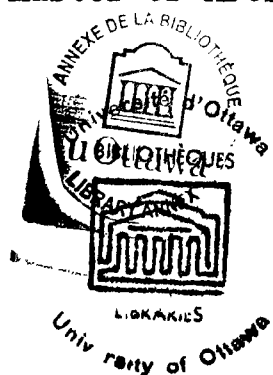


CHINA AS AN IMPORT MARKET

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of Political Science of the University
of Ottawa, in partial fulfillment of
the requirements for the degree of
Master of Arts.



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P A R T O N E

T H E " C H I N A M A R K E T "

C H A P T E R O N E

E X T E N T O F T H E M A R K E T

In endeavouring to treat with China as an import market, it is first of all necessary to have a clear conception of what is commonly termed the "China Market", and in order that this may be possible, the territorial changes arising out of Japan's encroachment on China's sovereignty must be disregarded, and treated as a temporary phase of abnormalcy in the life of the nation.

Also, it must be distinctly understood that throughout China's participation in foreign trade, the "Manchurian" market, which has been under Japanese domination since 1931, has been considered as separate and distinct from the "China Market", insofar as the principal distributing point for that territory was Dairen, in Japanese leased territory.

Accordingly, the "China Market" may be said to comprise the following twenty-three provinces, representing a combined area of 7,199,367 square kilometers.¹

1. All statistics relating to area and population have been compiled from China Handbook.

<u>Province</u>	<u>Area in square kilometers.</u>
<u>Of North China:</u>	
Shantung	147,485
Shansi	156,420
Honan	162,390
Hopei	141,020
Shensi	187,409
Kansu	391,506
Chinghai	697,194
Ningsia	274,910
Sinkiang	1,828,418
Suiyan	347,529
<u>Of Central China:</u>	
Kiangsu	110,285
Chekiang	104,037
Anhwei	140,687
Kiangsi	173,089
Hupei	186,363
Hunan	205,591
Szechwan	370,750
Sikang	432,158

<u>Province</u>	<u>Area in square kilometers.</u>
<u>Of South China:</u>	
Fukien	118,738
Kwangtung	221,307
Kwangsi	218,923
Yunnan	403,680
Kweichow	179,478
	<u>7,199,367</u>

However, the original significance of the area of the market indicated by the foregoing figures is somewhat diminished when consideration is taken of the fact that mountains occupy approximately 30 per cent of the national area, hilly regions 9 per cent, basins 16 per cent, alluvial plains 10 per cent, and plateaus 34 per cent; and that one third of the area contains six sevenths of the people.

Also, the figures of 123,000 kilometers and 15,000 kilometers applicable to highways and railways respectively, reflect adversely on the extent of the market from the point of view of Western standards. On the other hand, it must be pointed out that the lack of such routes of communication are offset in some measure by natural arteries of commerce, namely China's rivers and their tributaries. All these are navigable in varying degrees although in some parts suitable for internal junk traffic only.

The three large rivers which drain the natural divisions of China are: the Yellow River in North China, the Yangtze River in Central China, and the West River (Pearl River) in South China.

The Yellow River which is 4,672 kilometers in length, drains 531,200 square kilometers of territory, including Chinghai, Kansu, Ningsia, Suiyan, Shansi, Shensi, Honan, Hopei, and Shantung.

The 5,530 kilometer Yangtze River, forming the main artery of trade and communications in Central China, passes through Chinghai, Sikang, Yunnan, Szechwan, Hunan, Hupeh, Kiangsi, Anhwei, and Kiangsu.

The West River runs 1,958 kilometers and drains 431,600 square kilometers in Yunnan, Kweichow, Kwangsi, and Kwangtung.

Mention must also be made of the Grand Canal, said to have been constructed in 540 B.C., extending from Peiping to Hangchow, covering a distance of 2,074 kilometers, and passing through the provinces of Chekiang, Kiangsu, Shantung, and Hopei

It is on the basis of the natural division of the territory from the point of view of convenient distribution that for general foreign trade purposes that the "China Market" is considered as being comprised of three sections, namely, North China, Central China, and South China.

The North China section includes the provinces of: Honan, Shantung, Shensi, Shansi, Hopei, Kansu, Tsinghai, Ninghsia, Suiyuan, and Sinkiang, with a total population of 138,479,006 and an area of 4,334,281 square kilometers.

That of Central China is composed of the provinces of: Chekiang, Kiangsu, Anhwei, Hupeh, Szechwan, Sikang, Hunan, and Kiangsi, with a total population of 199,494,234 and an area of 1,722,960 square kilometers.

The South China section is made up of the provinces of: Fukien, Kwangtung, Kwangsi, Kweichow, and Yunnan, with a combined population of 79,924,571 and an area of 1,142,126 square kilometers.

On the basis of an examination of the statistics published by the Chinese Maritime Customs covering the value of direct import trade to Chinese ports during the years 1936 and 1937, it has been ascertained that Central China is by far the largest consuming area, having enjoyed 67.41 per cent and 61.78 per cent of the total imports into the "China Market" during the respective periods. South China consumed 17.6 per cent and 22.92 per cent, while North China accounted for 14.95 per cent and 15.29 per cent.

The principal points of distribution in the "Central China Market" are: Chungking (Szechwan), Wanhsien (Szechwan), Ichang (Hupeh), Shasi (Hupeh), Changsha (Hunan), Yochow (Hunan)

Hankow (Hupeh), Kiukiang (Kiangsi), Wuhu (Anhwei), Nanking (Kiangsu), Chinkiang (Kiangsu), Shanghai (Kiangsu), Soochow (Kiangsu), Hangchow (Chekiang), Ningpo (Chekiang), and Wenchow (Chekiang).

Those in the "South China Market" are: Santuao (Fukien), Foochow (Fukien), Amoy (Fukien), Swatow (Kwangtung), Canton (Kwangtung), Kowloon (British Leased Territory), Lappa (Kwangtung), Kongmoon (Kwangtung), Samshui (Kwangtung), Wachow (Kwangsi), Nanning (Kwangsi), Luichow (Kwangsi), Kiungchow (Kwangtung), Pakhoi (Kwangtung), Lungchow (Kwangtung), Mengtz (Yunnan), Szemao (Yunnan), and Tengyueh (Yunnan).

Those in the "North China Market" are: Chinwantao (Hopei), Tientsin (Hopei), Lungkow (Shantung), Chefoo (Shantung), Weihaiwei (Shantung), and Tsingtao (Shantung).

The map on the next page will serve to give some idea of the location of provinces and the division of the market described above.

North China.

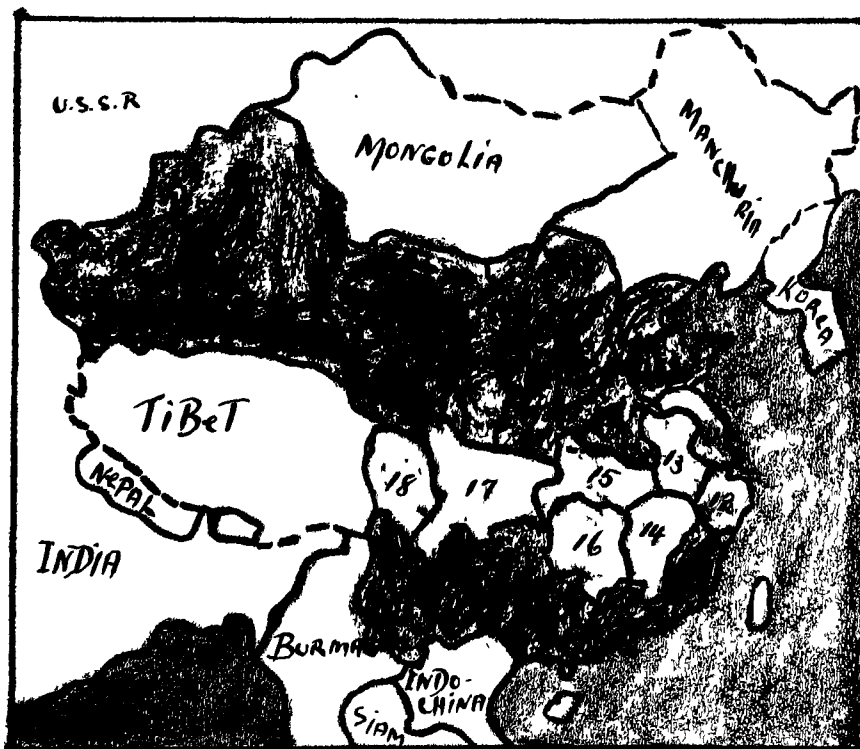
1. Shantung
2. Shansi
3. Honan
4. Hepei
5. Shensi
6. Kansu
7. Chinghai
8. Ninghsia
9. Sinkiang
10. Suiyuan

Central China.

11. Kiangsu
12. Chekiang
13. Anhwei
14. Kiangsi
15. Hupeh
16. Hunan
17. Szechwan
18. Sikang

South China.

19. Fukien
20. Kwangtung
21. Kwangsi
22. Yunnan
23. Kweichow



C H A P T E R T W O

P O P U L A T I O N A N D P U R C H A S I N G P O W E R O F T H E "C H I N A M A R K E T"

No census of the entire Chinese population has ever been taken and consequently the actual figure involved is subject to considerable variation, but for the purposes of our present study, it will suffice to take the latest figures of the Ministry of the Interior of the Chinese National Government for the various provinces of the "China Market", as follows:-

<u>Province</u>	<u>Population</u>
<u>Of North China:</u>	
Shantung	38,912,362
Shansi	11,601,026
Honan	31,805,621
Hopei	31,412,614
Kansu	6,255,467
Shensi	9,799,617
Chinghai	1,512,823
Ningsia	735,763
Sinkiang	4,360,020
Suiyuan	2,083,693
	<hr/> 138,479,006

<u>Province</u>	<u>Population</u>
<u>Of Central China:</u>	
Kiangsu	41,215,226
Chekiang	21,776,045
Anhwei	22,704,538
Kiangsi	13,794,159
Hupeh	24,658,988
Hunan	27,186,730
Szechwan	46,403,006
Sikang	1,755,542
	<hr/> 199,494,234
 <u>Of South China:</u>	
Fukien	11,990,441
Kwangtung	32,338,795
Kwangsi	14,254,609
Yunnan	10,853,359
Kweichow	10,487,367
	<hr/> 79,924,571
Grand total	<hr/> <hr/> 417,897,811

China's population is unevenly distributed over the land, owing to the disadvantage of certain topographical features, which render the occupation of these parts unattractive from the point of view of the natural pursuit of the bulk of the population, namely, agriculture.

In Canada the population tends to be thickest in the big cities and the industrial East, but in China the converse prevails; the most densely settled parts of the country are those where the populace obtain their livelihood from the soil. This can be better understood when it is said that about 75 per cent of the people of China are either farmers or closely dependent on the land.

The latest figures available indicate that only 6 per cent of the population live in cities of 50,000 or over, another 6 per cent in towns of from 10,000 to 50,000, and the remaining 88 per cent in places of less than 10,000.

It is calculated that there must be in China at least 100,000 farm villages with a population of, say 100,000,000, and at least 1,000,000 hamlets with a population of, say 200,000,000.

Chinese farmers live in villages, not in scattered households. These villages are in close proximity to one another, sometimes not more than a ten to twenty minutes walk.

A popular conception from Western eyes is that the bulk of China's population is made up of large families. This is not the case, for the average size of the family, including grandparents, children, aunts, uncles, and cousins, is only a little over five persons. This figure refers to a family as a group of relatives in which all share the same budget and

live and eat together. The smallness of the family may seem strange, but it is better understood when the answer is provided, namely, the smallness of the farm. It is only the rich who can afford to maintain the huge families. The size of the poor family is kept down to the food available, and if surplus members do not die of malnutrition or disease, they must leave the family circle to fend for themselves, and usually end up in one of the large cities.

Thus, the land holds only the number for which it can barely provide. And the significance of this state of affairs can be more readily understood when it is realized that only approximately 47 per cent of the farmers own their farms, the other 53 per cent renting land from others, to whom they must pay exorbitant rents. Ever since the founding of the Chinese Republic in 1912, the number of tenant farmers has gradually increased, and land ownership has drifted into the hands of a small section of the people.

Now, let us turn our attention to the balance of the poorer class population. Is their lot on the whole much better than that of the bulk of the tenant farmers? The answer is definitely in the negative. A cursory examination of their pursuits in the cities will serve to give convincing and conclusive evidence that this answer is correct; for, even the most highly paid trades barely represent a subsistence level.

For instance, an artisan highly skilled in the weaving of tapestry would receive the equivalent of Canadian \$13.00 per mensem; likewise, a first class mechanic would be fortunate to draw a salary of Canadian \$16.00 for the same period. Thus, it can be safely said that the maximum for manual labour is about Canadian \$16.00 per month; whereas, the minimum would be in the vicinity of Canadian \$6.00.

It now remains for us to consider the middle class (the shopowners, the tradesmen, office workers, teachers, etc.) and the wealthy class (the bankers, financiers, shipowners, importers, exporters, merchants, etc.) in the cities. It is indeed difficult to draw the line of demarcation between these two classes with any accuracy, for one of the outstanding characteristics of the bulk of these two classes is a tendency to conceal their material standing in the community. However, it is estimated that the average income of seventy per cent of the middle class does not exceed Canadian \$200.00 per annum; while it is impossible to even hazard a guess as to the average income of the wealthier classes, suffice it to say that it is more than sufficient to provide for even the most luxurious needs.

Thus, we have four main divisions of the farming population from the point of view of economic standing, namely:

- (1) The landlord farmers, often called the landlord gentry because they own the land and do not cultivate it.
- (2) The owner cultivators.
- (3) The part owners.
- (4) The full tenants.

According to one rough estimate, the landlords form five per cent of the population, and possess half the cultivated land; while the balance of the foregoing categories, who make up seventy per cent of the population, own only twenty per cent of the land.

It is estimated that the skilled workers do not represent more than six per cent of the population, which leaves an approximate nineteen per cent, represented by unskilled labour in the cities, and the middle and wealthier classes.

In order to gauge some idea of the combined purchasing power of the entire population, let us examine the latest figures available relative to China's wealth. These were published in the Shun Pao Year-Book of 1932, and the national wealth was put as Chinese \$106,351,987,446, or less than Chinese \$240 per capita, or at normal exchange rates approximately Canadian \$80.00 per capita. And what is China's national income? Colin Clark in his A Critique of Russian Statistics, placed the average Chinese income in the prewar

days at 22 pounds sterling, or Chinese \$330; while some Chinese economists estimated it at approximately half this amount. In any case, it is agreed that China's average income is very low.

Therefore, China's combined purchasing power is correspondingly low, but insofar as this study deals with China's import trade, let us pass over the domestic implications, and examine this purchasing power in the light of its relation to such import trade. Naturally, it is impossible to make a study of the needs of the various economic groups, to select therefrom those items which are of foreign origin, and then to strike the mean cost thereof; for what to one group would be a necessity might be to the others a luxury and vice versa. However, it can safely be said that all groups purchase goods of foreign origin in large or small degree. For example, the poorest peasant will purchase, each year, a certain amount of ammonium sulphate for use as a fertilizer, knowing full well that without this enrichment of his land, he would be impairing its productive value. Also, the lowliest labourer will purchase some article of wearing apparel in which an "import" is involved --perhaps, leather shoes, cotton cloth, woolen underwear, etc. Again, staple foodstuffs, such as rice and flour are in daily demand and come within the category of "imports". It is evident therefore that there is a certain

amount of purchasing power always available for "imports", but how can we gauge its extent with any degree of accuracy? There is one method by which we can arrive at a maximum average per capita figure, and this is by the division of the figure covering one year's imports into the "China Market" by the number of population. In this way, using imports during the year 1937 as a basis, the average maximum per capita purchasing power in the "China Market" during that period was approximately Chinese \$2.30, or about 70 Canadian cents. In arriving at this figure, it is assumed that all imports were for consumption within the country, but in actual practice, imports often represent raw material for manufacture within the country and for subsequent re-export. However, since the outside figure of Chinese \$2.30 is so small, the probable error involved may reasonably be considered as being of little significance as far as the purpose of our survey is concerned.

In one of the foregoing paragraphs, it was stated that the average Chinese income was estimated, on the one hand, as Chinese \$330; while on the other at half this amount. Let us take the more liberal and compare it with the mean per capita expenditure on "imports", and we find that on the average less than one per cent of the annual income of the population is applied to the purchase of imported goods.

It is now apparent that the lack of purchasing power which can be applied against "imports" arises from the fact that the national income is extremely low, and while it is conceded that it is the aggregate purchasing power which should be the main concern of a market survey, it should be pointed out in this instance that stress has been laid on average per capita purchasing power with a view to emphasizing the possible results of an attainment by the Chinese people of an economic standard in line with the Western conception of a subsistence level.

When all the points brought out in the previous paragraphs are taken in conjunction with one another, the first impression given by the formidable number of the population is somewhat dampened by the extent of individual purchasing power. Offsetting this, however, is the realization that the market offers vast potentialities for import trade, which are largely contingent upon the future economic status of the bulk of the population which will form the backbone of China's future purchasing power.

