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The Commercial Problems of China

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THERE is no phase of Chinese life which is not being affected by the momentous transition through which the country is passing. To appreciate the far-reaching significance of these changes, one would do well to bear in mind that prior to the beginning of the twentieth century, China was much like medieval Europe. Walled cities and villages, primitive agriculture, man- and animal-propelled vehicles, handicraft industry with an indentured apprenticeship system and craft and trade guilds, small shops and itinerant hucksters, an education based entirely upon the ancient Chinese classics, a stilted, stereotyped written language, loose legal conceptions, and the merchant on a low social level, characterized pre-twentieth-century China. Its backwardness, as contrasted with a modern Occidental society, is manifest from the facts that it knew no patent office, no machine-made products, no scientific societies, no agricultural schools or experimental stations, no railways, no corporate business concerns, no lawyers, no newspapers, no popular education, no civic organizations, and no national anthem.

THE WALLS OF CHINA

Probably no other single institution better symbolized old China than did its walls. Some one has made the statement that there are in China eighteen hundred walled cities. In addition to these, the country has also tens of thousands of walled villages. Furthermore, that wonderful institution, the Chinese family, lives within a series of walled compounds. To make the picture more complete, we must not omit the Great Wall of China in the north, the natural mountain barriers in the west, and the sea on the east and the south. To the isolating influence of walls, we may add the further handicap of lamentably poor internal communications.

Under these conditions, one can readily understand how there grew up, in certain sections of the country, units of weights, measures, and currency, customs, institutions, and even dialects, somewhat different from those in vogue in other regions. A traveler from one section to another was generally obliged to depend for protection and assistance upon provincial or sectional guilds representing his own ancestral contact, rather than upon governmental agencies. With these factors making for a lack of uniformity in a country of the vast continental dimensions, the great ranges of latitude, and the irregular physiography of China, one is inclined to marvel that the Chinese people did not separate into a number of independent political divisions. Amidst these disintegrating influences, what were the forces which made for cohesion and which tended to mold the Chinese into a fairly homogeneous mass?

CIVIL SERVICE EXAMINATIONS

Probably no one factor exerted a more potent influence in welding the various sections of China together, through all these centuries, than did that remarkable institution, the civil service examination. By its very

wise provision, whereby a native of any one province was forbidden to hold office in that province, a recrudescence of a feudal society, which characterize the China of the Confucian period, was discouraged and a barrier was placed in the way of certain elements in society setting up governments independent of central control.

On the other hand, the central government was not of an autocratic or despotic character. It interfered comparatively little with the local affairs of the community. It was of distinctly laissez faire complexion. Thus, while there was in the political system sufficient reënforcing material to hold the body politic of the nation together, the people generally experienced a minimum of contact with a central governing force. Furthermore, Chinese society has through all these ages remained democratic, without class or caste distinctions. The civil service examinations, in theory at least, were so framed as to accord to all who were prepared to avail themselves of them, equal opportunities for the rewards which they carried.

This system of examinations, which had its inception with the Han dynasty about 125 B.C., and which was pretty well perfected during the Tang dynasty, upwards of a thousand years ago, was perpetuated until the beginning of the twentieth century. It automatically prescribed a signally uniform type of education for the entire country. The people may have developed local dialects and many other localisms, but their written language and literature were uniquely standardized through this civil service examination. It was based upon the ancient Chinese classics, and was, during all these centuries, the test for recognition in scholarship and in official life. It standardized the literature and the thought of the educated masses, but it cast the intellect of the nation in a mold. It also served as a safety valve for the ambition of the nation. It was conspicuously individualistic, giving but little incentive to group articulation, thereby discouraging the development of a national consciousness or other evidences of community of interests, except as it tended to establish an aristocracy of the learned.

Individualistic Aspect

While Chinese society was individualistic, this word must be interpreted as relating to the family or clan rather than to the person. The Chinese family system possesses many commendable virtues, but it has discouraged initiative and resourcefulness. The sons remained under the roofs of their fathers throughout life and were accorded very little by way of authority or responsibility. Thus, incentives to originality or self-reliance were lacking. The unfavorable effects on Chinese society generally are very patent.

With the isolating influence, both physical and mental, of China's walls, as intensified by the country's poor internal communications, by the individualistic character of the stagnating, stereotyped civil service examinations, and by the repressing influence of the family system, one can readily appreciate why the Chinese, so highly civilized, contrasted so unfavorably at the beginning of the twentieth century with much of the rest of the world, in modern political, social, and economic ideas and institutions. Thus it is that the transition through which the Chinese are now passing is of such far-reaching consequence. It represents a political as well as an

industrial revolution, an intellectual renaissance and a social transformation. These are transpiring concurrently. They are affecting the welfare of a quarter of the human race, hence are of commanding interest to the world at large.

It naturally comes hard for a people so long accustomed to regard themselves as the center of the universe, and the rest of the world as barbarian, suddenly to be confronted with the astounding fact that its civilization is in certain essential respects inferior to that of some who were looked upon as foreign barbarians. Increasingly large numbers of Chinese people are casting away their pride and accepting from the treasure house of the West, ideas and institutions which, while representing the heritage of the human race, are in many respects so different from those things which characterized their own civilization as to warrant their being labeled foreign.

Unfortunately, this transition means the breaking down of an economic balance which carried with it many commendable characteristics making for human contentment, and the building up of a new economic system, based upon far more complicated conceptions of man's relations to his society than those which obtained under the simpler, more human, and less mechanical China, to which its great masses were for so many centuries accustomed.

