Land values rose steadily, and new buildings sprang up in every section of this great commercial centre of China. The aggregate value of real estates in Shanghai has increased by Tls. 2,000,000,000 within the last five years, and half of that increase took place in 1930, according to a recent report made by the Asia Realty Company. Realty transactions in Shanghai averaged ten million taels per month last year.

The foregoing paragraphs indicate a very unhealthy situation in the financial markets of China during 1930. When the interest rate on government and public loan bonds is so high, people with money to invest are inclined to concentrate on the purchase of loan bonds, with the result that productive enterprises in the country are apt to be neglected. If money is invested largely in real estate, as happened last year, land values become high, with the result that rentals increase and hardship is created for the mass of the people. However, until political conditions become stabilized, and the government is able to protect trade and industry, bankers and individuals are likely to find difficulty in investing their money in any other form than public

loan bonds and real estate at the commercial centres. It is to be hoped that every effort will be made to create conditions which will permit and encourage a sounder form of investment, so as to benefit the trade and industry of the country.

Conditions in China such as those I have outlined, accentuated by the far-reaching effects of world trade depression, have naturally been unfavourable to the rapid development of our bank, but, bearing in mind these difficulties, it has been a successful year of operation. If opportunity had presented itself, we feel that much better results might have been obtained, but it was essentially a year for caution and careful management.

Persons of an optimistic frame of mind are inclined to anticipate an early improvement in the world

trade situation, but it is certain that normal conditions will not be restored for some time. There is plenty of room for trade and industry in China to develop, but also room for considerable improvement in the conditions favourable to such development. Moreover, competition in world markets is very keen, so that it will be necessary for our traders and manufacturers to exert every effort to secure their rightful share of business. Improved social conditions for the mass of our people alone offer a prospect of peace in China, but such conditions will only be attained by the strongest efforts to improve the economic situation.

Mr. T. K. Yung, China's leading industrialist, was elected by ballot a director of the bank to fill the vacancy caused by the death of Mr.

Woo Ling-shu. It was also decided that the present supervisors of the bank, whose term of office is due to expire in November, 1931, will continue in office until the annual shareholders meeting in 1932.

The following appropriation of the year's profits was also agreed to:—

The profits for the year ending December, 31, 1930, after providing for all bad and doubtful debts were	\$2,085,944.77
The above sum of profits has been appropriated as follows:—	
Dividend at 7 per cent. per annum	\$1,729,735.00
Transfer to reserve fund	\$208,594.48
Balance carried to Undivided profit account	\$147,615.29
	\$2,085,944.77