C H A P T E R T H R E E

S T A T I S T I C A L S U R V E Y O F I M P O R T S

In presenting an appraisal of China's imports by value, it must be borne in mind that the exchange value in terms of the currencies of countries of supply of the Chinese dollar must be taken into consideration, as a depreciation in this unit in terms of foreign currencies will be reflected in higher Chinese dollar values for imports. Conversely, an appreciation in the exchange value of Chinese currency in terms of foreign currencies will result in the lowering of import values in terms of Chinese dollars.

However, since the Chinese dollar was fairly stable in terms of foreign currency during the years 1936 and 1937, and these two years may be considered as being the last two years of a fairly "peaceful" period, (Although the latter year marked the commencement of hostilities in North China, this did not have a very great impact on entries through the Chinese Maritime Customs of that area), it would seem reasonable to base a market survey on performance during these two periods.

On this basis, and taking into account possible fluctuations in overseas prices during these respective periods, an examination of the total import values will show that the import trade of the "China Market" was in the vicinity of \$950,000,000, or, using the average exchange rate of 29 cents, U.S.A. to one Chinese dollar, which prevailed during 1936 and 1937, the equivalent of U.S. \$275,500,000.¹

COMPLEMENT OF IMPORT TRADE.

During the years 1936 and 1937, imports into the "China Market" from abroad were classified under twenty-seven main group headings, and the following table has been prepared on the basis thereof, according to the order of importance from the point of view of value in Chinese dollars in 1937.

1. The figures quoted here, as well as the statistical data which follow, have been compiled from publications of the Chinese Maritime Customs, for the years 1936 and 1937.

T A B L E I

IMPORTS BY MAIN GROUPS DURING THE YEARS 1936 AND 1937
 WITH VALUES IN CHINESE DOLLARS
 (Chinese dollar equals 29 U.S. cents)

<u>Group</u>	<u>1936</u> \$	<u>1937</u> \$
Metals and Ores	108,055,485	131,637,637
Candles, Soap, Oils, Fats, Waxes, Gums and Resins	105,132,577	118,556,281
Books, Maps, Paper and Woodpulp	57,467,152	65,302,004
Machinery and Tools	59,980,614	65,613,106
Chemicals and Pharmaceuticals	51,839,815	61,282,114
Cereals and Flour	49,219,653	58,555,602
Vehicles and Vessels	52,483,640	42,102,103
Misc. Metal Manufactures	46,712,322	41,437,886
Cotton and Manufactures	54,360,056	37,562,942
Dyes, Pigments, Paints.	41,193,099	37,105,358
Wool and Manufactures thereof	29,310,711	35,604,359
Timber	28,910,762	23,238,569
Sugar	20,534,761	22,030,645
Flax, Ramie, Hem, Jute	17,986,704	20,521,536
Tobacco	17,389,337	21,874,283
Silk & Art. Silk & Manufactures	9,370,699	13,575,678
Fishery and Sea Products	17,793,232	13,258,259
Animal Products, Canned Goods and Groceries	9,370,701	8,399,441

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T A B L E I (Cont'd)

IMPORTS BY MAIN GROUPS DURING THE YEARS 1936 AND 1937
WITH VALUES IN CHINESE DOLLARS
(Chinese dollar equals 29 U.S. cents)

<u>Group</u>	<u>1936</u> \$	<u>1937</u> \$
Medicinal Substances & Spices	8,729,825	7,235,235
Wood, Bamboos, Rattans, Coir, Straw & Manufactures thereof	7,622,031	6,928,245
Coal, Fuel, Pitch and Tar	7,449,731	5,995,119
Fruits, Seeds and Vegetables	5,821,783	5,605,475
Chinaware, Enamelware, Glass	4,803,674	5,527,089
Hides, Leather and other Animal Substances	4,778,499	4,453,829
Stone, Earth and Manufactures	3,697,706	3,437,917
Wines, Beer, Spirits, Table Waters, etc.	1,603,112	1,220,535
General Sundry list	119,927,057	95,924,760
	<u>941,544,738</u>	<u>953,386,007</u>

From the above table, it will be seen that China is dependent on overseas countries for the supply of a wide range of products, and in order that a better idea of the items represented may be gained, the following table is provided, giving a subdivision of the twelve principal groups, together with their respective import values in Chinese dollars for the years 1936 and 1937.

T A B L E II

SUBDIVISION OF TWELVE PRINCIPAL IMPORT GROUPS
DURING 1936 AND 1937, BY VALUE
IN CHINESE DOLLARS
(The Chinese dollar equals 29 U.S.cents)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Metals and Ores:</u>		
<u>Iron & Steel Ungalvanized:</u>		
Angles	\$ 2,202,354	\$ 2,603,571
Bars	10,740,280	13,860,324
Pipes, Tubes and Fittings	2,485,053	2,684,714
Rails	14,871,008	13,608,267
Sheets and Plates	9,988,033	14,677,871
Tinned Plates	13,783,815	17,096,092
<u>Iron and Steel Galvanized:</u>		
Sheets	3,035,690	1,980,492
Wire	3,108,332	3,779,094
<u>Structural Sections or Building Forms of Iron & Steel</u>		
	4,335,950	2,098,067
<u>Candles, Soap, Oils, Fats, Waxes, Gums, and Resins:</u>		
Gasokene, Naphta & Benzine	22,730,004	27,613,244
Liquid Fuel	16,175,197	14,968,200
Kerosene Oil	39,885,483	47,860,327
Candles, Soap, Oils(others) Fats, Waxes, Gums & Resins	26,341,893	28,114,510

....

T A B L E II (Cont'd)

SUBDIVISION OF TWELVE PRINCIPAL IMPORTSGROUPS
DURING 1936 AND 1937, BY VALUE
IN CHINESE DOLLARS
(The Chinese dollar equals 29 U.S. cents)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Books, Maps, Paper & Woodpulp:</u>		
Books & Music, Printed, Engraved or Manuscript	\$ 5,503,371	6,101,239
Paper Boards	2,478,766	2,498,686
Cigarette Paper	3,642,081	2,516,912
Printing & Newsprint Paper	14,230,598	20,467,946
Kraft Paper	2,050,532	3,000,266
Printing Paper (free of mechanical woodpulp)	2,487,289	3,233,334
Printing Paper N.O.P.	365,912	810,999
Paper N.O.P.	2,937,164	3,604,671
Paperware and articles of paper N.O.P.	11,615,954	9,248,343
<u>Machinery and Tools:</u>		
Electrical Machinery	5,044,967	4,680,727
Textile Machinery & Parts	13,939,117	20,985,985
Printing, Bookbinding & Paper making Machinery and Parts	2,659,123	1,349,026
Prime Movers & Parts	6,347,362	4,576,900
Machinery & Parts N.O.P.	23,045,363	22,781,667
Machine Tools	2,967,980	2,623,631

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T A B L E II (Cont'd)

SUBDIVISION OF TWELVE PRINCIPAL IMPORT GROUPS
DURING 1936 AND 1937, BY VALUE
IN CHINESE DOLLARS

(The Chinese dollar equals 29 U.S. cents)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Chemicals and Pharmaceuticals:</u>		
Sulphate of ammonia	\$14,746,048	\$19,585,918
Chlorate of Potash	1,720,790	1,395,590
Caustic Soda	2,010,065	2,492,617
Chemicals & Chemical Cpds	14,231,879	16,491,114
Medicines, Drugs, etc., N.O.P.	10,573,987	10,998,350
<u>Cereals and Flour:</u>		
Rice and Paddy	26,736,147	40,780,814
Wheat	11,848,499	6,071,423
Wheat Flour	4,669,252	6,183,351
Other Cereals and Flour	5,965,755	5,520,014
<u>Vehicles and Vessels:</u>		
Locomotives & Tenders	14,028,834	6,263,686
Railway & Tramway Carriages and Wagons	11,606,881	2,823,956
Railway & Tramway Materials	4,257,423	4,857,566
Motor Tractors, Trailers and Trucks	7,100,440	11,672,580
Motor Cars and Buses	4,505,388	3,983,904
Motorcar Parts & accessories, not incl. tires and tubes	2,527,660	3,529,426
Bicycle Parts & Accessories, not incl. tires and tubes	4,510,194	4,753,796

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T A B L E II (Cont'd)

SUBDIVISION OF TWELVE PRINCIPAL IMPORT GROUPS
DURING 1936 AND 1937, BY VALUE
IN CHINESE DOLLARS
(The Chinese dollar equals 29 U.S. cents)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Miscellaneous Metal Manufactures:</u>		
Scientific Instruments and Apparatus & Parts N.O.P.	\$ 7,764,203	\$ 5,871,741
Electrical Wire, Insulated	2,682,067	3,290,002
Electric Fittings & Materials	2,756,009	2,289,315
Metalware N.O.P..	2,540,463	3,386,836
Telephone & Telegraph Instruments & Parts (not including radio)	2,574,733	2,516,932
Radio Sets & Parts	4,275,980	3,565,958
Metal Manufactures N.O.P.	11,277,381	6,098,448
<u>Cotton and Manufactures thereof:</u>		
Cotton Piecegoods	12,089,836	14,669,031
Raw Cotton	36,146,799	16,004,525
Cotton Yarn	1,628,592	2,695,625
Cotton Thread	2,077,650	1,830,254
Cotton Waste, Yarn Waste & Wadding	30,437	19,780
Sundry Cotton Manufactures	2,386,742	2,343,727

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T A B L E II (Cont'd)

SUBDIVISION OF TWELVE PRINCIPAL IMPORT GROUPS
DURING 1936 AND 1937, BY VALUE
IN CHINESE DOLLARS
(The Chinese dollar equals 29 U.S. cents)

<u>Group and Items</u>	<u>1936</u>	<u>1937</u>
<u>Dyes, Pigments, Faints and Varnish:</u>		
Aniline Dyes and other Coal Tar Dyes	\$ 14,985,514	\$ 13,478,484
Indigo, Artificial, Liquid or Paste	10,340,392	8,141,355
Sulphur Black	3,292,953	2,752,783
<u>Wool and Manufactures thereof:</u>		
Wool, Carded or Combed Wool, and Waste Wool	16,179,927	21,654,373
Yarn and Cord	3,024,674	3,666,000
Woolen Piece Goods, pure or mixed	3,627,804	3,649,823
<u>Timber:</u>		
<u>Hardwood:</u>		
Rough Hewn & Round Logs	4,373,183	3,523,176
Sawn Hardwood	798,105	757,950
<u>Softwood:</u>		
Rough Hewn & Round Logs	7,083,485	6,015,041
Sawn Softwood	9,218,881	6,228,748
Railway Sleepers	4,593,053	4,547,974

DISTRIBUTION OF IMPORTS INTO "CHINA MARKET"
BY ECONOMIC GROUPS FOR THE YEAR 1937.

In order to show the distribution of imports into the "China Market" under the usual economic groups, a breakdown of the figures for 1937 has been made as follows:

Food, Beverages, and Tobacco. - The percentage of this group to the total imports was 13.93 per cent, and was constituted by: Cereals, Flour, etc., 6.14 per cent; Sugar, 2.32 per cent; Tobacco, 2.29 per cent; Fishery and Sea Products, 1.39 per cent; Canned Goods, Groceries, etc., 0.89 per cent; Fruits, Seeds, etc., 0.59 per cent; and others, 0.31 per cent.

Raw Materials. - This group accounted for 8.18 per cent of the total import trade, of which Textile Fibres other than Cotton was credited with 2.51 per cent; Raw Cotton, 1.68 per cent; Timber, 1.00 per cent; Medicinal Substances, 0.58 per cent; Wood, Bamboo, etc., 0.52 per cent; Coal, 0.52 per cent; and others, 1.37 per cent.

Semi-Manufactures. - 22.28 per cent of the total imports came under this heading, metals contributing 10.44 per cent; Chemicals, Dyes and Pigments, 4.67 per cent; Oils, Fats, etc., 3.19 per cent; Textile Yarns, etc., 1.92 per cent; Timber, 1.55 per cent; and others, 1.05 per cent.

Finished Manufactures. - This group represented 55.07 per cent of imports, Mineral Oils being the largest item with 9.23 per cent; Metal Manufactures, second with 7.71 per cent; Machinery and Tools, 6.82 per cent; Paper and Paperware, 5.92 per cent; Chemicals and Pharmaceuticals, 5.16 per cent; Textiles, 5.11 per cent; Vehicles, etc., 4.42 per cent; and others, 10.70 per cent.

SOURCES OF SUPPLY.

The following table gives in alphabetical order the countries contributing to the "China Market" during the years 1936 and 1937, together with their respective shares by value in Chinese dollars, and their percentages of the total import trade.

T A B L E I I I
 IMPORTS INTO THE "CHINA MARKET" BY COUNTRIES,
 VALUE AND PERCENTAGES FOR THE YEARS
 1936 AND 1937
 (The Chinese dollar equals 29 U.S. cents)

<u>Country</u>	<u>1936</u>		<u>1937</u>	
	<u>\$ 1,000</u>	<u>per cent</u>	<u>\$ 1,000</u>	<u>per cent</u>
Australia	15,988	1.70	16,334	1.71
Belgium	26,003	2.76	28,328	2.97
British India (Burma included)	24,712	2.63	20,679	2.17

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T A B L E III (Cont'd)

IMPORTS INTO THE "CHINA MARKET" BY COUNTRIES,
VALUE AND PERCENTAGES FOR THE YEARS
1936 AND 1937

(The Chinese dollar equals 29 U.S.cents)

<u>Country</u>	<u>1936</u>		<u>1937</u>	
	<u>\$ 1,000</u>	<u>per cent</u>	<u>\$ 1,000</u>	<u>per cent</u>
Canada	19,782	2.10	17,093	1.79
Cuba	20	. .	29	. .
Denmark	2,339	0.25	687	0.07
Formosa	3,248	0.34	3,541	0.37
France	18,311	1.94	15,092	1.58
French Indo China	17,922	1.90	29,880	5.14
Germany	150,051	15.94	146,249	15.34
Great Britain	110,332	11.72	111,490	11.70
Hongkong	16,554	1.76	17,432	1.83
Italy	12,200	1.30	9,884	1.04
Japan	153,369	16.29	150,264	15.76
Korea	2,931	0.31	2,344	0.25
Luxemburg	1,717	0.18	4,605	0.48
Macao	745	0.08	897	0.09
Netherlands	4,763	0.51	6,038	0.63
New Zealand	340	0.04	1,306	0.14
Norway	2,862	0.30	5,290	0.55
Philippine Islands	3,949	0.42	3,832	0.40

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T A B L E III (Cont'd)

IMPORTS INTO THE "CHINA MARKET" BY COUNTRIES,
VALUE AND PERCENTAGES FOR THE YEARS
1936 AND 1937

(The Chinese dollar equals 29 U.S.cents)

<u>Country</u>	<u>1936</u>		<u>1937</u>	
	<u>\$ 1,000</u>	<u>per cent</u>	<u>\$ 1,000</u>	<u>per cent</u>
Siam	18,852	2.00	15,829	1.66
Straits Settlements	10,761	1.14	10,331	1.08
Sweden	6,501	0.69	6,722	0.71
Switzerland	6,312	0.67	9,722	1.02
United States	185,134	19.66	188,741	19.80
U.S.S.R.	1,221	0.13	682	0.07
Other Countries	50,266	5.34	49,363	5.18
Total	<u>941,544</u>	<u>100%</u>	<u>953,386</u>	<u>100%</u>

From the above table, it will be seen that the United States, Japan, Germany and Great Britain were the principal participants, contributing an aggregate of 63.61 per cent in 1936 and 62.60 per cent in 1937.

Some idea of the distribution of imports by principal market divisions may be gauged by the following tables which give the value of direct import trade of the Customs ports serving as the principal entry points to the various provinces. All values are given in Chinese dollars.