The problem of producing in the modern world a satisfactory measure of human contentment under an economic system whereby the individual is submerged in the large corporate institution, is one which is still in process of solution. Unfortunately, there are those destructively minded individuals who are more concerned with denouncing the present economic system than with correcting the weaknesses thereof. It is possible China may be able to make some helpful contributions to this important human problem, while establishing a new economic balance.

One sees everywhere in China, striking evidences of the pride of the individual in the products of handicraft industry. The new economic order should strive to accord the individual opportunities for continued expression of talents which represent the heritage of a rich civilization, while giving to Chinese society generally the benefits of the scientific achievements of the world during the past six or eight decades. At all events, there is no possibility of reverting to the old order. What the future has in store for humanity under this new economic era remains to be seen. Apparently, no one people or race can any longer live apart from the rest of humanity and thrive.

China Compared with the United States

In considering the commercial problems of China, we are obliged, then, to take full cognizance of the significant background as above described. The China of to-day is a society in transition. The China of to-morrow will probably be more like modern America than modern Europe. Physically, China and the United States have many strikingly common characteristics. These two countries lie between very nearly the same degrees of latitude. They are both vast continental areas. Agriculturally, they are much alike. Each has its large central river valley. Both have a wealth of mineral resources. While the United States is far richer than China in its supplies of coal and iron, yet we may

credit the latter with greater stores of these two essentials to the success of a modern economic society than has any other Pacific nation. In man power, China is particularly fortunate. Its great masses are naturally industrious and possess many other commendable qualities.

China is predominantly an agricultural country, with about eighty per cent of its people in its agricultural population. Cognizance must, however, be taken of the fact that domestic handicraft industry is a considerable part of the by-products of its farm labor. However, even allowing for adjustments accordingly, the Chinese people, with their primitive agricultural methods, are realizing but a small fraction on their agricultural resources and their man power, as contrasted with what the American people secure on a proportionate unit basis. In the United States, but thirty-five per cent of the population is rated as agricultural; yet its masses are far better fed than are the Chinese, and have a vastly greater surplus for export. It is not surprising that the American Red Cross Commission, which came to China during the summer of 1929 to investigate famine conditions, concluded that China's famines could be relieved only by curing the country's basic economic ills. China is not overpopulated. With the instrumentalities of a modern economic society, it could produce enough to feed its present population well and allow a substantial surplus for export.

Railways

No single factor has contributed in a larger way to the economic advancement of the United States than has the railway. Likewise, economic inland transportation is the greatest essential to China's advancement in agriculture, mining, manufacturing, and trade. It seems almost incredible that there should be, at this time when the world is celebrating the centennial anniversary of the introduction of the steam railway, provinces in China, much greater in area and population than many European nations, still without a mile of railway. Nothing more vividly portrays China's economic backwardness in contrast with conditions in America, than the fact that while China is considerably larger in area and has a population three or four times as great, it has less than one twenty-fifth of the railway mileage of the United States. Furthermore, some of the more poorly administered railways in China are charging freight rates eight and ten times as high as those obtaining in America. Thus, the primary purpose of these lines is defeated by bad methods of operation. Millions of human beings in the Chinese Republic are to-day functioning as pack animals, at unit costs ten to fifteen times as great as freight charges on American railways.

Needless to state, so long as China must depend upon human beings, pack animals, and, in some cases, badly operated railways, for land transportation, the economic life blood of the nation will continue almost stagnant. Even though millions of human and animal carriers are impressed into service in China, the aggregate amount of cargo hauled is only a negligible fraction of that carried over America's railways. Affluent America cannot afford the luxury of the personally conducted cargo characterizing poverty-stricken China. The economic levels of the great masses in China cannot be substantially raised until a considerable portion of the load is lifted from the backs of

human and animal beasts of burden and placed on less costly carriers, and provision made for the economical transportation of the hundreds of millions of tons of cargo not now being carried.

It is of interest to note that in spite of the disturbed conditions obtaining in China, there is at present under construction in the Three Eastern Provinces (Manchuria), under Chinese auspices, a greater mileage of new railways than is probably being laid in any other section of the world.

Motor Roads

It is also refreshing to be able to record a very extensive interest throughout the whole of the Far East in motor road construction. There is not a province of China which has not during the past ten years made some progress in this commendable work. For instance, in Kwangsi, long rated as one of China's poorest and most backward provinces, where there is not yet among its ten millions of inhabitants a single mile of railway, there have been constructed, during the past five years, upwards of twelve hundred miles of motor roads, over which several hundred busses are in operation. In Szechwan province, with a reputed population of upwards of fifty millions, which represents the most populous section of the earth, not yet favored with the iron road, there are being constructed nearly a thousand miles of motor roads.

Unfortunately, motor road construction in China is confined almost entirely to the idea of providing facilities for passenger travel. Little has as yet been done towards utilizing motor transportation for cargo transport. In Kwangsi province, tens of thousands of human beasts of burden may be seen trudging along over the newly constructed motor roads under burdens averaging about one hundred and thirty pounds, at costs far greater than would be possible on economically operated motor trucks. Furthermore, rapacious militarists in some sections of the country eagerly grasp the opportunities accorded by enterprising motor bus concerns to tax the traffic so heavily as severely to curtail it. A little better business sense on the part of the tax collectors would encourage the maximum amount of possible traffic, consistent with the greatest possible revenue to be derived therefrom.

A surprisingly keen interest is manifest in China in the possibilities of aviation. With its vast continental area, its huge population, and its poor internal communications, China offers a splendid field for commercial aviation.

Among the handicaps to Europe's economic recovery following the Great War are the numerous tariff barriers economically separating the various nations comprising the European continent. On the other hand, the United States thrives by virtue of the fact that no tax stations restrict the flow of trade between one state and another. China, larger in area than Europe or the United States, should possess an even greater advantage in a free flow of trade over a still larger domain.

Unfortunately, many of those in authority, instead of realizing upon this signal advantage, stifle the country's trade far more than is the case in the commercial intercourse of the varied peoples of Europe, by multifarious internal tax exactions, which in numerous instances aggregate several times the value of the goods in transit, thereby killing the goose that lays the golden egg. Unless commercial transportation is linked with freedom from burdensome tax

exactions, it will be futile. On the other hand, pending the installation of railways, roads, and other modern transportation agencies, a system of uniformly reasonable taxes throughout the length and breadth of China will in itself prove to be a great boon to the nation's commerce and industry.

Economic Waste

Economically speaking, it is probably no exaggeration to state that in the aggregate, the Chinese are the most wasteful people on the face of the earth. Through the instrumentalities of a modern economic society, such as the United States, it is estimated that every man, woman, and child in such a community has at his command the equivalent of from twenty-five to thirty mechanical slaves. It is quite certain that every man, woman, and child in Chinese society has to-day on the average less than one mechanical slave to add to his productive capacity. Industrially, American laborers command from ten to twenty-five times the wages that the Chinese receive, evidently for the reason that, with the aid of the mechanical slaves at their command, they are proportionately so much more productive. It would seem that China in transition must look forward to equipping its man power with the implements of a modern economic society by way of scientific devices, and with the education whereby the individual may be able to utilize these to increase his productive capacity very considerably.

There are those in China who are apprehensive lest the introduction of mechanical power and scientific processes throw out of employment vast numbers now engaged in domestic handicraft industry or functioning as human beasts of burden. Tens of thousands of Chinese in Northwest China are at present on the verge of starvation, within a stone's throw of vast outcroppings of anthracite coal, which are practically worthless because they cannot be converted into food on account of lack of transportation facilities.

China continues to import coal, yet the country possesses greater resources in this mineral than does any other Pacific country with the exception of the United States. It is neither to the advantage of China nor to that of the trading nations of the world that this country should continue to purchase from abroad hundreds of millions of dollars' worth of commodities which are of a nature which can be more economically produced domestically.

While the transition to a modern economic society will necessitate extensive readjustments, yet there are such vast opportunities for the employment of labor and capital in the development of the country's latest resources that the general economic level of the great masses in China will very appreciably rise. Instead of less, there will be more employment, hence, employment at more lucrative rewards than obtained under the old régime.

Education

Illiteracy stands out as a heavy deterrent to a rapid advancement in a modernization of Chinese society. Those who are laboring to bring to China the results of the scientific achievements of the Occident find themselves confronted with the fact that upwards of eighty per cent of the masses in China are unable to read or write sufficient Chinese to make it possible to instruct them in the functions which they might perform in regenerating their society. On the other hand, these great

hordes of illiterate people, the majority of whom are on lamentably low economic levels, serve the unbalanced or unprincipled agitator as fertile soil in which to plant seeds of class hatred and interracial animosity.

The inauguration during recent years of a mass education campaign represents a constructive measure of great potentialities in correcting this appalling situation. The educational motion-picture film and the radio should furnish to the Chinese people excellent supplementary media in their efforts to overcome the ignorance of their masses, who are in reality receptive to that which may appeal to them as helpful to a betterment of their conditions.

The privileged few in China who have enjoyed a modern education have, in many instances, simply substituted a Western academic for an old-time Chinese classic education. Scholastic degrees from Western educational institutions or from Western-type schools in China have been considered by many as the final objective in a modern collegiate training. Some Chinese are of the opinion that it would be distinctly helpful to the whole cause of education in their country if arrangements were made whereby collegiate degrees were withheld, to be awarded five or ten years after the student has completed his academic course, upon the record he may have made in the application of his scholastic education to the demands of his society.

Too many students in China are being educated away from the needs of a Chinese environment and too few are being trained to understand their own country, its pressing problems and how best to make themselves factors of consequence in the needs of the China of to-day and to-morrow. This not only makes for disappointment and dissatisfaction among students so educated, but it also involves a heavy financial burden. Unless a considerable number of the men and women sent abroad bring back with them a practical knowledge of how to apply their Western training to the needs of their country, and really set themselves to the task of being of service to their nation after their return, the sacrifice which must be made to give these men and women a Western education, under present conditions in China, is of questionable value.

In the opinion of many Chinese, it would be wiser to limit scholarships abroad to carefully selected graduate students. Every student sent abroad means depriving a score of boys and girls in China of opportunities for a schooling in their own country. Thus, the question of education in its varied aspects is one of the commanding problems in the economic, industrial, and commercial life of China.

Adjustment of the Family System

Underlying the whole fabric of Chinese society in its emergence into a modern economic order, is the problem of the adjustment of the family system, so long inured to a medieval society, to the demands of the modern conceptions of man's relations to his fellow man. In other words, the new China will be that of the corporate rather than the individual or family entity. This corporate idea was a gradual evolution in an Occidental society, but in China it is more nearly a revolution. It means the scrapping of old conceptions and the substitution of new ideas in industry, trade, and politics.

Under the old régime, a man's relations to his family were held sacred. He was his brother's keeper.

The members of the family shared in the responsibilities and the rewards of the individual in the family, but initiative and resourcefulness among the younger generations were stifled and discouraged. This condition encouraged the impregnation of the whole fabric of Chinese society with nepotism. Some Chinese are recommending that the slogan "No relatives or fellow clansmen, as such, need apply for jobs here" be plastered on the walls of every government building, industrial plant, and business office throughout the length and breadth of the land.