T A B L E IV

VALUE DISTRIBUTION OF IMPORTS BY PRINCIPAL
DIVISIONS OF THE "CHINA MARKET" AND
MAIN CUSTOMS PORTS OF ENTRY
(The Chinese dollar equals 29 U.S. cents)

<u>Customs Port</u>	<u>Province</u>	<u>1936</u> \$	<u>1937</u> \$
<u>In North China:</u>			
Chinwangtao	Hopei	3,462,427	3,705,916
Tientsin	Hopei	72,647,431	84,061,412
Lungkow	Shantung	2,013,280	1,680,904
Chefoo	Shantung	6,816,630	5,788,205
Weihaiwei	Shantung	1,211,558	740,929
Tsingtao	Shantung	54,751,621	49,812,981
		<u>140,902,947</u>	<u>145,790,347</u>
<u>In Central China:</u>			
Chungking	Szechwan	2,369,327	3,233,490
Wanhsien	Szechwan	38,096	28,846
Ichang	Hupeh	192,896	313,326
Shasi	Hupeh	139,806	147,109
Changsha	Hunan	5,698,537	6,697,634
Yochow	Hunan	424,926	576,842
Hankow	Hupeh	32,874,756	35,411,946
Kiukiang	Kiangsu	4,164,150	5,493,072
Wuhu	Anhwei	2,514,448	4,633,228
Nanking	Kiangsu	17,406,397	8,681,067
Chinkiang	Kiangsu	7,118,729	7,166,834

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T A B L E IV (Cont'd)

VALUE DISTRIBUTION OF IMPORTS BY PRINCIPAL
DIVISIONS OF THE "CHINA MARKET" AND
MAIN CUSTOMS PORTS OF ENTRY
(The Chinese dollar equals 29 U.S.cents)

<u>Customs Port</u>	<u>Province</u>	<u>1936</u> \$	<u>1937</u> \$
<u>In Central China (Cont'd)</u>			
Shanghai	Kiangsu	552,204,395	507,963,400
Soochow	Kiangsu	4,449,292	4,658,645
Hangchow	Chekiang	2,808,962	3,127,432
Ningpo	Chekiang	1,844,739	2,121,213
Wenchow	Chekiang	469,259	842,050
		<u>634,718,695</u>	<u>589,096,144</u>
<u>In South China:</u>			
Santuaao	Fukien	119,822	163,107
Foochow	Fukien	5,185,296	6,348,435
Amoy	Fukien	13,296,101	13,016,834
Swatow	Kwangtung	29,621,161	36,296,919
Canton	Kwangtung	30,905,425	45,166,170
Kowloon	Br.leased Terr.	57,550,499	82,718,462
Lappa	Kwangtung	3,675,614	4,016,542
Kongmoon	Kwangtung	3,401,786	4,580,642
Samshui	Kwangtung	926,573	1,155,119
Wuchow	Kwangsi	7,062,851	7,666,095
Nanning	Kwangsi	20,848	22,152
Luichow	Kwangsi	898,903	1,569,597

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T A B L E IV (Cont'd)

VALUE DISTRIBUTION OF IMPORTS BY PRINCIPAL
DIVISIONS OF THE "CHINA FLEET" AND
MAIN CUSTOM'S PORTS OF ENTRY
(The Chinese dollar equals 29 U.S. cents)

<u>Customs Ports</u>	<u>Province</u>	<u>1936</u> \$	<u>1937</u> \$
<u>In South China:(Cont'd)</u>			
Kiungchow	Kwangtung	2,522,398	3,568,265
Pakhoi	Kwangtung	668,674	1,151,907
Lungchow	Kwangsi	48,634	83,405
Mengtze	Yunnan	8,117,312	9,611,709
Szema	Yunnan	856,687	423,154
Tengyueh	Yunnan	1,044,512	1,141,002
		<u>165,923,096</u>	<u>218,499,516</u>

T A B L E V

PERCENTAGE DISTRIBUTION BY MARKET DIVISIONS,
OF TOTAL IMPORT TRADE DURING
1936 AND 1937.

<u>Market Division</u>	<u>1936</u>	<u>1937</u>
North China	14.95	15.29
Central China	67.41	61.78
South China	17.84	22.92

C H A P T E R F O U R

C A N A D A ' S P A R T I C I P A T I O N I N T H E M A R K E T .

From Table III, on page 27, it may be observed that Canada's contribution to the "China Market" in the years 1936 and 1937, was Chinese \$19,782,000 and Chinese \$17,093,000, representing 2.1 per cent and 1.79 per cent of the total imports for these years respectively. But since this study is being prepared in Canada, it would seem pertinent to provide details of the Dominion's contribution, and therefore, the following tables have been prepared for the purpose of giving the reader an idea of the general complement of the trade to the three divisions of the market, by main group headings and by itemized analyses of these groups.

DIRECTION OF CANADIAN IMPORTS BY MARKET DIVISIONS.

The following tables give a recapitulation by value in Gold Customs Units under principal groups of Canadian imports into the three main divisions of the "China Market" and "Minor Ports" which are not specified in the Customs Returns with regard to location.

T A B L E VI

IMPORTS INTO THE "NORTH CHINA MARKET" FROM CANADA
 DURING THE YEARS 1936 AND 1937, BY PRINCIPAL
 GROUPS, AND VALUES IN CHINESE CUSTOMS
 GOLD UNITS.

(The Gold Unit's value was 67 and 66.5 U.S. cents
 in 1936 and 1937 respectively.)

<u>Commodity</u>	<u>1936</u>	<u>1937</u>
Cotton Manufactures, Sundry	246	15
Wool and Manufactures thereof	97	8
Silk and Art. Silk and Manufactures	952	1,032
Metals and Ores	27,956	48,743
Machinery and Tools	44	22
Vehicles and Vessels	--	--
Misc. Metal Manufactures	750	178
Fishery and Sea Products	24,795	56,622
Animal Products, Canned Goods and Groceries	9,872	5,409
Cereals and Flour	94,321	5,275
Fruits, Seeds and Vegetables	33	--
Medicinal Substances	2,337	1,669
Wines, Beer and Spirits	918	240
Chemicals and Pharmaceuticals	101,132	55
Dyes, Pigments, Paint and Varnish	14	--
Candles, Soap, Oils, etc.	98	192
Books, Maps, Paper and Woodpulp	139,586	27,783
Hides, Leather and other Animal Substances	3,486	4,432

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T A B L E VI (Cont'd)

IMPORTS INTO THE "NORTH CHINA MARKET" FROM CANADA
DURING THE YEARS 1936 AND 1937, BY PRINCIPAL
GROUPS, AND VALUES IN CHINESE CUSTOMS
GOLD UNITS

(The Gold Unit's value was 67 and 66.5 U.S. cents
in 1936 and 1937 respectively)

<u>Commodity</u>	<u>1936</u>	<u>1937</u>
Timber	1,045,597	679,468
Wood and Woodenware Manufactures	--	19
Chinaware, etc.	3	14
Sundry items	5,095	8,812
	<u>1,457,132</u>	<u>840,030</u>

T A B L E VII

IMPORTS INTO THE "CENTRAL CHINA MARKET" FROM CANADA
DURING THE YEARS 1936 AND 1937, BY PRINCIPAL
GROUPS, AND VALUES IN CHINESE CUSTOMS
GOLD UNITS.

(The Gold Unit's value was 67 and 66.5 U.S. cents
in 1936 and 1937 respectively.)

<u>Commodity</u>	<u>1936</u>	<u>1937</u>
Cotton Manufactures, Sundry	4,400	5,285
Wool and Manufactures thereof	979	752
Silk and Art. Silk and Manufactures	7,959	5,192
Metals and Ores	980,545	1,228,135
Machinery and Tools	54,808	51,493

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T A B L E VII (Cont'd)

IMPORTS INTO THE "CENTRAL CHINA MARKET" FROM CANADA
DURING THE YEARS 1936 AND 1937, BY PRINCIPAL
GROUPS, AND VALUES IN CHINESE CUSTOMS
GOLD UNITS.

(The Gold Unit's value was 67 and 66.5 U.S. cents
in 1936 and 1937 respectively.)

<u>Commodity</u>	<u>1936</u>	<u>1937</u>
Vehicles and Vessels	12,245	5,270
Miscellaneous Metal Manufactures	35,163	57,598
Fishery and Sea Products	106,634	240,505
Animal Products, Canned Goods, and Groceries	39,108	22,051
Cereals and Flour	395,647	332,816
Fruits, Seeds and Vegetables	748	4,157
Medicinal Substances	--	16,246
Wines, Beer and Spirits	7,980	5,528
Chemicals and Pharmaceuticals	126,795	118,213
Dyes, Pigments, Paints & Varnish	386	15,909
Candles, Soap, Oils, etc.	35	4,786
Books, Maps, Paper and Woodpulp	1,439,392	1,625,227
Hides, Leather and other Animal Sub.	3,907	1,677
Timber	2,369,998	1,568,001
Wood and Manufactures	521	175
Chinaware, etc.	72	90
Sundry items	201,568	284,641
	<u>5,788,890</u>	<u>5,593,747</u>

T A B L E VIII

IMPORTS INTO THE "SOUTH CHINA MARKET" FROM CANADA
DURING THE YEARS 1936 AND 1937, BY PRINCIPAL
GROUPS, AND VALUES IN CHINESE CUSTOMS
GOLD UNITS.

(The Gold Unit's value was 67 and 66.5 U.S. cents
in 1936 and 1937 respectively.)

<u>Commodity</u>	<u>1936</u>	<u>1937</u>
Cotton Manufactures, Sundry	427	326
Wool and Manufactures thereof	38	91
Silk and Art. Silk and Manufactures	2	38
Metals and Ores	12,488	33,759
Machinery and Tools	3,371	343
Vehicles and Vessels	37,623	9,499
Miscellaneous Metal Manufactures	42	37
Fishery and Sea Products	30,419	42,698
Animal Products, Canned Goods, and Groceries	1,849	2,736
Cereals and Flour	390,628	351,927
Fruits, Seeds and Vegetables	63	171
Medicinal Substances	--	8
Wines, Beer and Spirits	88	122
Chemicals and Pharmaceuticals	124,466	59,543
Dyes, Pigments, Paints and Varnish	423	693
Candles, Soap, Oils, etc.	--	--
Books, Maps, Paper and Woodpulp	161,685	214,407
Hides, Leather, and other Animal Substances	242	2,753

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T A B L E VIII (Cont'd)

IMPORTS INTO THE "SOUTH CHINA MARKET" FROM CANADA
DURING THE YEARS 1936 AND 1937, BY PRINCIPAL
GROUPS, AND VALUES IN CHINESE CUSTOMS
GOLD UNITS.

(The Gold Unit's value was 67 and 66.5 U.S. cents
in 1936 and 1937 respectively.)

<u>Commodity</u>	<u>1936</u>	<u>1937</u>
Timber	13,429	56,300
Wood and Manufactures	--	--
Chinaware, etc.	--	--
Sundry items	<u>1,711</u>	<u>4,128</u>
	<u>778,994</u>	<u>759,579</u>

T A B L E IX

IMPORTS INTO "MINOR PORTS" (UNSPECIFIED) FROM CANADA
DURING THE YEARS 1936 AND 1937, BY PRINCIPAL
GROUPS, AND VALUES IN CHINESE CUSTOMS
GOLD UNITS.

(The Gold Unit's Value was 67 and 66.5 U.S. cents
in 1936 and 1937 respectively.)

<u>Commodity</u>	<u>1936</u>	<u>1937</u>
Cotton Manufactures, Sundry	--	--
Wool and Manufactures thereof	401	533
Silk and Art. Silk and Manufactures	143	121
Metals and Ores	7,162	9,476
Machinery and Tools	876	1,112
Vehicles and Vessels	5,343	6,783
Miscellaneous Metal Manufactures	4,556	1,122

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T A B L E IX (Cont'd)

IMPORTS INTO "MINOR PORTS" (UNSPECIFIED) FROM CANADA
 DURING THE YEARS 1936 AND 1937, BY PRINCIPAL
 GROUPS, AND VALUES IN CHINESE CUSTOMS
 GOLD UNITS.

(The Gold Unit's value was 67 and 66.5 U.S. cents
 in 1936 and 1937 respectively.)

<u>Commodity</u>	<u>1936</u>	<u>1937</u>
Fishery and Sea Products	83,028	38,738
Animal Products, Canned Goods, and Groceries	1,428	672
Cereals and Flour	83,799	75,929
Fruits, Seeds and Vegetables	21	45
Medicinal Substances	116	79
Wines, Beer and Spirits	89	114
Chemicals and Pharmaceuticals	2,011	10,105
Dyes, Pigments, Paints and Varnish	14	--
Candles, Soap, Oils, etc.	4	25
Books, Maps, Paper and Woodpulp	33,851	73,054
Hides, Leather, and other Animal Substances	200	167
Timber	493,580	73,966
Wood and Manufactures	143	279
Chinaware, etc.	602	46
Sundry Items	13,921	28,979
	<u>731,288</u>	<u>321,345</u>

T A B L E X

IMPORTS INTO THE "CHINA MARKET" FROM CANADA DURING THE YEARS
1936 AND 1937, BY PRINCIPAL GROUPS AND ITEMS, TOGETHER
WITH A "BREAKDOWN" BY THE THREE MAIN MARKET
DIVISIONS AND "MINOR PORTS".

(All the figures are given in Chinese Customs Gold Units, the
value of which was 67 and 66.5 U.S. cents in 1936 and 1937
respectively.)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Cotton Manufactures, Sundry:</u>		
Knitted Clothing	3,884	4,915
Socks and Stockings	--	194
Blankets and Blanket Cloth	16	4
Handkerchiefs	1	3
Clothing	721	501
Cotton Goods N.O.P.	451	209
Total	<u>5,073</u>	<u>5,626</u>
"North China"	246	15
"Central China"	4,400	5,285
"South China"	427	326
<u>Wool and Manufactures thereof:</u>		
Yarn and Cord	6	--
Felt	33	--
Blankets and Rugs	50	246
Hats and Caps	12	5
Clothing	1,389	1,110
Woolen Goods N.O.P.	25	23
Total	<u>1,515</u>	<u>1,384</u>

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T A B L E X (Cont'd)

IMPORTS INTO THE "CHINA MARKET" FROM CANADA DURING THE YEARS 1936 AND 1937, BY PRINCIPAL GROUPS AND ITEMS, TOGETHER WITH A "BREAKDOWN" BY THE THREE MAIN MARKET DIVISIONS AND "MINOR PORTS".

(All the figures are given in Chinese Customs Gold Units, the value of which was 67 and 66.5 U.S. cents in 1936 and 1937 respectively.)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Wool and Manufactures (cont'd)</u>		
"North China"	97	8
"Central China"	979	752
"South China"	38	91
"Minor Ports"	401	533
 <u>Silk & Artificial Silk & Manuf.</u>		
Artificial Silk Piece Goods	6	--
Clothing	8,087	6,339
Silk and Silk Goods N.O.P.	963	44
Total	<u>9,056</u>	<u>6,383</u>
"North China"	952	1,032
"Central China"	7,959	5,192
"South China"	2	38
"Minor Ports"	143	121
 <u>Metals and Ores:</u>		
Aluminium	461,613	395,431
Aluminium Foil	957	--
Copper Sheets	4	--
	

T A B L E X (Cont'd)

IMPORTS INTO THE "CHINA MARKET" FROM CANADA DURING THE YEARS
1936 AND 1937, BY PRINCIPAL GROUPS AND ITEMS, TOGETHER
WITH A "BREAKDOWN" BY THE THREE MAIN MARKET
DIVISIONS AND "MINOR PORTS".

(All the figures are given in Chinese Customs Gold Units, the
value of which was 67 and 66.5 U.S. cents in 1936 and 1937
respectively.)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Metals and Ores: (Cont'd)</u>		
Copper Wire	40	845
Copper N.O.P.	--	1,558
Iron and Steel Bolts, Nuts, Tacks	--	71
Wire Nails	13	--
Iron and Steel N.O.P.	5	--
Iron and Steel Galvanized	31	--
Iron and Steel Cobbles	--	8,679
Iron and Steel Scrap	191	3
Iron and Steel Wire Shorts	4,512	3,505
Alloy Steel	440	4
Pig Lead	266,291	396,959
Lead N.O.P.	51	--
Zinc	278,756	442,604
Metals N.O.P.	15,247	70,756
Total	<u>1,028,151</u>	<u>1,320,415</u>

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T A B L E X (Cont'd)

IMPORTS INTO THE "CHINA MARKET" FROM CANADA DURING THE YEARS 1936 AND 1937, BY PRINCIPAL GROUPS AND ITEMS, TOGETHER WITH A "BREAKDOWN" BY THE THREE MAIN MARKET DIVISIONS AND "MINOR PORTS".

(All the figures are given in Chinese Customs Gold Units, the value of which was 67 and 66.5 U.S. cents in 1936 and 1937 respectively.)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Metals and Ores: (cont'd)</u>		
"North China"	27,956	48,745
"Central China"	980,545	1,228,135
"South China"	12,488	33,759
"Minor Ports"	7,162	9,476
 <u>Machinery and Tools:</u>		
Agricultural Machinery and Parts	10,037	--
Electric Dynamos and Parts	112	41
Electric Motors and Parts	325	--
Electric Machinery N.O.P.	680	--
Pumping Machinery and Parts	13	365
Sewing Machinery and Parts	25	--
Textile Machinery and Parts	208	---
Printing Machinery and Parts	35,763	45,896
Prime movers and Parts	645	--
Typewriters and Parts	18	3
Machinery and Parts N.O.P.	11,096	6,535
Files	--	16
	

T A B L E X (Cont'd)

IMPORTS INTO THE "CHINA MARKET" FROM CANADA DURING THE YEARS
1936 AND 1937, BY PRINCIPAL GROUPS AND ITEMS, TOGETHER
WITH A "BREAKDOWN" BY THE THREE MAIN MARKET
DIVISIONS AND "MINOR PORTS".