The damage done by an overstaffed organization lies not so much in the extra financial burden involved as in the demoralizing effect upon the entire personnel, because the lazier and more shiftless among the employees discourage initiative and enterprise on the part of those who otherwise might have been ambitious to rise to positions of trust and responsibility. Thus, an overstaffed organization is faced with the danger of a breakdown in the morale of its employees.

The new order demands an intelligent appreciation of the responsibilities of trusteeship in the larger unit —the corporate of impersonal entity. A new body of law and of customs must be perfected successfully to usher in this change from the individual or family conception to that of the corporate idea. China should be assured of courts capable of guaranteeing to society in general and to the individual in particular, the rights and protection to which they are entitled. To accomplish this, first and foremost, China's militarists must be brought in under the law.

Legal Structure

In old China, the Chinese merchant or craftsman avoided as much as possible any contact with legal tribunals. When disputes arose in his relations with his fellow man, they were generally adjudicated by a special committee of his guild or other trade organization. Probably no other country has developed the idea of arbitration and compromise in the settlement of disputes between members of its society to the extent used in China. Equity in the sense of compromise, rather than law in the sense of legally defined rights, generally dictated the decisions of the adjudicating committees of the guild or trade organizations. A certain amount of stigma attached to the idea of carrying a case to court. Furthermore, legal tribunals were, during the latter decades of the Ch'ing dynasty, notoriously corrupt.

It would be unfortunate for the general credit standing of the Chinese business public, if, with the inauguration of an era of modern legal practices, as necessitated by China's emergence into a modern corporate society, the Chinese merchant, who during past decades enjoyed an enviable reputation for sanctity towards an obligation, should relax into one who would use the technicalities of the law in efforts to evade obligations. China should be able to teach the world much in the idea of equitable arbitration as applied to commercial disputes.

During the coming decade, China, now at the inception of its age of law, is likely to be deluged with a plethora of legal enactments and regulations which affect nearly every phase of the life of its people. Tons of literature representing the legal *modus operandi* of modern societies throughout the world are being imported into China to serve as guides in constructing in this environment a legal structure patterned after that of the modern Western world.

While the object is commendable, yet there is a tendency to take over, bodily, laws and regulations which need not only carefully worked out alterations to fit them into the peculiar needs of this society, but also intelligent discrimination to avoid saddling upon the Chinese people unnecessary or unwarranted restrictions or obstacles, some of which represent a duplication of laws and regulations already handicapping the effective functioning of the societies from which they were borrowed. There is a grave danger that the new China may get such an overdose of law and regulations, or so many not suited to the palate of her people, that she will suffer from time to time from severe attacks of economic, social, or political indigestion.

Chinese Currency

A serious factor adversely affecting China's trade and industry is its chaotic currency situation. China is on a copper-silver basis. Among the masses, copper is the coin most in use. In higher circles and in foreign trade, silver figures most prominently. Aside from the serious fluctuation in silver's relations with gold in imports and exports, China is encumbered with a multiplicity of different standards in copper and silver coins, as also, in certain sections, with considerable issues of unsecured paper currency.

The minister of finance of the National Government has courageously attacked the whole problem of currency reform in China. He called to his assistance the Kemmerer Commission, whose reports are now being used in a program for bettering the country's fiscal conditions. Under the direction of the minister of finance, a mint has recently been installed in Shanghai which is the largest and most modern in the world. This should be a powerful agency in giving the country a uniform currency. However, until the National Government is sufficiently strong to dismantle the ten old mints scattered throughout the country, the majority of which are under the control of militarists over whom the central government has not yet been able to exercise authoritative control, it will be difficult to put the Shanghai mint into effective operation.

There is considerable agitation among enlightened Chinese circles for the placing of the country on a gold standard. The fluctuating silver market harasses China's foreign trade. The Chinese dealer hesitates to fix exchange when closing an import or export transaction. His natural speculative propensities lead him to chance a gain on exchange with the settling of his bill. Should it take an unfavorable turn, he is reluctant to take up his goods; in fact, if the margin is a matter of considerable concern, the foreign trader may be obliged to take a loss or to accept an unsatisfactory compromise. Furthermore, trade generally is taxed by the tolls taken by the banks in effecting the exchange transactions. Thus, China has much to gain by an arrangement whereby trade will not be harassed by the uncertainties of a currency which, while serving as a medium of exchange, is also a commodity subject to the laws of supply and demand, plus manipulations on the part of those dealing in this commodity.

The events of the past few months have accentuated in a very striking manner the handicap under which China suffers by remaining on its silver-currency basis. It is the only country of any consequence which still continues on a silver standard.

Furthermore, at least seventy per cent of the silver production of the world represents by-products in the mining of other metals. Thus, China has become the dumping ground for the surplus silver production of the world, with the result that its trade has been seriously impaired and some remedial measures must be taken to adjust this unfortunate currency situation. It would seem that under these conditions a very considerable impetus might be given to the development of native industry and to the extension of China's export trade, as low-priced silver is distinctly favorable thereto.

Of consequence also to the general trade and industrial outlook is a continuously increasing unsecured national debt, particularly so with the gold commitments since the heavy slump in silver values. China's debt obligations, domestic and foreign, aggregated on December 31, 1929, upwards of three billions of dollars silver, over one half of which are unsecured or inadequately secured. This condition not only cripples the government in its efforts to develop an effective system of administration so essential to trade and economic prosperity, but also deters its embarkation upon larger construction projects. Furthermore, the worse the government's financial position, the less the measure of confidence therein to be expected from bankers and others upon whom it might otherwise depend for financial support.

Armed Forces

For a country possessed of the population and the resources of China, these amounts are not alarming. Provision can be made for the refunding of these debts, provided the government can harness the vast hordes comprising the armies operating independently of central government control. Estimates place the numbers of armed men in China between one and a half and two millions. These in the aggregate comprise the largest standing army of any nation in the world. Undoubtedly, the majority are soldiering by force of economic necessity rather than by choice, and would probably prefer to return to peaceful pursuits were the opportunities favorable.

These militarists constitute an increasingly alarming menace by spreading disorder and anarchy throughout the country, and more particularly through the encouragement which they offer to the growth of communism in China. During the past year, communistic terrorism has assumed alarming proportions, especially so in central China. It presents the most acute problem affecting the general welfare of the masses throughout China, especially while the government military forces are engaged in civil strife. These diabolically destructive forces threaten to spread like wildfire over the whole country unless effectively checked.

It is, however, significant that in what may be termed sheltered spots in China, even though for intermittent periods, trade fairly quickly assumes a rejuvenating hue. The resiliency of the Chinese people is proverbial. One may read of dreadful conditions in one section of the country and at the same time hear of constructive developments in progress in an adjoining region. The intricate scientific mechanism of a modernly developed society is easily thrown out of gear, seriously affecting the whole organization of that society. With its poor internal communications and its domestic handicraft industry, what affects one section of China does not necessarily extend to other areas.

Shanghai presents the most patent example of trade and industrial progress in spite of China's military and political disorders. This is in part due to the foreign protection which it receives. Its building program, involving the construction of palatial business, industrial, and residential structures, shows no signs of a let-up. The city has doubled its population during the past twenty-five years, and it is now, with its three millions of human beings, rated as being among the first ten cities in the world. In Shanghai, one will find huge six- and seven-story modern department stores and apartment houses and hundreds of successful modern merchandising and industrial institutions. This commercial metropolis of China, with its strategic location at the outlet of the most fertile and most populous of river valleys in all the world, is likely a few decades hence to become the world's largest trading port.

Banking and Merchandising

No other line of business has progressed so extensively in a modern way among the people of China as has banking. This is not strange, as banking in China antedates that of probably any other country in the world. Although modern Chinese banks have been coming to the front during the past two or three decades, as evidenced by the fact that there are hundreds of them scattered over the country, these banks are still without effective national or provincial laws and are still without arrangements for effective examination by properly constituted authorities. While the Western banker may in a sense envy the Chinese bank which is without regulation or examination, yet he would not be willing to accept the handicaps under which the latter must operate to secure these exemptions. The fact remains that the Chinese bankers, through their organized associations, are clamoring for laws, regulations, and examinations such as may assist their financial houses to become important factors in the encouragement and furtherance of trade and industry in their country.

No better testimonial is needed to demonstrate the ability of the Chinese to operate large modern corporate merchandising establishments than is manifest in the success of their big publishing houses, which have their headquarters in Shanghai and their scores of branches scattered throughout the interior of the country. Even more patently successful are the big Chinese department stores, employing, in some cases, upwards of a thousand clerks, large numbers of whom are trained to speak English. These palatial structures carry hundreds of thousands of dollars' worth of foreign goods of high quality. They operate upon the theory of a maximum turnover with a minimum of profit.

The success of the Chinese merchant in the Philippine Islands, where he is reputed to control about seventy-five per cent of the internal trade, and of the Chinese business man in the Dutch East Indies, in the Straits Settlements, and in other of the South Sea colonies, where he is a commanding factor in the commercial prosperity, attests to his ability to prosper where political conditions are reasonably favorable. No other people seem to show greater ability to thrive under adversity than do the Chinese.

Modern industry in China had its inception about forty years ago with wealthy officials, who could assure to the plants in which they were

interested certain exemptions from official interference and certain considerations in tax exemptions. On the other hand, the management of such concerns was, more often than otherwise, in poorly qualified hands and lacked technically trained men. Hence, these concerns were not, in most cases, profitable financial ventures.

During the years of the European War, much private capital was invested in industrial plants in China, especially in cotton mills. Unfortunately, the earnings were often paid out in dividends with little or no regard for upkeep or reserves, with the result that after the heavy war demands ceased, a number of the mills were unable to weather the lean years. Furthermore, unfavorable political conditions throughout the country during the past ten years have been most discouraging, especially excessive tax impositions and difficulties in internal communications.

Problems and Progress of the New Order

Although China is favored with an abundance of cheap labor amenable to training as effective workers in modern industrial plants, yet the crowding of these laborers together in big manufacturing centers produces problems new to Chinese society. Living costs soon rise to proportionately higher levels than do wages, and discontentment follows, producing a soil ripe for agitators. Chinese capital seems to be slow to recognize the necessity of taking advantage of the lessons learned in Western industrial communities, in its relations to the laboring masses. On the other hand, once Chinese labor is aroused and becomes conscious of its power as an organized unit, it is prone to make unreasonable demands.

However, despite their handicaps, the Chinese are gradually becoming increasingly larger manufacturers of certain commodities which at one time figures prominently in their lists of imports. The principal items in this connection are cotton goods, matches, cigarettes, flour, cement, canned foods, toilet articles, and knitted goods. It stands to reason that if progress in modern industrial undertakings can be made under the very unfavorable conditions which have obtained in this country during the past two decades, far greater strides are bound to follow in the wake of internal political improvement.