(All the figures are given in Chinese Customs Gold Units, the
value of which was 67 and 66.5 U.S. cents in 1936 and 1937
respectively.)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Machinery and Tools: (cont'd)</u>		
Handtools	177	42
Machine Shop Tools	--	72
Total	<u>59,099</u>	<u>52,970</u>
"North China"	44	22
"Central China"	54,808	51,493
"South China"	3,371	343
"Minor Ports"	876	1,112
<u>Vehicles and Vessels: :</u>		
Railway and Tramway Materials	--	2,665
Motor Tractors and Trucks	17,014	6,543
Motor Cars and Busses	35,712	10,107
Motor Car Parts and Accessories	1,627	2,237
Vehicles N.O.P.	858	--
Total	<u>55,211</u>	<u>21,552</u>

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T A B L E X (Cont'd)

IMPORTS INTO THE "CHINA MARKET" FROM CANADA DURING THE YEARS
1936 AND 1937, BY PRINCIPAL GROUPS AND ITEMS, TOGETHER
WITH A "BREAKDOWN" BY THE THREE MAIN MARKET
DIVISIONS AND "MINOR PORTS".

(All the figures are given in Chinese Customs Gold Units, the
value of which was 67 and 66.5 U.S. cents in 1936 and 1937
respectively.)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Vehicles and Vessels: (cont'd)</u>		
"Central China"	12,245	5,270
"South China"	37,623	9,499
"Minor Ports"	5,343	6,783
<u>Miscellaneous Metal Manufactures:</u>		
Aluminumware	540	307
Arms and Ammunition	71	--
Scientific Instruments	4,238	3,265
Metal Furniture	426	71
Clocks and Parts	47	5
Heating Appliances and Parts	582	16
Cutlery	281	67
Electric Bulbs	7	--
Electric Cables	12,467	3,835
Accumulators and Dry Cells	16	522
Insulated Wire	7,970	12,372
Electric Fittings N.O.P.	1,461	24,531
Electric Lamps and Lampware	29	26

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T A B L E X (Cont'd)

IMPORTS INTO THE "CHINA MARKET" FROM CANADA DURING THE YEARS 1936 AND 1937, BY PRINCIPAL GROUPS AND ITEMS, TOGETHER WITH A "BREAKDOWN" BY THE THREE MAIN MARKET DIVISIONS AND "MINOR PORTS".

(All the figures are given in Chinese Customs Gold Units, the value of which was 67 and 66.5 U.S. cents in 1936 and 1937 respectively.)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Miscellaneous Metal Manufactures: (C)</u>		
Electric Meters	--	7
Electric Appliances N.O.P.	53	771
Locks and Padlocks	338	--
Metalware N.O.P.	445	412
Needles N.O.P.	6,854	12,182
Telephone & Telegraph Instruments	1,837	213
Radio Sets and Parts	2,196	93
Watches and Parts	224	67
Wire Netting and Gauze	406	173
Metal Manufactures N.O.P.	23	--
Total	<u>40,511</u>	<u>58,935</u>
"North China"	750	178
"Central China"	35,163	57,598
"South China"	42	37
"Minor Ports"	4,556	1,122
<u>Fishery and Sea Products:</u>		
Cuttle Fish	10,331	30,989
Dried Cod	--	41

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T A B L E X (Cont'd)

IMPORTS INTO THE "CHINA MARKET" FROM CANADA DURING THE YEARS
1936 AND 1937, BY PRINCIPAL GROUPS AND ITEMS, TOGETHER
WITH A "BREAKDOWN" BY THE THREE MAIN MARKET
DIVISIONS AND "MINOR PORTS".

(All the figures are given in Chinese Customs Gold Units, the
value of which was 67 and 66.5 U.S. cents in 1936 and 1937
respectively.)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Fishery & Sea Products:(Cont'd)</u>		
Dried and Smoked Cod	724	776
Fresh Fish	--	192
Dry Salted Herring	230,493	341,993
Dry Salt Fish,N.O.P.	692	2,542
Fishery and Sea Products N.O.P.	<u>2,636</u>	<u>2,030</u>
Total	<u>244,876</u>	<u>378,563</u>
"North China"	24,795	56,622
"Central China"	106,634	240,505
"South China"	30,419	42,698
"Minor Ports"	83,028	38,738
<u>Animal Products,Canned Goods, and Groceries:</u>		
Butter	7,508	--
Evaporated Cream & Milk	9,050	6,670
Milk Food	5,997	6,193
Biscuits	208	300
Foodstuffs, canned or other packing	13,885	5,842

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T A B L E X (Cont'd)

IMPORTS INTO THE "CHINA MARKET" FROM CANADA DURING THE YEARS
1936 AND 1937, BY PRINCIPAL GROUPS AND ITEMS, TOGETHER
WITH A "BREAKDOWN" BY THE "THREE MAIN MARKET
DIVISIONS AND "MINOR PORTS".

(All the figures are given in Chinese Customs Gold Units, the
value of which was 67 and 60.5 U.S. cents in 1936 and 1937
respectively.)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Animal Products, Canned Goods, and Groceries: (Cont'd)</u>		
Chocolate and Cocoa	516	--
Coffee	76	289
Confectionery	4,343	2,730
Macaroni or Vermicelli	3,573	4,499
Sauces	140	587
Animal Products & Groceries N.O.P.	6,961	3,758
Total	<u>52,257</u>	<u>30,868</u>
"North China"	9,872	5,409
"Central China"	39,108	22,051
"South China"	1,849	2,736
"Minor Ports"	1,428	672
<u>Cereals and Flour:</u>		
Bran	--	8
Wheat	139,267	--
Cereals N.O.P.	11,830	4,598
Tapioca Flour	194	--

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T A B L E X (Cont'd)

IMPORTS INTO THE "CHINA MARKET" FROM CANADA DURING THE YEARS 1936 AND 1937, BY PRINCIPAL GROUPS AND ITEMS, TOGETHER WITH A "BREAKDOWN" BY THE THREE MAIN MARKET DIVISIONS AND "MINOR PORTS".

(All the figures are given in Chinese Customs Gold Units, the value of which was 67 and 66.5 U.S. cents in 1936 and 1937 respectively.)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Cereals and Flour:(Cont'd)</u>		
Wheat Flour	809,959	737,773
Flours N.O.P.	<u>3,145</u>	<u>3,568</u>
Total	<u>964,395</u>	<u>745,947</u>
"North China"	94,321	5,275
"Central China"	395,647	332,816
"South China"	390,628	331,927
"Minor Ports"	83,799	75,929
<u>Fruits, Seeds and Vegetables:</u>		
Apples, Fresh	92	1,545
Oranges, Fresh	3,	1,098
Fruits, N.O.P.	--	210
Beans and Peas	296	--
Vegetables N.O.P.	<u>474</u>	<u>1,520</u>
Total	<u>865</u>	<u>4,373</u>
"North China"	33	--
"Central China"	748	4,157
"South China"	63	171
"Minor Ports"	21	45

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T A B L E X (Cont'd)

IMPORTS INTO THE "CHINA MARKET" FROM CANADA DURING THE YEARS
1936 AND 1937, BY PRINCIPAL GROUPS AND ITEMS, TOGETHER
WITH A "BREAKDOWN" BY THE THREE MAIN MARKET
DIVISIONS AND "MINOR PORTS".

(All the figures are given in Chinese Customs Gold Units, the
value of which was 67 and 66.5 U.S. cents in 1936 and 1937
respectively.)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Medicinal Substances:</u>		
Ginseng	859	1,755
Medicinal Substances	<u>1,594</u>	<u>16,247</u>
Total	<u>2,453</u>	<u>18,002</u>
"North China"	2,337	1,669
"Central China"	--	16,246
"South China"	--	8
"Minor Ports"	116	79
<u>Wines, Beer and Spirits:</u>		
Whisky, in Bottles	5,085	2,984
Gin, in Bottles	10	--
Wines, Spirits & Beer, H.O.P.	<u>3,980</u>	<u>3,020</u>
Total	<u>9,075</u>	<u>6,004</u>
"North China"	918	240
"Central China"	7,980	5,528
"South China"	88	122
"Minor Ports"	89	114

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T A B L E X (Cont'd)

IMPORTS INTO THE "CHINA MARKET" FROM CANADA DURING THE YEARS 1936 AND 1937, BY PRINCIPAL GROUPS AND ITEMS, TOGETHER WITH A "BREAKDOWN" BY THE THREE MAIN MARKET DIVISIONS AND "MINOR PORTS".

(All the figures are given in Chinese Customs Gold Units, the value of which was 67 and 66.5 U.S. cents in 1936 and 1937 respectively.)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Chemicals and Pharmaceuticals:</u>		
Acetic Acid	--	9
Acids, N.O.P.	106	--
Sulphate of Ammonia	337,910	176,486
Calcium Carbide	23	--
Glycerine	1,746	2,149
Fertilizers N.O.P.	46	--
Soda Ash	148	--
Chemicals & Chemical Compounds	5,898	5,001
Medicines, Drugs, etc.	8,527	6,271
Total	<u>354,404</u>	<u>187,916</u>
"North China"	101,132	55
"Central China"	126,795	118,213
"South China"	124,466	59,543
"Minor Ports"	2,011	10,105
<u>Dyes, Pigments, Paints & Varnishes:</u>		
Bronze Powder	423	14,255
Oxide of Cobalt	--	49

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T A B L E X (Cont'd)

IMPORTS INTO THE "CHINA MARKET" FROM CANADA DURING THE YEARS
1936 AND 1937, BY PRINCIPAL GROUPS AND ITEMS, TOGETHER
WITH A "BREAKDOWN" BY THE THREE MAIN MARKET
DIVISIONS AND "MINOR PORTS".

(All the figures are given in Chinese Customs Gold Units, the
value of which was 67 and 66.5 U.S. cents in 1936 and 1937
respectively.)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Dyes, Pigments, Paints,</u> <u>and Varnishes: (cont'd)</u>		
Varnishes	49	657
Paints N.O.P.	27	11
Paint Materials & Polishes, N.O.P.	2	7
Pigments N.O.P.	336	1,623
Total	<u>837</u>	<u>16,602</u>
"North China"	14	--
"Central China"	386	15,909
"South China"	423	693
"Minor Ports"	14	--
<u>Candles, Soap, Oils, Fats, Waxes,</u> <u>Gums and Resins:</u>		
Gums and Resins, N.O.P.	--	4,555
Essential Oils	101	423
Lubricating Oils	2	--
Waxes, N.O.P.	--	25
Soap	34	--
Total	<u>137</u>	<u>5,003</u>

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F A B L E X (Cont'd)

IMPORTS INTO THE "CHINA MARKET" FROM CANADA DURING THE YEARS
1936 AND 1937, BY PRINCIPAL GROUPS AND ITEMS, TOGETHER
WITH A "BREAKDOWN" BY THE THREE MAIN MARKET
DIVISIONS AND "MINOR PORTS".

(All the figures are given in Chinese Customs Gold Units, the
value of which was 67 and 66.5 U.S. Cents in 1936 and 1937
respectively.)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Candles, Soap, Oils, Fats, Waxes,</u> <u>Gums and Resins: (cont'd)</u>		
"North China"	98	192
"Central China"	35	4,786
"Minor Ports"	4	25
 <u>Books, Maps, Paper & Woodpulp:</u>		
Books	1,731	471
Charts and Maps	4	41
Paper Boards	--	13
Printing and Newsprint Paper	1,287,286	1,404,058
Drawing Paper	3	--
Glazed Paper	--	56
Kraft Paper	200,948	341,892
Parchment	--	10
Tissue Paper	590	2,283
Writing Paper	67	--
Wall Paper	530	690
Paper, N.O.P.	19,431	35,240

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T A B L E X (Cont'd)

IMPORTS INTO THE "CHINA MARKET" FROM CANADA DURING THE YEARS
1936 AND 1937, BY PRINCIPAL GROUPS AND ITEMS, TOGETHER
WITH A "BREAKDOWN" BY THE THREE MAIN MARKET
DIVISIONS AND "MINOR PORTS".

(All the figures are given in Chinese Customs Gold Units, the
value of which was 67 and 66.5 U.S. cents in 1936 and 1937
respectively.)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Books, Maps, Paper,</u> <u>and Woodpulp:</u> (cont'd)		
Woodpulp	250,934	153,201
Paperware, N.O.P.	<u>12,990</u>	<u>2,583</u>
Total	<u>1,774,514</u>	<u>1,940,518</u>
"North China"	139,586	27,783
"Central China"	1,439,392	1,625,227
"South China"	161,685	214,407
"Minor Ports"	33,851	73,054
<u>Hides, Leather, and Other</u> <u>Animal Substances:</u>		
Sole Leather	119	--
Calf or Kid Leather	119	2,918
Cow Leather	508	218
Leather, N.O.P.	107	1,278
Boots and Shoes	185	67
Leather Manufactures, N.O.P.	93	108
Fur Skins, N.O.P.	6,222	3,252
Hair and Feathers	<u>482</u>	<u>1,188</u>
Total	<u>7,835</u>	<u>9,029</u>

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T A B L E X (Cont'd)

IMPORTS INTO THE "CHINA MARKET" FROM CANADA DURING THE YEARS 1936 AND 1937, BY PRINCIPAL GROUPS AND ITEMS, TOGETHER WITH A "BREAKDOWN" BY THE THREE MAIN MARKET DIVISIONS AND "MINOR PORTS".

(All the figures are given in Chinese Customs Gold Units, the value of which was 67 and 66.5 U.S. cents in 1936 and 1937 respectively.)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Hides, Leather and Other</u>		
<u>Animal Substances: (cont'd)</u>		
"North China"	3,486	4,432
"Central China"	3,907	1,677
"South China"	242	2,753
"Minor Ports"	200	167
 <u>Timber:</u>		
Hardwood Logs	153,499	90,958
Softwood Logs	761,907	746,866
Sawn Hardwood	19,342	--
Sawn Softwood	1,731,236	1,047,333
Manufactured Softwood	341,691	214,430
Railway Sleepers	890,117	274,052
Timber, N.O.P.	24,612	4,096
Total	<u>3,922,404</u>	<u>2,377,735</u>
"North China"	1,045,397	679,468
"Central China"	2,369,998	1,568,001
"South China"	13,429	56,300
"Minor Ports"	493,580	73,966

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T A B L E X (Cont'd)

IMPORTS INTO THE "CHINA MARKET" FROM CANADA DURING THE YEARS
1936 AND 1937, BY PRINCIPAL GROUPS AND ITEMS, TOGETHER
WITH A "BREAKDOWN" BY THE THREE MAIN MARKET
DIVISIONS AND "MINOR PORTS."

(All the figures are given in Chinese Customs Gold Units, the
value of which was 67 and 66.5 U.S. cents in 1936 and 1937
respectively.)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Wood and Manufactures:</u>		
Wood N.O.P.	2	--
Furniture	41	--
Empty Casks	365	--
Shooks	84	296
Woodware	<u>172</u>	<u>177</u>
Total	<u>664</u>	<u>473</u>
"North China"	--	19
"Central China"	521	175
"Minor Ports"	143	279
<u>Chinaware, Enamelware, Glass:</u>		
Chinaware	333	86
Enamelled Ironware	79	--
Glass Bottles	53	49
Glassware	198	15
Mirrors	14	--
Total	<u>677</u>	<u>150</u>

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T A B L E X (Cont'd)

IMPORTS INTO THE "CHINA MARKET" FROM CANADA DURING THE YEARS
1936 AND 1937, BY PRINCIPAL GROUPS AND ITEMS, TOGETHER
WITH A "BREAKDOWN" BY THE THREE MAIN MARKET
DIVISIONS AND "MINOR PORTS".

(All the figures are given in Chinese Customs Gold Units, the
value of which was 67 and 66.5 U.S. cents in 1936 and 1937
respectively.)

<u>Groups and Items</u>	<u>1936</u>	<u>1937</u>
<u>Chinaware, Enamelware, Glass:</u> (cont'd)		
"North China"	3	14
"Central China"	72	90
"Minor Ports"	602	46
 <u>Sundry Item:</u>	 <u>222,295</u>	 <u>326,560</u>
(No breakdown available)		
"North China"	5,095	8,812
"Central China"	201,568	284,641
"South China"	1,711	4,128
"Minor Ports"	13,921	28,979

P A R T T W O

C H A R A C T E R I S T I C S O F T H E

M A R K E T

C H A P T E R F I V E

M E T H O D S O F C O N D U C T I N G B U S I N E S S .

In discussing this important phase of China's trade, it is felt that the most logical and instructive approach is to trace the entire procedure of the establishment of a Chinese import business, from the organization period, through the stage of negotiation for agencies, actual purchasing, and subsequent local distribution.

At the commencement, we must assume that a prospective importer has the complete knowledge of the intricacies of both native and foreign trade which will ensure of a reasonable chance of success in his venture; for without such knowledge, no sensible person should enter into such a highly specialized field, even though he may have vast capital at his disposal.

The first step, therefore, is to establish an organization or "firm". This may be a public limited liability company, a private limited liability company, a private company, a partnership, or a sole ownership establishment. Legal requirements governing the operation of any of the foregoing types of organizations in China are, in principle, somewhat similar to those current in Western countries.

After the establishment formalities have been completed, the question of the size and number of staff is decided upon, and these factors will be dependent upon the size of the venture and the expected extent of its operation. Suffice it to say, that the intelligent importer will endeavour to secure the best services available, bearing in mind experience and specialization.