A factor which lends an impetus to domestic manufacturing is the continuous accentuation of nationalism, carrying with it such a slogan as "patronize home industry." Also, under tariff autonomy, China will undoubtedly do much to encourage domestic manufacturing. China has practically no old ideas nor machinery in a modern sense to scrap, hence she enjoys the advantage of being in a position to take from the West the latest and newest in modern industrial developments as well as to profit by the experiences, the methods, and the ideas of Western nations.

The Chinese of to-day may be differentiated from his forefathers, in that he is receptive to modernizing influences of all sorts. He not only wants railways, motor roads, wireless and telephone communications, airplanes, industrial machinery, modern banks, modern agricultural improvements, a modern judicial system, and the latest in educational and scientific achievement, but he also is gradually being trained to handle these innovations efficiently. Furthermore, the present National Government is the best in a constructive sense that has been evolved since the Revolution of 1911.

It is almost impossible, even with the wildest stretches of the imagination, to conceive of the vastness of the commercial expansion which may follow in the wake of China's reconstruction, once the country has definitely launched upon a period of peace and order. China's foreign trade is to-day equivalent to three dollars gold per capita, compared with America's eighty dollars. For each one dollar per capita increase, China's total foreign trade will be advanced four hundred million dollars.

In the interim—that is, while China is attaining a fair degree of political stability, installing its needed trunk railways and other means of communication, developing its hydroelectric power and its mineral resources, and revolutionizing its agriculture, commerce, and industry—would not the Chinese people do well to encourage the foreign business man and capitalist in further advancing the country's commercial and industrial growth? China is to-day comparable with the United States of sixty or seventy years ago, when it was so overwhelmingly engrossed with its own internal problems and the development of its internal resources that it had to leave the handling of much of its foreign trade to foreign concerns and to depend upon outside capital for much of its internal construction work.

Chinese Nationalism

In its relations to the foreigner and foreign capital, China enjoys one great advantage over that possessed by the United States. America found it necessary to safeguard itself against colonization by peoples of diametrically opposed ideals and aspirations. China, on the other hand, is so thoroughly populated by its own people as to offer no inducements to colonization on any large scale by any outside people.

As the spirit of nationalism becomes more general among the Chinese people, there is manifest an increasing opposition to foreign interests in their country. Will not the general welfare of the Chinese people be best conserved through an intelligent discrimination between those privileges enjoyed by foreigners which stand as barriers to a larger measure of progress for the nation as a whole, and those which, while superficially placing certain foreign interests in a position of advantage, in reality are destined to be distinctly helpful to the country's greater advancement? May not an injudicious curtailment of the activities of foreigners in China result in damage to the economic welfare of the Chinese people, far greater than any advantages which could be gained thereby? China represents the largest populated area of the earth, possessed of a wealth of undeveloped natural resources. Therefore, has it not good reason to court the friendship of those who may be helpful in providing facilities necessary to its embarkation upon a modern economic and industrial era?

Some of the Chinese who are clamoring for the exclusion of the foreigner from their country or for the serious curbing of his privileges apparently fail to realize that there are manyfold more Chinese living in foreign lands than there are foreigners resident in China, or that the Chinese resident abroad are probably sending back to China each year more money in the aggregate than foreigners are making out of their investments or other business enterprises in China.

In America there are about one hundred thousand Chinese, as compared with ten to twelve thousand

Americans in China. In New York City alone there are nearly one thousand Chinese restaurants—a number far in excess of the total number of American concerns in all of China. The Chinese in the United States are reputed to be remitting annually to their home country about thirty million dollars gold, which is undoubtedly more than the net profits on American business in China. Furthermore, it must be borne in mind that the people of the United States are sending to China annually in support of constructive philanthropic work under the direction of four or five thousand of their resident nationals, about ten million dollars gold.

The Chinese in the Philippine Islands, the Dutch East Indies, the Straits Settlements and other of the South Sea colonies, in Australia, and in other foreign lands, are annually remitting to China a sum aggregating, so it is estimated, upwards of one hundred million dollars gold. There are probably forty to fifty times as many Chinese resident in foreign lands as there are Occidentals resident in all of China, including its so-called dependencies.

Foreign Business Men Help China

The function of the foreign business man in China is one of greater importance to the growth of modern trading conceptions among the Chinese people than is usually appreciated. There are those who have looked upon the foreign trader resident in China as a leech or parasite upon the commercial structure of the country, exploiting the Chinese people and their resources to the detriment of the latter. Such expressions as "He is taking the rice from the bowl of the Chinese," and "He is not here for his health," as applied to the foreigner in business in China are often heard.

It may also be said that the New York business man is not in New York for his health, nor is the London business man in London for his health. In other words, the vast majority of business men are in trade for the purpose of making as much by way of legitimate financial profits from that business as conditions will permit. This, more often than otherwise, involves the idea of reinvesting certain of these profits in expansion programs helpful to a further extension of their trading operations. He would be a short-sighted business man who sought to prosper at the expense of those with whom he has his business contacts, for his future success depends in a large measure upon the degree of satisfaction he can give those with whom he does business.

It is the foreign trader in China who is responsible for the rapid and substantial strides which have characterized the development of China's foreign commerce. It is he who has done the pioneering work in China's trade with the outside world. Had the Chinese been so unwise as to exclude the foreign trader from their country, China's foreign commerce to-day would be but a small fraction of what it is. Most people will admit that the more prosperous is China's foreign trade, the better it is for the nation as a whole.