While an established import house is always prepared to take up any line which will yield a profit, at the beginning, certain lines are usually decided upon as a foundation. For instance, an importer may decide that "flour" is to be his staple line. He knows that his connections in this field and the ability of his staff are such that he stands a reasonable chance of covering his overhead expenditure with this one item alone, and therefore, concentrates on its development to a point where he can afford to branch out into a more diversified range of products, the promotion of which is of "uncertain". On the other hand, an importer may have in mind a certain range of goods, such as, items for sale to specified trades, business, or professions. Thus, we have importers who may specialize on goods for sale to the construction trade, to bakeries or confectionery manufacturers, or to the medical or dental profession. Specialization in some specific product or group of allied products is therefore nearly always the

guiding principle of a newly established importer, the predominant idea being to concentrate in line with such specialization in the early stages and until monetary returns justify exploration outside of this field. However, this does not mean that such an importer would refuse to handle a product which came his way and offered undoubted profitable possibilities.

Assuming then that the importer has decided upon his field of endeavour, how does he proceed in order to secure the necessary connections in overseas markets? He certainly does not go about it in a haphazard manner. His knowledge of local market conditions and economic geography provides him with a good indication of the most advantageous sources of supply. Added to this, he usually has available to him the services of the trade promotion branches of foreign governments established in China, such as Trade Commissioners, Consuls, or Commercial Attachés, who are only too willing to cooperate with him in forming connections in their countries.

In this way, he enters into correspondence with prospective connections in overseas countries, 1° outlining the facilities of his organization to cover the market, or a certain section of the market; 2° providing complete details, including competitive quotations, types of packing, etc., of the product or products in which he is interested; 3° requesting samples, and relative c.i.f. (cost, insurance and freight)

Chinese port, or f.o.b. (free on board) country of supply quotations; 4° indicating the basis on which he wishes to operate, namely, (a) sole agency, (b) exclusive buying, or (c) sole brand; 5° giving the terms on which he is prepared to finance business; and 6° providing the names of his bankers and business houses as a reference to his business and financial integrity.

Before going further, it seems appropriate to give some explanation of the items enumerated above.

1° Market Facilities:- The territory which he is in a position to cover efficiently either directly or indirectly. For instance, if the importer were located in South China, with no connections in Central or North China, he would not be justified in requesting to be assigned the whole of the "China Market".

2° Details of Products in which interested:- For example, let us assume that his interest was in flour. He should outline the grades he is interested in --"Baker's Patent", "First Clear", "Second Clear", "Cut-off", etc.-- and provide the current quotations on similar grades which were being offered from other countries of supply. Also, he should provide analyses, such as gluten content or protein content, and, at the same time indicate the packing required --49 lb. cotton bags, 196 lb. barrels, etc.

30 Samples and Prices:- Naturally, if an importer were soliciting a connection for the supply of locomotives, he would not request samples, and the decision in this regard is usually based upon the practicability and the willingness of the importer to assume a certain amount of expenditure. Thus, a flour sample involving as it does a few pounds of the product would be reasonably expected to be furnished gratis, and a small range of leather swatches would come within the same category. On the other hand, a range of electrical appliances would represent quite an outlay of money, and in such an instance it is usual for the importer to indicate his sincerity of interest by offering to assume the financial responsibility involved by honouring a demand draft for the full c.i.f. value of the goods, which are in actual practice invoiced on the basis of a sample discount of 25 per cent. It will be seen that this is a reasonable proposition; for if an importer is genuinely interested in the particular line, he is prepared to go to any reasonable extent to convince his prospective supplier that he is earnest in his endeavour to form a connection which will serve as the basis for future mutually profitable trading.

Under normal circumstances, it is possible for overseas exporters to quote c.i.f. prices, having access to insurance, rail and steamship freight rates, but where this is

not possible, f.o.b. prices point of origin or shipping port of country of supply are acceptable. The foregoing are preferable, however, insofar as they enable the importer to estimate his laid down arrival cost more accurately. In any case, all quotations should be in the currency of the country of supply.

40 Basis of Operation:- Generally, arrangements under this heading can be divided into three categories: sole agency, exclusive buying, or sole brand.

The "sole agency" arrangement is one whereby the importer handles a line exclusively for the designated territory. All inquiries and all orders emanating from that territory are channelled through him, and no sales can be made to others within the territory without his consent. On his part, in reciprocation for this concession, he is obliged not to handle any other similar line, regardless of the source of origin.

"Exclusive Buying" concession is the forerunner of the sole agency arrangement, and obligates the overseas exporter to confine his sales to one importer in a certain specified territory for a certain period, in order that the importer may be given the opportunity of giving a concrete demonstration of his ability to provide satisfactory representation and qualify him for a sole agency.

The "Sole Brand" arrangement is one whereby an importer is usually allotted a specific brand for his use, and the exporter undertakes to confine sales of this brand to him. For instance, a Canadian exporter may be marketing flour of identical quality under, say, twelve different brands, and wishes to promote his product in the "China Market" as extensively as possible without a clashing of interests. He therefore allots a separate brand to each of twelve different Chinese importers for their sole use. As a rule, it is only possible to make sole brand arrangements when the products are of a nature which permit of such an arrangement and the extent of the demand justifies it. For instance, in the case of sole leather, upper leather, flour, newsprint, sulphate of ammonia, heavy chemicals, etc.

50 Terms of Finance:- This will be confined to an outline of the terms on which business will be financed, such as, the establishment of various types of letters of credit, shipment against documents attached to draft at sight or acceptance, open consignment, etc. The decision in this regard usually rests with the exporter, and the successful culmination of arrangements is often contingent upon mutual agreement in this regard. This phase of business will be discussed fully under the heading Financing Imports.

6° Business References- This is essential information from the point of view of the exporter, since it is his only means of checking on the bona fides of the importer. The importer should provide the names of his bankers and the names of all his overseas connections if he has any.

METHODS OF SALE.

Now, presuming that the importer has completed his arrangements relative to sources of supply, and has in his possession either representative samples or catalogues, the next step is to canvas the market.

This is accomplished by the use of the services of "brokers" or "salesmen", who are in close touch with the wholesale and retail trades, these being the equivalent in Canada of "jobbers" and "retailers". With the aid of the data at their disposal, these "brokers" or "salesmen" solicit orders throughout the territory, which are subject to the final acceptance of the importer, which acceptance is contingent upon the standing of the buyer as far as a credit risk is concerned. With this acceptance, contracts are entered into between the importer and the customer, stipulating prices, deliveries, and terms of payment. The orders represented by these contracts are then made the basis of one large indent to the overseas exporter, and if necessary detailed instructions relative to

the packing of the shipment --having in mind the facilitating of the distribution of individual orders on arrival-- accompany the order to the exporter. If terms of payment to the exporter involves the establishment of letters of credit, a copy of the local bank's confirmation to their overseas branch in which it will be made available to the exporter will be forwarded with the order.

In due course the goods arrive, and after being unloaded from the steamer, are stored free of charge for a period of four days in the warehouses of the dock company. This period gives the importer sufficient time to notify his customers of the arrival of the goods; go through the necessary formality of making the necessary payment to his bank, which will enable him to secure possession of the bill of lading and to exchange the bill of lading at the steamship company for a "delivery order" which will allow of taking delivery of his shipment from the warehouse without further formality. The various portions which go to his respective customers are then delivered against the arrangements stipulated in the original contract. This completes the procedure as far as the importer is concerned.

In addition to the general importer, there is the manufacturer's agent or commission agent, whose roles in business are identical. They need no capital to speak of, and

canvas orders on behalf of their overseas principals on a commission basis. Their quotations to customers include their commission which is remitted to them by their principals at certain specified intervals, usually three months.

In order to make a success of business, these agents must have a good standing in the business community and a close connection with the trades to whom they are selling. Their orders are despatched to their principals in the identical manner they are received from customers, and the customers are required to finance their orders on certain specified terms, involving a purely factory or producer to customer basis.

THE ROLE OF THE WHOLESALER.

We have now covered the methods of conducting business from the point of view of the importer, who we have seen makes sales to wholesalers and retailers. With regard to the latter; no comments are necessary, because his future activity is confined merely to the sale of the goods over the counter.

The wholesaler, however, holds an important position in import trade. He is the liaison between the importer and the numerous wholesalers and/or retailers in the interior of China. On the surface, it would appear that he is an unnecessary participant in the business, because even a retailer in

the interior should be in a position to make a visit to a port and make direct contact with the importer. This whole question revolves around credit; for the bulk of the trade with the interior is carried on in this manner, and no importer wants to shoulder credit risks with customers in the interior with whom he is only vaguely acquainted. Also, there is the question of the difficulties in connection with the transfer of goods to the interior.

The wholesaler, therefore, is willing to assume all these responsibilities. His connections with the interior points are such that he is capable of covering the market efficiently, (1) assuming comparatively long term credit risks, (2) giving firm quotations in the particular currency of the territory of his customer, (3) arranging for economical transportation to points of consumption, and (4) carrying stocks from which he can make small deliveries.

MARGIN OF PROFIT.

In import business, the importer is at liberty to mark up his costs as he thinks fit, but if he is avariciously inclined it will not be long before he is brought to a sudden realization that he must fall in line with customary procedure in this regard if he is to quote competitively.

There is no set scale of profits on Chinese import business, and in the same way, there is no set mark-up for the wholesaler or the retailer. Suffice it to say that competition is the guiding factor. However, as a rule, such mark-ups are fairly uniform.

On highly competitive products an importer's profit net ranges from 1.5 to 5 per cent. Of course, this range applies to goods which command a good turnover, such as flour, newsprint, fertilizer, steel, and lumber. In the case of manufactured articles, 7.5 per cent to 10 per cent is the rule.

No guide can be provided to the profits of a wholesaler or retailer, although it is known that, on occasions, wholesalers make as much as 40 per cent on cost, while retailers make up to 100 per cent.

As an indication of the lengths to which the retailer will go to meet competition, it would seem in order to give an account of an actual experience. A retailer marketing milk at a price per tin which gave him a return per case the exact equivalent of his cost price, and when confronted with the apparent foolishness of his action, gave the explanation that the sale of the empty wooden case represented his profit of 15 cents per case.

Oftentimes, there have been cases where wholesalers and retailers have secured goods from importers on two or three

months credit, and resold them immediately at cost, in order to secure the free use of the money for other purposes during the credit period.

The foregoing instances are cited in order to accentuate the highly keen and competitive nature of the market.

SETTLEMENT OF ACCOUNTS.

Among the Chinese, whether it be between importer and wholesaler, or the latter and retailer, outstanding accounts must be settled immediately they become due. Periods of credit may involve a settlement twice monthly, monthly, quarterly, on certain festival days, or at the end of the Chinese year. The three festival days are very important for the clearing up of outstanding accounts, and the end of the year is the great settlement period for the whole mercantile community throughout the country. A debtor is obligated to clear all outstanding accounts before the dawn of the New Year, and failure to do so involves a serious loss of personal and business prestige.

REPRESENTATION.

In the first chapter of this study, entitled Extent of the Market, it has already been made clear that there are

three sections of the "China Market", and therefore, for the purpose of "representation" these divisions must be considered as separate and distinct.

Lest the term "representation" be not clearly understood, it should be pointed out that this applies to the arrangements which are made with importers which involve sole buying and/or distribution rights in a specified territory, such rights usually being granted on the basis of the ability of an importer to cover efficiently a designated territory.

The generally recognized trade centres in the Northern, Central, and Southern sections are Tientsin, Shanghai, and Hongkong respectively. (While the last named is a British Colony, it is considered as being the distribution centre of the South, because the bulk of business which is done by overseas exporters with this division pass through this "free" deep sea port and are financed therefrom.)

The importance of the recognition by overseas exporters of the foregoing "representation" areas cannot be overstressed, because it will be readily seen that without this recognition, an exporter might unwittingly grant sole distribution rights for the "China Market" to a Chinese importer, say, in Tientsin, only to find at a later date that the importer was not in a position to give adequate representation beyond the limits of North China. This would result in the

exporter being precluded from the Central and Southern sections of the market.

Of course, it often happens that importers have branches in each of the principal distributing centres of the "China Market", and thus are in a position to give complete coverage. However, it is apparent that the question of "representation" is sufficiently important to justify detailed investigation of the territory coverage available before definitely deciding upon the question of agency coverage.

BRANDS OR TRADE MARKS.

To understand the importance of brands, trade marks, or "Chops" as they are called in China, as a vital factor in successful marketing in the "China Market", it is necessary to pause and consider the nature of the bulk of the Chinese buying public. The idea that they will buy anything as long as it meets their idea of price is erroneous; for they are discerning buyers and are partial to quality. Once they are satisfied with a product, they will remain loyal to it by their continued patronage, even though a similar article may be offered at a lower price.

On this account, it is important that a manufacturer or exporter adopt his own "chop" for use in the marking of the

products or articles which he intends marketing in China, in order that he may build up a basis of confidence among the Chinese consumers.

Care must be taken in the selection of a "chop" , and a colourful pictorial type is desirable, such as a bird, an animal or a distinctive sign. In other words, something which will appeal to the retentive memory of simple, and more than often illiterate, people. Pertinent Chinese characters should be embodied in the design also.

It is advisable for the exporter to solicit the cooperation of his Chinese connection before deciding on a "chop", because there are certain designs and colours which would not meet with the approval of Chinese buyers from the point of view of their customs, tastes or superstitions. A wrong selection of characters, pictures or colours might easily result in ridicule.

C H A P T E R S I X

C U R R E N C Y A N D F O R E I G N E X C H A N G E

Until the year 1933, China's currency, or we should say currencies, were, to say the least, a complex problem, based as they were on a system of silver units of varying weight and fineness in the different provinces and different localities. And these units in turn fluctuated not only in terms of the world silver market, but in terms of the public's confidence in the issuing authority.

In 1933, under the "Standard Silver Dollar Coinage Law", promulgated by the Chinese National Government, the "yuan" system was established, which provided for a uniform currency based on this unit. The "yuan" was to have a gross weight of 26.6971 grams of silver 880 fine, that is, containing 23.493448 grams of fine silver.

In order to facilitate the transition to the new silver dollar and at the same time to contribute towards the stabilization of world silver, a silver agreement was signed by the Chinese Government with the governments of Australia, Canada, India, Mexico, Peru, Spain, and the United States, -- these being the principal countries concerned with the white

metal. However, the advantages which were expected to accrue from this agreement were nullified by the subsequent action of the United States in enforcing their "Silver Purchase Act" which was designed to stimulate a rise in the price of silver by artificial means, but in accomplishing this aim, it also caused a serious drain of silver from China. As a result, China's silver reserves which were essential to the maintenance of the new currency system were greatly depleted, resulting in an adverse effect which took concrete form in a contraction of credit and currency.

In view of the serious proportions to which the exodus of silver had grown, the Chinese Government, in October, 1934, ordered the application of an export duty and equalization charge on exports of silver. While this action contributed in some small measure to alleviate the situation, speculation in the exchange markets and the smuggling of actual silver out of the country made it apparent that some fundamental solution had to be found.

It was at this stage that the Chinese Government made arrangements for the coordination in the matter of dealing with financial currency problems between the Central Bank of China (the Government Bank) and the two principal private banks, --the Bank of China and the Bank of Communications. This was made possible by increasing the capital of the two

private banks to a point where the Government was holding a minimum share of fifty per cent.

These arrangements were partially successful, but left considerably to be desired. Accordingly, in November, 1935, the Chinese Government took steps to effect a fundamental change in the entire currency system, by issuing a decree, providing for:

1. Stabilization of the Chinese dollar at the existing level.
2. Unification of note issue and reserves and making notes of the three government banks full legal tender.
3. Nationalization of silver.
4. Reorganization of the Central Bank of China as the Central Reserve Bank on a more independent basis.
5. Strengthening the commercial banking system.
6. Balancing the national budget within a period of eighteen months.

In addition, the Chinese Government concluded arrangements for the sale of 50,000,000 ounces of silver to the United States Treasury at the world market price for silver, and subsequently reached an agreement whereby further purchases of this nature would be made by the United States. By 1937, these measures had lent considerable strength to the maintenance of the Chinese currency system.

In July, 1937, in pursuance of a close cooperative policy between the United States and Chinese Governments, a further monetary agreement was concluded, and provided for:

1. Sale of Chinese surplus of silver to America.
2. Purchase of a substantial amount of gold from America by China with a view to augmenting the Chinese Government's gold reserve.
3. Increased credit facilities made available to the Central Bank of China for currency stabilization purposes.

The full effects of the painstaking and protracted efforts of the Chinese Government to maintain a fairly stable exchange rate in terms of foreign currencies were being favourably reflected in the exchange market, when hostilities broke out in Shanghai, in August, 1937.

Insofar as subsequent movements of exchange and regulations relating thereto have no pertinent bearing on the subject matter of this study, we shall be content with having endeavoured to give a brief survey of China's exchange from a period of disorganization to one where the currency system had been altered so that national coordination was possible and exchange rates were semi-stable in terms of foreign currencies.

Now, let us discuss foreign exchange from the point of view of a Chinese importer. The writer is fully aware

that a discussion of this nature may seem to be unduly elementary to readers well versed in the matter of import practice. However, it is considered that some of the points involved are of such a nature that they do not come within a study based on the import practices of countries whose currencies are of a stable character, and are therefore pertinent to this survey.

China has always had an unfavourable trade balance, and, as a result, foreign exchange has always played a vital role in connection with her foreign trade. By foreign exchange is meant the wherewithal to meet foreign indebtedness. In other words, the currencies of other countries.

In all export transactions, it is natural that overseas exporters to China, or, for that matter, to almost any country, insist on receiving payment for their goods in the currency of their own countries, or in the currencies with which their currencies have a comparatively stable relation, and in respect to which unhindered conversion is possible.

From the foregoing, it is apparent that China's import trade has always been dependent upon the importer being in a position to purchase the foreign currencies which he requires to pay for the goods he has on order. And, in the past, these currencies have been readily available at market rates. By market rates is meant the rate prevailing on the day of his

purchase. For instance, the rate of United States dollars may be 30, which means that he has to pay one hundred Chinese dollars for every 30 United States dollars. In the same way, the rate of pounds sterling may be 1/3d., which means that he has to pay sixteen Chinese dollars for every English pound.

Market rates are subject to fluctuation according to the preponderance of buying and selling as the case may be. For example, if there were more buyers than sellers of United States currency, the United States dollar rate would be higher, and vice versa. These fluctuations are not only governed by the supply and demand of legitimate business, but sometimes are swayed by the impact of speculation in foreign currencies; for native banks and individuals are engaged in the business of exchange speculation. Added to these, are the speculators in foreign stocks and bonds, who are required to sell or buy foreign currencies to cover their sales and purchases respectively. Also, in the past, the unstable political conditions which obtained in China have resulted in temporary flights of capital to foreign countries, with consequent preponderance in the buying of foreign currencies and their transfer to overseas banks for safekeeping.

Thus the Chinese importer has always been faced with an "unstable" exchange. In contrast, the Canadian importer has always operated on a "stable" unit, and he has therefore always

been reasonably sure of his relative costs in foreign currencies.

In view of the complex situation of exchange in China, where you have all the currencies of the world fluctuating almost daily in terms of Chinese currency, it is natural that the reader would ask the question: How does the importer protect himself against loss which might be occasioned by an adverse movement in exchange? A logical answer to this would be: He makes his sales contracts with his customers on the basis of foreign currencies. But, it is not so simple, because, how can we expect a small retailer to contract for the purchase of goods, say, in United States dollars. He knows nothing of the intricacies of exchange and cares less. His interest lies in his basic cost in Chinese dollars. Consequently, the importer must quote his prices in Chinese currency, but in doing so he must protect himself against the vagaries of exchange. For the purpose of clearer understanding, let us take a concrete example.

The importer receives an order which, including his commission or profit, amounts to United States \$3,000. The customer is prepared to sign a sales contract but wishes his commitment to appear in terms of Chinese dollars. The importer calls on his banker and inquires for a quotation on United States dollars for delivery within three months and is pro-

vided with the "forward" rate of, say 30. He immediately prepares a contract for the signature of his customer for Chinese \$10,000. After this has been signed, he returns to his bankers and "books" United States \$3,000 at a rate of 30 for delivery any time within three months. In other words, he enters into a contract with his bankers whereby they guarantee to furnish him during a period up to three months with United States \$3,000 against the payment of Chinese \$10,000. Thus, on the one hand, the customer is assured of his goods at a cost of Chinese \$10,000; and, on the other hand, the importer is assured that when he receives this Chinese \$10,000 he can exchange it for United States \$3,000, with which he will be in a position to meet the draft of his overseas shippers. The principle is identical in cases where foreign currencies other than United States dollars are involved.

Of course, if an importer chooses to take a risk with the exchange he is perfectly at liberty to quote in Chinese dollars without covering his exchange position, but sound importing houses very seldom adopt this practice; for when working on a small margin of profit, say 2 per cent, this can be wiped away in a day's fluctuation of the exchange. Such a practice, however, comes within the province of "speculation" and has no place in the sphere of legitimate business.

Now, let us examine the impact of the fluctuations of foreign exchange rates on import trade. First of all, it is necessary that the reader have a clear and concise idea of the fluctuations in the exchange rates of foreign currencies. Therefore, at the risk of being redundant, it should be pointed out that fluctuations occur when the rate between two currencies has no fixed ratio, but is dependent upon the law of supply and demand. Thus, in the case of currencies which have no fixed ration to each other any movement of one is reflected in a corresponding movement in the other. For instance, if the Chinese dollar was currently quoted at a rate of 30 and then dropped to 27, there would be a depreciation in the external value of the Chinese dollar of 10 per cent, and this depreciation would be reflected in the exchange rates applicable to all other world currencies. On the other hand, if a provincial currency was "pegged" to the Chinese dollar at a rate of, say 110 to 100, no movement would take place as a result of the depreciation of Chinese currency in terms of foreign currencies.

It is apparent that import trade is dependent upon a combination of the desire to purchase imported goods and the wherewithal to pay for them. As far as China is concerned, the desire is present --in fact in most cases the desire springs from necessity occasioned by the absence of substitutes within

the country. The ability to pay, however, is an entirely different question. Therefore, the extent of the demand is limited to the purchasing power of the people, and, what is more important, the value of that purchasing power converted into terms of the currencies of countries of supply. This statement will be better understood when a concrete example is cited. Let us assume that the farmers of a certain district in the interior of China, each season, have between them Chinese \$10,000 to spend on fertilizer, emanating in the United States. The price of this fertilizer does not vary from season to season but is fixed at United States \$30 per bag. Therefore at a rate of United States \$30 per Chinese \$100, their aggregate purchasing power would be worth United States \$3,000, and they would be therefore in a position to purchase 100 bags of fertilizer. But, on the other hand, if the exchange rate was United States \$24 per Chinese \$100, their purchasing power would have decreased by 20 per cent and they would be able to purchase only 80 bags of fertilizer, although they spent their usual amount of Chinese dollars.

From the foregoing example, it will be seen that the rise and fall in the value of Chinese currency in terms of foreign currencies, has a decided effect on the import trade which results from the demand of the bulk of China's population, whose income is more or less fixed in terms of the currency of their own country.

In addition, it must be pointed out that the rate of exchange has a great deal to do with the diversification of the demand for imported goods; for when foreign exchange is expensive in terms of Chinese dollars, it stands to reason that the bulk of the population will limit their purchases of foreign goods to absolute essentials, whereas when foreign exchange is cheap in terms of Chinese dollars, purchases will be more extensive and diversified.

For the purpose of comparison, the average annual rates, in terms of the pound sterling and the United States dollar, for the years 1929 to 1940 inclusive, in terms of the Chinese dollar, are given hereunder.

T A B L E X I

ANNUAL AVERAGE RATES OF EXCHANGE OF THE CHINESE DOLLAR
IN TERMS OF THE POUND STERLING AND THE U.S. DOLLAR
FOR THE YEARS 1929 TO 1940 INCLUSIVE.

<u>Year</u>	<u>Sterling per Chinese dollar.</u>	<u>U.S. currency per Chinese dollar.</u>
1929	1/8d	41 cts.
1930	1/3d	29 "
1931	11d	21 "
1932	1/3d	21 "
1933	1/3d	26 "
1934	1/4d	33 "

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T A B L E XI (Cont'd)

ANNUAL AVERAGE RATES OF EXCHANGE OF THE CHINESE DOLLAR
IN TERMS OF THE POUND STERLING AND THE U.S. DOLLAR
FOR THE YEARS 1929 TO 1940 INCLUSIVE.

<u>Year</u>	<u>Sterling per Chinese dollar.</u>	<u>U.S. currency per Chinese dollar.</u>
1935	1/6d	36 cts.
1936	1/2d	29 "
1937	1/2d	29 "
1938	8d	16 "
1939	6d	12 "
1940	4d	8 "

While the period 1938 to 1940 may be considered as abnormal, it serves to accentuate the vital role of exchange in relation to import trade, and this accentuation becomes more vivid when the statement is made that during the month of July, 1939, the value of the Chinese dollar in terms of foreign currencies dropped by 38 per cent. It also serves to show the considerable risk which a Chinese importer takes in not covering his overseas purchases by "booking" exchange at the time of the conclusion of a transaction with his local customer.

At the risk of repetition, it should be pointed out that a review of the foregoing table of exchange rates will show that in 1929, the Chinese consumer was in a position

to purchase \$41 worth of United States produce with each \$100 Chinese currency he had to spend, whereas in the year 1940, for the same amount of Chinese currency he could purchase only \$8 worth of United States goods. In other words, his purchasing power in terms of foreign currency in 1929 was over five times that of 1940.

C H A P T E R S E V E N

F I N A N C I N G I M P O R T S

It is a natural tendency for importers, not only in China, but in all countries, to endeavour to undertake the financing of their imports on the most lenient terms they can secure from their shippers; the idea being to make as extensive use of their capital as possible. Thus, we often find a company with a paid up capital of, say \$100,000, doing a volume of business of \$500,000 or more per year. This is possible by a quick turnover of goods, together with the enjoyment of terms of financing their imports which do not tie up their liquid resources.

To large corporations engaged in import trade, terms of financing present no particular problem, and therefore they are in a position to meet even the most stringent conditions in this respect. However, in a country like China, where the bulk of the Chinese importing houses are operating with moderate capital only, terms of finance are a vital factor; they have an important bearing on the maintenance and development of such enterprises.

But, in considering terms of finance, a one-sided viewpoint cannot be taken; for, the position of the overseas

exporter must be considered also. On his part, while he is anxious to cooperate to the fullest extent with his overseas connections, he must protect himself by accepting terms of finance compatible with his export policy and his rating of the financial integrity and business standing of his connections. Therefore, terms of finance are subject to negotiation between the importer and his overseas supplier, with the final decision resting with the latter.

Now, let us discuss the different manners in which the Chinese importers finance their shipments, together with pertinent observations relating to the points of view of both the Chinese importer and his overseas connection.

Shipment on Open Account. This is the most lenient basis on which a shipment can be made to an importer. It involves no "financing", the importer making remittance if and as sales are made and the cash collected therefor. It is apparent that this method of shipment is accompanied by considerable risk, and is extended to Chinese importers only where old-established connections exist.

Consignments. Shipments on consignment are made to Chinese importers only when the exporting firm is desirous of giving the importer an opportunity of "trying out" their products in his market. These products are usually proprietary lines, such as patent medicines, toilet preparations, and

similar items which importers and/or their customers do not feel justified in purchasing outright for their own accounts. When markets are prosperous, this method of shipment is justifiable, but on the whole, it is generally unadvisable. Under this arrangement, the Chinese importer is not obligated to make remittance until the goods are actually sold, and no responsibility attaches to him in case no sales are possible.

Documents Against Acceptance (D/A). Under this arrangement, the exporter ships goods to the Chinese importer, and draws a draft through his bank against the importer for the full value of the goods. The bank attaches the documents covering the specific shipment (bills of lading, consular invoice, marine insurance certificate, etc.) to the draft and forwards it to their correspondent bank in China. The terms of the draft allow the importer to take possession of the documents by merely accepting the draft, and thereby promising to pay the face value of the draft as soon as it becomes due, the due date depending upon the period specified on the face of the draft. For instance, it may be 60 days after date, which means that it will become payable 60 days after the date drawn. On the other hand, it may be 60 days sight, which means that the draft becomes due 60 days from the time it is accepted. Under this arrangement, even though the exporter may have been successful in discounting his draft at his bank,

his responsibility does not cease until the bank in China advises his bank that the draft has been paid in full. This method of finance is very seldom granted to Chinese importers on account of the element of risk involved and the period which must elapse before the exporter's financial responsibility ceases.

Documents Against Payment (D/P). This is a popular method of financing extended to Chinese importers, providing as it does a certain measure of protection to the exporter. It is generally confined to the covering of shipments of goods which are of a non perishable nature and which are readily saleable in the "China Market"; for in contrast to "Documents Against Acceptance" terms, the importer cannot obtain possession of the documents until the draft has been paid. For example, even though the draft may be drawn at 60 days sight, it would only mean that payment could be made within 60 days of the ~~arrival~~ of the draft. but would not allow of the delivery of the documents to the importer until the draft had been paid. If the bank in China releases the documents before the payment of the draft, they do so entirely at their own risk. In this method of financing also, the financial responsibility of the shipper ceases only after the draft has been paid. And this is the reason why this method of finance is confined to goods which are readily saleable, because if the Chinese im-

porter fails to honour the draft, the goods can be placed in the hands of the bank in China for sale at current market prices, and the chances are that there will be little or no loss to the exporter. On the other hand, let us imagine a case where a Chinese importer placed an order with a Canadian machine manufacturer for a machine capable of producing a certain type of needle which was of typical Chinese design, and of a type which could be used in China only. The cost of the machine was \$3,000, and the Canadian manufacturer had to make the machine to order. When it was ready for shipment, the Canadian manufacturer shipped it to the Chinese importer on a "Documents Against Payment" basis. When it arrived in China, for some reason or other, the importer was unable to meet the draft. The result was that the Canadian manufacturer had the alternative of having the machine returned to him, thereby involving transportation cost and being faced with a useless item of machinery on his hands; or, turning the machine over to the bank in China for sale at auction. Such an item, not being readily in demand, would certainly have to be sold at considerable sacrifice.

Oriental Letters of Credit or "Authority to Purchase".

This is a method of financing peculiar to China trade, and is used when the overseas exporter wishes to be in a position to obtain payment immediately he has completed the shipment of

the order of the Chinese importer. Payment is obtained from the bank in the country of export, against the presentation of the documents specified in the "Authority to Purchase", together with a draft drawn on the conditions specified therein.

An "Authority to Purchase" may be of three types:

1. Revocable and with recourse to drawer.
2. Irrevocable and with recourse to drawer.
3. Revocable, but without recourse to drawer.

In the first case, the notifying bank in the country of export merely acts as the agent of the Bank in China, and may cancel the authority to draw, if the bank in China does not provide in due time the funds which are needed for the negotiating of the drafts. This right is clearly visible from the manner in which the authority to draw is worded:

"Dear Sirs: We beg to inform you that we are in receipt of instructions from the . . . Bank, in Shanghai, authorizing us on behalf of . . . to negotiate your documentary drafts if tendered before the . . . for \$. . . , drawn at 90 days after sight, etc."1

The bank in China reserves for itself the right to cancel the credit, or its unused balance, at any time, without

1. Common form of Chinese Bank Notification.

previous notice to the exporter or without the consent of the exporter; and the exporter is responsible to the issuing bank in China for payment of the draft on due date, should the importer fail to meet his obligation. This obligation is clearly impressed on the exporter in the original advice to him, which ends up as follows:

"Please note that this is not to be considered as being a bank credit and does not relieve the drawer from the liability attaching to the drawer of a bill of exchange."

It will be seen from the above that the only advantage of this method of financing from the point of view of the exporter is that he is able to secure payment for his goods immediately the shipment is made. Otherwise, the risk involved is identical with the "Documents Against Payment" method.

With regard to the second type, the "irrevocable" condition protects the exporter from the cancellation of the Authority to Purchase before the due date of its original expiry, but still holds him responsible until the draft has been paid by the importer.

In the case of the third type, while Authority to Purchase may be cancelled during its life, once drafts have been negotiated by the exporter against it, his responsibility ceases, and should the drafts be refused by the importer, the issuing bank has recourse only against him.

It is obvious that all of the foregoing types of financing give little protection to the exporter, and for this reason they are usually only accepted by exporters who are assured of the business standing and financial integrity of their customers.

Sometimes, an Authority to Purchase, irrevocable and without recourse to drawer is spoken of, but this is actually the strictest type of confirmed credit, and therefore cannot be considered as an authority to purchase.

Confirmed Credits. These may be of four different types, as follows:

1. Confirmed by issuing bank, but not by notifying bank.
2. Confirmed by issuing bank and also by notifier.
3. Confirmed and without recourse to drawer.
4. Confirmed and irrevocable.
5. Confirmed, irrevocable and without recourse.

The first type, "Confirmed by issuing bank, but not by notifying bank", involves a definite engagement on the part of the issuing bank either to negotiate drafts under clearly stipulated conditions or to honour drafts drawn by the beneficiary. This shows that the issuing bank is liable to the shipper for the fulfillment of its engagements, but not the notifying bank.

The second type, "Confirmed by issuing bank and also by notifier", may be considered as the "real" confirmed credit, because both the issuer and notifier remain liable to the exporter. Other conditions are similar to those of the first type.

The "Confirmed and without recourse to drawer" type. Oftentimes, exporters take it for granted that every "confirmed" credit is "without recourse to drawer". This impression is erroneous, because unless expressly stated, the drawer under a confirmed letter of credit is liable until the draft has been accepted by the drawee, after which his responsibility ceases. Should the drawee fail to pay on the due date, after having accepted the draft, the responsibility rests solely with the issuing bank. However, only if the credit is "confirmed and without recourse" is there no more obligation on the part of the drawer, once he has handed in his draft and the documents to the notifying bank.