The importer resident in Shanghai knows that the more satisfaction he can give the Chinese dealers through whom he puts his transactions, the better assurance he has of their continued patronage. The exporter of Chinese products knows that the more the Chinese producer and intermediary profit by the transactions he may have with them, the greater are his chances for continued

business through these channels. The Chinese buyers and sellers are far too shrewd to be pawns in the hands of foreign business interests; in fact, a thorough investigation on the subject would probably reveal that the Chinese have profited proportionally better in trading transactions to which the foreigner is a party than has the latter. At all events, if these transactions were not netting the Chinese trader a profit, it stands to reason that they would be of short duration. Thus, as a matter of mere business, it is distinctly unjust to accuse the foreigner of taking the rice from the bowl of the Chinese. In reality, he should be credited with adding more rice to this bowl.

Another important function which the foreign trading establishment performs in the interests of the whole Chinese people is in educating the Chinese to the advantages and the technique of foreign trade. The gradually increasing numbers of Chinese concerns engaged in direct foreign trade attest to the educational value of the foreign import and export house in China. Trading nations all appreciate the fact that if they would sell their products to another people, the latter must establish markets abroad for certain of its products. In other words, in its final analysis, foreign trade is recognized as nothing more nor less than barter. Thus it is of advantage to both buyer and seller.

China's Foreign Trade

Fifty years ago, ninety per cent of China's exports consisted of the two items—silk and tea. To-day, this foreign trade is tenfold greater and comprises more than seventy items, each of which aggregates upwards of five hundred thousand dollars gold. This vast expansion in variety of export products as well as in their aggregate value is due primarily to the foreign trader who came to China to ferret out products which he might advantageously sell abroad. China is a land of small producers. The Chinese agriculturist might better be termed a gardener. He cultivates intensively a small bit of land, probably averaging less than an acre a family. Furthermore, over a considerable area of the country, one will find great variations in quality of similar products. In Chinese manufactured products, the vast bulk is the by-product of farm labor and is of the handicraft sort. Here again one finds much differentiation in quality and patterns.

Thus the assembling of large numbers of small purchases, the standardizing of great varieties of the same commodities, and the preparation of these products to meet the demands of the highly industrialized societies of the West, are matters of much concern to the foreign export merchant. Because of the foreign trader, China's wood oil, egg products, sheep's wool, furs, hides, cotton, peanuts, vegetable oil, silk, soy beans, bristles, antimony, tin, tungsten, sausage casings, carpets, laces, embroideries, straw braids, hair nets, and so forth, have become important items in the world's commerce.

The financing of China's exports is a matter of much importance. The custom had developed, among foreign concerns in China, of making credit advances against future deliveries. These were financed at very reasonable interest rates compared with the high rates obtaining in this country, especially those among the farming population, who are obliged to pay from one and a half to two and a half per cent a month for

cash advances. However, during the past few years, on account of the difficulties in transportation and the heavy tax impositions, demands for "spot" cargo have become increasingly common. Naturally, this condition militates seriously against the expansion of China's export trade.

The Chinese government has recently installed in Shanghai a scientific research bureau for the inspection, the standardization, and the improvement of many of the country's export commodities. This bureau is staffed by twenty-five or thirty technically trained Chinese, educated abroad. Plans are under way for the establishment of similar bureaus in other trade and industrial centers. Through the labors of such organizations as these over a period of five or ten years, provided they are operated primarily to aid trade and industry, and not primarily for revenue-producing purposes, China's exports could well be increased several fold.

Imports Versus Exports

Through the growth of China's export trade, the purchasing power of its people is gradually expanding. In turn, China is becoming an increasingly important market for the products of other nations. Fifty years ago the bulk of China's import trade consisted of cotton piece goods and opium. To-day this trade is tenfold greater and comprises upwards of one hundred different items, each aggregating more than five hundred thousand dollars gold in value. Through these increased imports, China is assisted in its efforts to develop its resources along modern lines, thereby adding to the wealth of the country and consequently increasing the productive power and the purchasing capacity of the individual.

Some Chinese seem very much concerned because their country's imports net about twenty per cent more than its exports, making for a supposedly considerable unfavorable trade balance. If cognizance is taken of the large sums of money remitted to China by Chinese resident in foreign countries, plus the contributions to foreign missionaries in China, the cost of maintaining foreign government establishments in China, and the remittances for foreign investments in that country, this difference is undoubtedly made up. However, it would seem that China could well have a considerable actual excess of exports over imports if internal conditions permitted greater activity in the development of the country's natural resources.

A matter of real concern to the people of China is the importation of foodstuffs. During the past ten years China's imports of rice and wheat flour have increased tremendously. For 1929, the aggregate total value was more than $200,000,000 in Chinese currency. The factors contributing to the vast increase in China's importations of foodstuffs are: (1) disordered internal conditions which have limited the area under cultivation and have disrupted transportation; (2) larger areas of land given over to the cultivation of the opium poppy; and (3) heavy internal tax impositions, discouraging the free flow of commodities. Thus the anxiety of the Chinese people over the bigger bill which they have to meet year after year for imported foodstuffs is warranted, especially considering the fact that this is a condition which can well be remedied.

Even more disruptive of the economic welfare of the Chinese people are the enormous sums of money, aggregating upwards of a hundred

million dollars gold a year, which are being disbursed upon munitions of war, a considerable proportion of which represents imported articles. Many of the items which fall within the category of munitions of war do not appear in the customs returns of trade, as they are imported on special permits.

Machinery and industrial and scientific equipment are becoming increasingly significant among the import items in China's foreign trade. This equipment necessitates the services of trained experts to gauge China's needs, to set it up, and to educate the people in its successful operation. The Occidental merchant in China also performs a useful function to the Chinese business public in fitting Western commodities and mercantile practices into the demands of a society or environment radically different from those from which these commodities and practices emanated.

Specialized Personal Service

The foreign importer in China is becoming—more so each succeeding year—an expert in certain specified lines and is obliged to work in closer and more intelligent personal contact with the Chinese dealer and consumer. The old-time commission house which handled everything from cotton yarn to locomotives is being replaced by the manufacturer's own trained representative, who sells service and technical skill with his goods, and who goes to the Chinese dealer or consumer direct, rather than intrust his business to a comprador, or Chinese go-between.

The establishment, under certain foreign auspices, of language schools in China where foreigners may learn Chinese and secure a knowledge of the essentials of the Chinese civilization, is indicative of an appreciation on the part of some of the trading nations of the world of the necessity for their representatives to make closer personal contacts with the Chinese people in order to insure a larger measure of success in their commercial relations.

Chinese business men are probably not unmindful of the advantage accruing to the trade of their country in the lower interest rates on money by which foreign trade is handled through the intermediate agency of the foreign importer than would often obtain were the Chinese merchant himself to finance this business. The foreign trader, assisted by the banks, carries imported goods in warehouses for the Chinese dealer, against interest charges much lower than those generally current in the country. Similarly, he renders a valuable service to the Chinese dealer or buyer in assuming the responsibility for damage to goods in transit and in effecting adjustments for goods not up to specifications.

There is another aspect of this subject which merits consideration. As internal conditions improve, the Chinese capitalist and merchant should find increasingly larger and more favorable opportunities for the investment of his capital and the employment of his talents in domestic developments. May not China, as did America during the latter half of the nineteenth century, find it advantageous to intrust the handling of much of its foreign trade to those foreign houses which are especially equipped for this work, pending the country's emergence into the world of trade and commerce on that large scale which should follow its internal regeneration?

Patience and Wisdom Needed

It is well to bear in mind that the time element is a necessary factor in the consummation of the great changes which this country is undergoing. To iron out the kinks in these readjustments is a stupendous task. It represents one of the more interesting phenomena in the whole history of the human family, as it involves the welfare of such a large proportion of the human race and affects the destinies of a people who represent the oldest civilization extant.

There is the constant danger that a handful of unprincipled promoters or inexperienced enthusiasts may launch the country upon a program of reconstruction without first preparing proper foundations, with the result that the country may become involved in a wild orgy of speculative ventures of a disastrously inflated nature. Thus the factors in the present situation which are forcing the country to move slowly in its momentous transition are probably not an unmixed evil, in spite of the many ugly aspects which they present.

China's internal problems are tremendous and will require for their solution not only practical intelligence but also much time, patience, and sacrifice upon the part of its people. Long after China will have formally adopted certain ideas from without, which are at variance with some of its age-old institutions, we shall see projected into current China the influence of these old customs. For instance, no executive mandate nor parliamentary enactment can speedily break down or quickly alter the far-reaching ramifications of the deeply rooted family system. An educated public opinion can in time wear these down so as to force certain unfavorable aspects of them to give way to modernizing ideas.

There is a noticeable tendency to scrap in a wholesale way the ideas and the institutions which represent the fruits of the labors of noted scholars, able administrators, talented artists, and skilled artisans, over many centuries of a rich civilization, with little regard for their fitness or unfitness to the demands of the new order. Thinking Chinese are now coming to realize that the cumulative experiences of the millennia of their richly unique culture hold much of precious value to their future, as also to that of the world generally. However, to salvage from the old China those things which may dovetail in with what Western societies may advantageously offer, requires a high capacity for intelligent discrimination, in order not only to give to the people the materials and the tools suited to the needs of the new edifice, but also to make these adaptable and acceptable.

China's Potential Contribution to World Prosperity

The majority of Westerners resident in China realize that their welfare and prosperity respond to the welfare and prosperity of the Chinese people. China, covering as it does great ranges in latitude, is a country of vast dimensions, abundant natural resources, and a huge population, for which reason its people may be expected to be big-visioned and big-hearted in their attitude towards their problems affecting their relations with outsiders. The great trading nations of the world will do well to coöperate with one another and with young nationalistic China in encouraging and assisting, in every possible manner, China's present

significantly momentous struggle. The whole world may rejoice in a successful consummation of this transition into a modernized political, economic, and social state. A well-coördinated, prosperous, progressive Chinese Republic is far less of a potential menace to the world than is a disorderly, weak, poverty-stricken China.

A thoroughly modernized Asia will offer a new world of opportunity in international trade probably surpassing that yet presented by any other section of the earth during all of human history. In the process, the whole economic level of the Chinese people will be raised to a plane more closely approximating that of the nations of the West, thereby making possible a greater community of interests between the East and the West. The Occident should not view with alarm China's emergence into a modern industrial society. For every ten cents increased per capita earning capacity, China offers the world forty million dollars increased purchasing power. As Wu Ting-fang once said, "Add an inch to the shirt tail of every Chinese and you will keep the cotton mills of the world busy for a year supplying the increased demand occasioned thereby."

Trade makes trade. What one nation may do towards setting the wheels of commerce and industry of China in motion should be helpful to all others who would aspire to share in the greater prosperity created thereby. The world in general and China in particular have far more to gain from a spirit of mutual coöperation in ushering in the new order than will either one or the other attain through a spirit of mutual mistrust or bitter competition. It is inconceivable that a people with the luxuriant cultural background and the splendid inherent qualities of the Chinese should remain in a condition of relative international inferiority, nor is it to the interest of the world at large that they should do so.