Under the "Confirmed and irrevocable" type of credit, the exporter is protected to the extent that (a) both the issuing bank and the notifying bank are liable to the exporter for the fulfillment of their engagements under the terms of the credit; and (b) the credit may not be cancelled before the life of the credit expires, unless with the consent of the beneficiary. However, this type of credit does not in-

clude the attributes of "confirmed and without recourse", and therefore the final responsibility of the exporter does not cease until his drafts have been accepted or paid by the drawee.

The fifth type, "Confirmed, irrevocable and without recourse", is the ideal from the point of view of the exporter to China, giving him complete protection from the time of the receipt of an order, and absolving him from all responsibility once he has presented his draft and documents to the notifying bank in his country.

It will be seen from the variety of bases of financing outlined herein that the overseas exporter may choose from a number of methods which involve varying degrees of risk. He therefore must be guided in his decision by the business and financial standing of his prospective customer. In actual practice, it often happens that exporters commence business with the strictest types of financial arrangements, and continue doing business on this basis, until such time as they feel that they can confidently revert to more lenient terms. On the other hand, too, there is the matter of meeting the terms of competitors; for it is natural that they could not maintain their business if their terms were not in line with those offered by other exporters offering similar products to China.

Further, from the point of view of the Chinese importer, the stringent terms of a "Confirmed, irrevocable and without recourse" credit are certainly not attractive. In the first place, this type of credit may involve the earmarking of anything up to 75 per cent of the full value of the credit in his bank account, with the loss of the use of this capital until his obligation under the terms of the credit has been fulfilled. In addition, unless he is absolutely sure of the bona fides of the exporter, he lays himself open to loss on account of the non-fulfillment of the terms of his order by the exporter. This will be better understood when it is pointed out that in theory a credit embodying a "without recourse" clause, allows an exporter a complete opening for fraudulent practice if he is inclined that way; for once he has presented his draft and documents, he receives payment and his responsibility ceases. However, there again rises the question of complete confidence in the standing and integrity of the exporter.

Also, the insistence on stringent terms of finance by exporters to China may be disadvantageous to them when their products are highly competitive ones. For example, a competitor may not be able to quote a lower price on a certain product, but he may be prepared to quote more attractive terms, such as, D/P, 30 or 60 days sight, thus assuming the burden

of the financing --interest, bank charges, etc., -- instead of placing it on the Chinese importer.

On the whole, therefore, as mentioned previously, terms of finance must rest with the outcome of negotiations between the exporter and the Chinese importer and the degree of mutual trust and understanding between them.

C H A P T E R E I G H T

T A R I F F S A N D T A X E S¹

In order to appreciate fully the impact of tariffs and taxes on China's import trade, it is necessary to make a brief survey of the rise and development of these impositions since the opening of foreign trade into China, and to take note of the gradual modifications and improvements in the system of such levies to a point where uniformity and equitability prevail. Such a study will serve also to provide enlightenment as to the reason for the continual foreign supervision and participation in the Chinese Customs Administration.

Prior to the "Opium War" of 1842, which resulted in the utter defeat of China by Britain, foreign traders had no connection with Chinese customs duties. These were paid by the Chinese "Ko hong" merchants who, under an arrangement with the Chinese government, acted as the sole intermediaries of foreign trade.

As result of the British success, however, and their demand for increased commercial opportunities in China, the

1. The content of this chapter has been derived from the book British Policy in the Far East, by E.M. Gull.

five ports of Canton, Amoy, Foochow, Ningpo, and Shanghai were opened to them for free and unrestricted trade. This facility was embodied in the treaty of peace, signed in Nanking on August 29, 1842, and automatically abolished the monopolistic rights to foreign trade held by the "ko hong" for many decades. In addition, the treaty provided that at the above five "treaty ports", the British Government was entitled to appoint superintendents or consular officers "to be the medium of communication between the Chinese authorities and British merchants, and to see that the just duties and other dues of the Chinese Government, as hereafter provided for, are duly discharged by Her Britannic Majesty's subjects."

A further stipulation was that "a fair and regular tariff of import and export customs and other dues" would be prepared and promulgated by the Chinese Government, and that after the payment of such levies, British goods would be entitled to move to any part of China without further tax, unless it be a "publicly promulgated transit tax."

The treaty of Nanking was followed in 1843 and 1844, by three treaties, --one with Britain, one with the United States and one with France. These four treaties constituted what is known as the First Treaty Settlement between China and the maritime powers of the West. Thus, Britain, France and the United States commenced to enjoy similar trading

rights in China, along the lines stipulated in the Treaty of Nanking.

Following these treaties, owing to the shortcomings of both Chinese and foreign traders, the Chinese administration of the customs was considered unsatisfactory, and despite the efforts put forward by the consular offices of Britain, France and the United States, the situation remained complicated.

In 1853, during the Taiping Rebellion, the "Triad Society", an organization which was in sympathy with the Taiping rebels, took Shanghai and overthrew the government administration in that port, burning and looting the custom-house in the foreign settlement there. This area, which by treaty had been set aside for foreign residence and business, was declared neutral by the Western powers whose neutrals resided there. And in order to protect their trade interests the British, French and United States consuls arranged with the superintendent of the Chinese customs, who was at that time taking refuge in the foreign settlement, to appoint a commission of three foreign (French, American and British) inspectors of customs. Following upon the impeachment and banishment of the Chinese Superintendent of Customs, the French and American inspectors left the Commission, placing the complete authority in the hands of the British representative,

who extended the administration to include the other four treaty ports.

Under the British Treaty of Tientsin in 1858, the following clause provided for one system for the collection of customs duties in all treaty ports in China:-

The high officer appointed by the Chinese Government to superintend foreign trade will, accordingly, from time to time, either himself visit, or will send a deputy to visit, the different ports. The said high officer will be at liberty, of his own choice, and independently of the suggestion or nomination of any British authority, to select any British subject he may see fit to aid him in the administration of the Customs revenue; in the prevention of smuggling; in the definition of port boundaries; in discharging the duties of harbor master; also in the distribution of lights, buoys, beacons and the like, the maintenance of which shall be provided for out of the tonnage dues."

It will be observed that, under this arrangement, there was provision for complete foreign control of the Chinese Customs Administration.

The Second Treaty Settlement between China and the West, consisting of eight treaties signed between 1858 and 1860, resulted in supplementary agreements relating to tariff schedules which had the binding force of treaties. The Western powers which participated in these treaties were: Britain, France, the United States and Russia.

Under these treaties, China entered into the obligation of paying indemnities to Britain, France, and the United

States, out of customs receipts, and was forced to open ten additional treaty ports.

This extension of foreign trade interests led to the organization of a customs service in 1861, under the direct control of the Chinese Government, but administered by a British national with the title of Inspector General of Customs, who was entitled to exercise a general supervision over all things pertaining to the customs revenue and to foreign trade. The first official to assume this post was the former British assistant to the Chinese Superintendent of Foreign Trade. On November 15, 1863, Sir Robert Hart was appointed to the post and held it until his death in 1911. Under his direction, a competent administration developed, and gave employment to many nationalities. As a sidelight, it is interesting to observe that in 1885 Sir Robert Hart resigned to accept the post of British Minister to China, and when taking this action recommended his brother as his successor. In reply, the Chinese Government suggested the appointment of an American or a German to the post, whereupon Sir Robert Hart withdrew his resignation.

The Chinese Customs Administration remained unchanged until 1929, when, as a result of treaties with the Western powers concerned, China was granted tariff autonomy, on the condition that each of the contracting parties would enjoy in

the territories of the other, in regard to tariff and related matters, treatment in no way discriminatory as compared with the treatment accorded to any other country, that is to say, what is commonly called Most Favoured Nation Treatment.

Previous to this change, all imports were subject to a nominal import duty of five per cent ad valorem. With the attainment of tariff autonomy, this rate was abolished and a new set of tariff rates, divided into seven categories, ranging from 7.5 to 27.5 per cent, was substituted. In 1930, these were revised and twelve different rates ranging from 5 to 50 per cent were instituted.

Three subsequent revisions were made, bringing the maximum rate of duty on imported articles up to 80 per cent. At the same time, owing to the depreciation of silver, a unit was devised to be used as a basis for customs collection. This was called the Customs Gold Unit, the value of which was determined by the equivalent in foreign exchange of 60.1866 centigrams of pure gold. Since that time, owing to exchange conditions, brought about by the war, the gold basis of the Customs Gold Unit has been altered to 88.8671 centigrams.

While it has no particular significance in relation to the present tariff system in China, it is considered that a brief note on the internal taxes or "nuisance" taxes, as they were called, is pertinent in this discussion, insofar as

it will serve to reveal the difficulty under which import trade was carried on prior to 1929.

Following upon the Taiping Rebellion (1853-1867), and more particularly after the revolution of 1911, internal taxes became a provocative and serious problem, and a handicap to the development of import trade. At that time, China was under the control of independent warlords, who to preserve their military power were forced to provide for their standing armies. The easiest approach to the securing of finances for this purpose was taxation, and it was natural that imports came in for special attention. These taxes were not uniformly imposed or collected, and were subject to change without notice. And in some cases they were "farmed" out to the highest bidders, who paid a certain fixed sum of money for the privilege of collecting a certain type of tax over a specified period.

The extent of these "nuisance" taxes is better understood when it is said that in 1925, throughout China, there were upwards of a thousand internal tax barriers, levying at least ten different types of taxes.

It was on account of this unreasonable type of taxation that before the treaties giving China tariff autonomy were signed, the British commercial communities in China, through their chambers of commerce, expressed the fear that higher

duties which would result from China's tariff autonomy would mean an increased burden to foreign trade, as they doubted the ability of the Chinese Government to abolish the "nuisance" taxes. As result, in an annex to the Sino-British treaty, the Chinese Government stated that they intended that goods having once paid import duty to the Chinese customs according to the tariff, should be freed as soon as possible from payment of internal taxes.

By 1931, most of the internal taxes had been abolished, particularly in the areas immediately under the control of the Central Government of China, but in some of the independent provinces such "illegal" taxation continued to exist, in the form of local impositions, such as "luxury" taxes, "rail" surcharges and "boat" dues.

However, in the years following, with a greater extension of the control of the country by the Central Government, there was considerable improvement in the situation, although up to the time of the outbreak of war in China, certain "veiled" forms of taxes on imports existed.

It may be said that the revisions in China's tariff which have taken place since the granting of tariff autonomy have been designed primarily to increase the income of the country. At the same time, it is evident that there has been

an underlying desire to protect the growing industries of the country, and to induce rapid strides in the development of native industries suited to supply the common needs of the people.

C H A P T E R N I N E

G O V E R N M E N T I N B U S I N E S S

In commenting on the heading "Government in Business", a question which may reasonably be asked is: what connection has this with import trade? The answer is that in the past the Chinese Government has participated in business which has had a vital effect on import trade. For instance, the fact that the import of salt is a government monopoly and is subject to a fixed price which is relatively high in proportion to the actual cost has an adverse effect on the purchasing power of the people. Salt is an absolute necessity and a high outlay thereon by the consumers is reflected in a diminution of their power to make outlays on other imported products. As a sidelight it is interesting to call to mind that, a few years ago, when the government price for salt was unreasonably high, there was an abnormal demand from the populace for Canadian dry salted herring, the reason being that it was more economical to use the dry salted herring with its high salt content, than to purchase the actual salt. Thus, an increased demand for an article imported from Canada arose as a result of "Government in Business."

In the past, participation in business by Provincial Governments in China, has been resorted to as a means of raising revenue, and in taking such action, unfortunately, the officials concerned have acted selfishly, unscrupulously and without regard for the good of the people in general. Not only has this resulted in a general upsetting of the economic equilibrium of the territory involved, but it has served to curb private incentive to develop worthwhile industries.

Not many years ago, the province of Kwangtung in South China was a classical example of despotic control of business by a provincial government. At that time, the government controlled and operated factories for the manufacture of sugar, and widely encouraged the growing of sugar cane, with the promise that the crop would be purchased at a fixed price. However, when the time for harvesting arrived, the farmers were treated scandalously, with the result that in the next season there was not enough cane to keep the "centrals" operating. However, this did not deter the local officials, who overcame the difficulty by making use of their powers to smuggle sugar through the National Customs, and subsequently distribute it in the province as being the production of their "centrals." A somewhat similar procedure was adopted by them in connection with their operation of a cement factory.

From the foregoing, it is apparent that the control over industry exercised by the government resulted in: 1) the

curtailing of a normal flow of trade; 2) a lack of participation by private interests in legitimate private industry; 3) exploitation of the farmers and a consequent restriction of their purchasing power; 4) participation by the government in import trade; and 5) reticence on the part of private interests to establish industries within the province, for fear of their being expropriated by the government.

In 1939, the National Government of China assumed control over the sale of mineral products, tea, woodoil and bristles. These items represented China's principal exports. Such State Control has been administered by commissions appointed by the Government and they are given full powers covering the purchase and sale of such commodities.

Thus, in this manner the livelihood of innumerable producers is in the hands of the government. The State dictates the prices they will receive, irrespective of world prices. It will be seen, therefore, that the ideas of government of reasonable returns to the producers will be reflected in their purchasing power, and it can be reasonably assumed that such returns will be certainly less than that which could be obtained if they were permitted to offer their supplies in an "open" market, where prices would fluctuate according to world demand.

In the consumer field also the government holds a monopoly of important daily articles at the present time. In addition to salt, these are: sugar, tobacco, wine, matches and tea.

While it would seem that the controls listed above, --controls which have come into being since the war-- will have no place in a peacetime setting, and should therefore not be dwelt upon in a general survey of China as an import market, they are mentioned because their continuation in the future would mean a severe curbing of the ability of the Chinese consumer to participate to full advantage in the demand for imported products.

P A R T T H R E E

P R O S P E C T S I N

T H E P O S T W A R P E R I O D

C H A P T E R T E N

I M P A C T O F P O L I T I C A L C O N D I T I O N S

While it cannot yet be said that China is a democracy in the true sense of the word, it is apparent that she has reached the stage where constitutional government will come into being as soon as the war is over. The people are ready for the changeover, and President Chiang Kai Shek is anxious to put into effect at the earliest moment constitutional reform which would result in China being a full fledged democracy. In November, 1942, he said: "For many centuries, Chinese society has been free of class distinctions such as are found even in advanced democracies. At the core of our political thought is our traditional maxim, 'the people form the foundation of our country'. We Chinese are instinctively democratic. But the processes and forms by which the will of the people is made manifest, and the complex machinery of modern democratic government, cannot, I know to my cost, be created overnight, especially under the constant menace and attack of Japanese Militarism." And again: "Personally, ever since the holding of the People's Conference and the promulgation of the

Provisional Constitution for the Period of Political Tutelage in 1931, I have not forgotten for a minute the problem of how we should bring about the realization of constitutional government as soon as possible. . . This is the ultimate goal of all our revolutionary efforts. We must exert our utmost for its accomplishment. My urgent desire for an early enactment and promulgation of the constitution needs no repetition in words by myself. It is unmistakably understood by all of you as well as by all our countrymen."

More recently, President Chiang has declared that one year after the war there will be a convention of the People's Congress, to usher in the period of constitutional democracy. This constitution will guarantee personal liberty, freedom from arrest, freedom of domicile, of speech, of assembly, of religious belief and the right to exercise the powers of election, recall, initiative and referendum.

Some critics might be inclined to question the fruition of the plans of President Chiang and his Government, by bringing up the bogey of "Communism", and using as their argument the recent differences between the "Communists" and the National Government. True, at this time, when the National Government is anxious to maintain a common front against an enemy, and to avoid internal friction as far as possible, the "Communists" constitute a disturbing element, and there

may have been attempts to appease this faction. But, this element, fortunately, constitutes a minority --one which would have been eliminated many years ago if it were not for the advent of Japanese aggression.

It would be possible to put forward a considerable number of reasons why "Communism" is not acceptable to the bulk of the Chinese population, but it will suffice to make only a few brief observations in this regard. First and foremost, it runs counter to everything for which the Republic stands, contradicting as it does the principles on which the National Government is built, namely, those of nationalism, democracy and livelihood. These are the three People's Principles as laid down by Dr. Sun Yat Sen, the founder of the Chinese Republic. When this is taken in conjunction with the Chinese inherent love of liberty, their conception of human dignity, their regard for family life, and their recognition of the importance of "private property" rights, it will be seen that "Communism" is not compatible with the Chinese way of life.

It can be assumed therefore, that whether or not the declared plan of the present National Government and its leader is brought to complete fruition in the immediate postwar period, the fundamental principles of democratic government will remain in force.

It is reasonable, then, to accept the resolutions of the National Government in regard to policy as an indication

of their plans for the postwar, and accordingly the recent resolution adopted by the Supreme National Defence Council of China in respect to China's new economic policy, the primary aims of which are: "to encourage free enterprise insofar as it is not inconsistent with the principle of the regulation of capital;" and "to attract foreign capital, which is to be utilized in China in the spirit of fostering international economic cooperation on the basis of equality and reciprocity," is of interest. The full text of China's New Economic Policy reads:-

The task of China's economic reconstruction must be undertaken along the line planned in the teachings of Dr. Sun Yat Sen so that economic developments under a general reconstruction plan will eventually lead to the establishment of an economic system prescribed in the Three Principles of the People.

Following are the guiding principles:

I - The industrial development of China should be carried out along two lines, (1) by private enterprises and (2) by state enterprises.

II - In order to facilitate the division of labour under a general plan for economic reconstruction the following provisions concerning economic enterprises are to be observed:

- (1) The kinds of state monopolies should not be too numerous. Such monopolies include (a) postal service and tele-communications, (b) arsenals, (c) mints, (d) principal railroads, and (e) large-scale hydraulic power plants.
- (2) Private capital may engage in any enterprise other than state monopolies.

(3) The Government may, on its own account or in cooperation with Chinese or foreign capital, engage in enterprises which private capital is not fully capable of developing or which the Government regards as being of special importance, such as large-scale petroleum fields, steel plants, and water transportation.

(4) All enterprises which are operated by the Government in cooperation with Chinese or foreign capital should be organized in the form of business corporations. The Government, apart from exercising such administrative supervision as provided by law, is entitled to participate in the management of all matters relating to the business, finance, and personnel of such corporations solely in its capacity as a shareholder.

(5) With the exception of state monopolies, all enterprises operated by the Government, whether with or without the cooperation of Chinese or foreign capital, in so far as they are of a commercial character, should, as regards their rights and obligations, be treated in the same manner as private enterprises of a like character.

III - The establishment of any important private enterprise should according to law, be submitted to the examination and approval of the Government on the basis of the general plan for economic reconstruction. (Important matters to be considered include: location of the projected plant, production capacity, kind and quality of output, issuance of shares and bonds, etc.)

To all private enterprises that conform to the general plan for economic reconstruction, the Government should give special encouragement including financial aid and transportation facilities, so that they may achieve their scheduled programs.

IV - No restriction shall be placed on the percentage of foreign shares of capital in any Sino-foreign enterprise. In the organization of such a corporation it shall not be made a fixed rule that the general manager be a Chinese, although the

chairman of the board of directors must be a Chinese.

In the future, all possible measures should be taken to encourage free enterprise in so far as they are not inconsistent with the principle of the 'regulation of capital'. Various means should also be devised to attract foreign capital, which is to be utilized in China in the spirit of fostering international economic cooperation on the basis of equality and reciprocity, provided that such cooperation does not prove detrimental to our sovereign rights or to the realization of our economic plan. In this manner, it is hoped that free enterprise will furnish an impetus to the economic development of China and help hasten the consummation of our reconstruction plans.

V - State enterprises may contract foreign loans or seek foreign investments through competent Government organs, provided that they first be approved by the Government on the basis of the general plan for economic reconstruction. Private enterprises may also directly undertake such negotiations, provided that similar approval of the competent Government organs is obtained.

VI - All enterprises in China which are directly financed and operated by foreign nationals on their own account should observe Chinese laws and regulations. In the case of certain special enterprises which would require special authorization for the establishment and operation, special charters or franchises may be granted to foreign nationals upon applications to and approval by the Chinese Government.

VII ¶ Persons in the Government service are forbidden to participate in the operation and management of any enterprise that falls within the scope of their supervisory functions.

It seems inevitable that the existing laws and regulations concerned will in some cases be found to be in conflict with the above-stated principles. Such cases should be referred to the Legislative Yuan for revision with a view to harmonizing all existing legislation on the subject."

An examination of the foregoing text will show that ample provision has been made for private enterprise and the participation of foreign capital. Also, the Government's intention in respect to the exact nature of their monopolies is clarified.

However, clauses (4) and (5) of principle II deserve some criticism, insofar as they permit of the participation by the State in private business. There would seem to be too much flexibility in such a provision, particularly since China's experience of "government in business" in the past has not been a happy one.

Admittedly, under Clause (5), when the Government enters into private business, it relinquishes its exercise of sovereign or official power. Theoretically, this might be applicable but in actual practice it leaves the way open to possible abuse and transgression of the rights of private enterprise, particularly in the transition period when the Government will be tempted to continue and perhaps to extend those business activities in which it is at present engaged as result of the war.

At the present time, China's principal exports are entirely in the hands of the Government; for in February, 1938, the Foreign Trade Commission was organized under the Ministry of Finance. It has five departments, namely, the

general affairs department, the finance department, the export department, the import department and the research department. The work of this commission is largely administrative, and the purchase, transportation and export of the commodities under its control are handled by its two trading establishments: the Foo Shing Trading Corporation and the China National Tea Corporation. The first named is vested with the exclusive right to purchase and export wood oil, bristles, raw silk, sheep wool, skins, hides, etc. The China National Tea Corporation acts as the sole purchaser of tea for export, and supervises production and marketing.

In effect, the "Foreign Trade Commission", apart from its function of coordinating and controlling exports, has also the power to enforce regulations governing the prohibition and restriction of certain imports and exports.

In the field of industry, the National Resources Commission, which came under the Ministry of Economic Affairs in January, 1938, was organized to: (1) develop, operate and control basic industries; (2) develop, operate and control electrical power enterprises; (3) develop, operate and control important mining industries; and (4) administer other enterprises as designated by the Government.

In 1942, the last year for which complete details are available, the National Resources Commission controlled 98

industrial plants, which cover electric power, metallurgy, machinery and tools, electrical products, chemicals, etc.

From the foregoing it will be seen that a considerable measure of "State Control" of industry and trade exists in China at the present time; and while this has resulted from a wartime policy which had as its stated aim: "the development of the interior, the gradual attainment of self sufficiency in the production of both military and non-military materials, the promotion of economic enterprises, and the introduction of a planned economy in the reconstruction of a permanent economic order," there would seem to be sufficient grounds for the presumption that such "State Control" will continue during the transition period. The danger, however, lies in the possibility of a continuation of such control over an indefinite period, to a point where the Government will be loathe to relinquish such hold on trade and industry, because, ostensibly, on the grounds that private business is not yet in a position to assume its obligations, but primarily, because of the major source of revenue involved.

Should the Government continue to operate in the industrial field, it may be logically assumed that all imports connected therewith will be purchased through government agencies or under their auspices, which must of necessity result in the exclusion of private importers from a share of this

business. It will also mean a correspondingly narrowing down of the field in which foreign exporters may operate. The significance of such a situation will not be fully apparent until the time arrives for the extension of plants or the establishment of new ones. In explanation of this statement, it should be pointed out that in China where the bulk of skilled and unskilled labour have a tendency to accept proven standards of goods and equipment, a product which proves satisfactory is assured of a continued demand. On this basis, therefore, manufacturers of products and equipment who were fortunate enough to secure an early opportunity of catering to the requirements of Government-operated industry, would be assured of repeat orders when similar supplies were required. This would be particularly true in the case of industrial machinery; for a Chinese engineer who had been accustomed to certain types of equipment would be loathe to recommend the use of other types, providing of course there was no outstanding advantage to be gained in a changeover.

In the export field, it is a foregone conclusion that the government will continue to handle products, such as, wood oil, and tea, the volume of trade of which constitutes good revenue and acceptable security for foreign loans. But if such control continues to embrace other important Chinese exports, it will mean that Chinese producers will be forced to

continue to operate on the basis of the Government's ideas of prices, which unhappily have not always taken into account prices in overseas markets, and have had an adverse effect on the overall purchasing power of the "China Market."

C H A P T E R E L E V E N

S I G N I F I C A N C E O F C U R R E N C Y S I T U A T I O N

One of the most vital questions which will affect the postwar economy of China is that of her currency. At the present time, the official rate of the Chinese dollar is 2.5 United States cents, or Chinese \$40 equals United States \$1; whereas the internal "black market" rate has gone as high as Chinese \$500 equals United States \$1. In other words, if remittance of United States \$1 was made by bank draft to China, the recipient would be entitled to receive Chinese \$40 from the Chinese bank on which the draft was drawn. On the other hand, if the remittance was made by means of a United States \$1 bill, enclosed with a letter, and reached the recipient safely, he could take it and secure Chinese \$500 in the "black market".

Thus it will be seen that foreign currency has an "internal" value of more than ten times the official rate. It must be conceded that this currency situation is likely to deteriorate further before the end of the war, with the result that on the cessation of hostilities there will be a

tremendous quantity of "inflated" currency in circulation within the country.

It would seem highly unlikely that the Chinese Government will be satisfied to enter the period of peace with such an anomalous monetary situation, but how are they to rectify the disparity between the "official" and "black market" rates in terms of foreign currencies.

One solution would be to raise the "official" rate to that of the "black market" rate, but such an action would be highly uneconomical because it would mean that they were lowering the "external" value of their dollar by over 1100 per cent. For instance, at the present official rate, the government is paying out only Chinese \$40 for every United States dollar remitted to China; whereas, if they increased the rate to that of the "black market", they would be paying Chinese \$500 to one United States dollar.

It would appear that the only other way out of the dilemma would be for the government to substitute a "new" currency for the present Chinese dollar. Experience has shown that a successful "working" rate over a period of normal years for the Chinese dollar was one in the vicinity of 30 United States cents to the Chinese dollar. Therefore, if the "black market" rate is, say Chinese \$600 equals United States \$1 after the war, it would be necessary to substitute the "new"

currency at a rate of 180. In this way, the holder of Chinese \$600 would receive \$3.33 "new" currency, which, in turn would have a value of United States \$1. Conversely, \$1 "new" currency would have a value of 30 United States cents.

However, the success of any such "substitution" would be contingent upon the Chinese Government being able to give the "new" currency sufficient backing to regain the confidence of the people, otherwise there would be every likelihood of a recurrence of inflation. Gold reserves would provide the logical backing, but if these were held by the government, it is extremely doubtful if it would meet the extreme needs of a disillusioned populace. The ideal backing would be a guarantee by the Government that the "new" currency would be readily convertible into United States dollars on demand. Under such an arrangement the population would be provided with a guarantee of the purchasing power of their new unit.

But, in view of the financial plight in which the Chinese Government will find itself after the war, it cannot be expected that a currency situation will prevail whereby unlimited amounts of foreign exchange is available on application. China's foreign currency balances, if any, are comparatively small, and if not already earmarked against firm commitments for ~~the~~ transition period will be barely sufficient for immediate needs at that time.

Of course, there will be foreign loans, but these will probably be on a government to government basis, with the understanding, --tacit or stipulated-- that such funds will be used for Chinese Government purchases in the creditor countries. Thus, these loans will not augment the supply of foreign currencies available for the use of private business.

Inevitably, therefore, there will be exchange control, and the point of this control must be foreign trade --China's exports which have a definite exchange value. But when consideration is taken of the fact that the principal exports may be in government hands, the prospect of the release of foreign exchange to private business to any extent is not encouraging. More likely, it will be released to private importers only when the government considers that the imports involved are essential to Chinese economy.

The question of private participation in the import trade of China in the immediate postwar period is undoubtedly a perplexing one, and one which in the light of China's prospective financial situation, gives little hope for wide and varied distribution of imports. Suffice it to say that even in the case of government imports, the volume will depend upon the complete stabilization of China's currency.

C H A P T E R T W E L V E

F O R E I G N C A P I T A L

Foreign capital in respect to China has come to be regarded in two lights. There are those who are inclined to the belief that lend-lease will continue indefinitely after the war, and that under this arrangement China will be able to complete her plans for reconstruction. The realists, however, look towards private investment from abroad to fulfill this function.

In the past, foreign capital was encouraged on the principle that it would be permitted full leeway in China until principal and interest were totally paid off. Foreign business firms operating in China proper were required to have 51 per cent Chinese capital and to have at their head a Chinese manager. It was for this reason that the majority of foreign firms operated from extraterritorial bases.

Since the war, however, the concept of foreign capital has undergone a radical change, and now assumes an entirely different aspect, in the eyes of the people. In September, 1943, the Central Executive Committee of the Kuomintang, adopted a resolution, known as "Foreign Investment in China",

which provides that: "hereafter, no fixed restriction shall be placed on the ratio of foreign capital investment in joint enterprises," and that "in the organization of a Chinese-foreign joint enterprise, except for the chairman of the board of directors, the general manager need not necessarily be a Chinese."

Chinese economists have drawn up general principles for the employment of foreign capital in the postwar period, as follows:

"The employment of foreign capital should not be inimical and detrimental to Chinese sovereignty and interests, and it should be regulated and adjusted in accordance with a just and sound economic policy.

Foreign capital should be invested in Chinese industrial and cultural enterprises, but not in military and political enterprises.

More encouragement should be given to long-term foreign investments, but the employment of short term foreign capital should be discouraged.

China should be free to utilize foreign loans to promote any industrial projects it needs. When railway loans are concluded, for example, China should be free to use these loans, in part or in whole, for the construction of any railway in the country. The day of "sphere of influence" and "sphere of interest" is definitely gone."

From the foregoing it will be seen that although giving encouragement to foreign capital by providing a greater measure of protection to foreign rights and investment in

China, it is made clear that provision is made against the possibility of a recurrence of "exploitation" which has characterized China's history in the past. Stress is laid on the acknowledgement of China as an independent nation, free of foreign encroachment such as was represented by the extra-territoriality rights of certain Western countries in the past.

But, on the other hand, China must realize that before foreign capital can be attracted, there must be (1) currency stabilization; (2) payment of outstanding foreign obligations or some arrangement in connection therewith satisfactory to creditor countries; and what is extremely important (3) political stability within the country.

Initial foreign capital will probably take the form of inter-government borrowing, but private capital --devoid of political implications-- would be more desirable in Chinese eyes from a long range point of view.

C H A P T E R T H I R T E E N

P A T T E R N O F I M P O R T S

I N T H E P O S T W A R

The extent and variety of imports into China in the postwar will be dependent upon her ability to pay for such imports and the attitude of the Chinese Government towards the encouragement of imports for the use of the people.

There is no doubt but that the demand for imported goods will be considerable, both for the purpose of meeting the immediate needs of the people and for industrial reconstruction and development within the country.

In the government field, an idea of requirements may be gauged from the recent statement of Dr. Wong Wen-Hao, Minister of Economic Affairs, who said that " a modest five-year postwar reconstruction plan will cost China \$30,000,000,000 (United States \$10,000,000,000 at pre-war exchange rate). This plan involves the development of: (1) an electric equipment industry, requiring 85,000 tons of steel and iron, 55,510 tons of other important metals, 177,900 tons of mineral products, and 7000 tons of rubber and other materials. (2) a chemical

industry for the production chiefly of acids and soda, the yearly output of which is to reach by the end of five years: sulphuric acid, 56,890 tons; nitric acid, 6,590 tons; hydrochloric acid, 6,176 tons; acetic acid, 1,020 tons; soda ash, 98,230 tons; caustic soda, 28,400 tons and other soda, 13,960 tons. (3) An industry capable of producing 500,000 charcoal driven trucks and omnibuses, 100,000 low-water steamships of from 10 to 100 tons each, 500,000 farm tractors, 500,000 pieces of machinery for light industry, 150 locomotives, 1000 freight cars, 86,000 tons of railway track for every 1,000 kilometers of railway, and 830 tons of copper wire for every 1000 kilometers of long distance telephone. (4) Railway construction with a goal of nineteen railways, totalling 100,000 kilometers, and another four light railways, totalling 5,730 kilometers.

If it can be assumed that the expenditure which is anticipated in connection with these reconstruction plans will be equally divided over a period of five years, then the annual expenditure will amount to United States two billions of dollars. Of course, part of this amount will be represented by costs of labour and perhaps certain raw materials within the country, but even then the ratio of anticipated imports is formidable when compared with the pre-war value of total imports into China of approximately United States \$275,500,000.

The demands of the people for imports, on the other hand, may be expected to follow along the lines of the pre-war pattern, save that the extent of the demand may be greater during the first one or two years of peace. The greatest need will be for foodstuffs, wheat, flour, rice and other staples such as medical supplies and cotton textiles. However, the actual volume of such imports will be contingent on: (1) the value of the Chinese dollar in terms of the currencies in countries of supply, and (2) government policy in relation to the granting of foreign exchange to private business for the payment of imports.

Imports to cover the requirements of privately operated light industry in China will also depend upon the attitude of the government towards such activity, and their willingness to approve of imports for the establishment and development of such enterprises.

C O N C L U S I O N

Foreign business men, with the needs of the four hundred million Chinese in mind, are optimistic concerning the future of the "China Market", and the writer would be inclined to agree, if it could be safely assumed that the volume of trade would be dictated by the actual requirements of the country and the people.

However, it is a foregone conclusion that "free trade" will be impossible in China, in the same way that it will be impossible in any other country in the early postwar period, and it can only be hoped that Chinese government interference with "imports" will be based on a desire to facilitate the rapid reconstruction of industry and the rehabilitation of the populace, and not on the desire to "control" or "monopolize" that type of trade which rightly falls into the category of "private enterprise." In the early transition period, there is bound to be considerable overlapping, since government participation in business will probably be the only solution to a speedy recovery of the economy of the country. However, a continuance of such activity after it had served its purpose could only result in the dampening of the incentive of the pri-

vate business interests which constituted the basis of China's foreign trade in prewar years.

China will emerge from the war with complete sovereignty, and her destiny will be in the hands of the leaders in the government and --it is hoped-- the people. The yoke of foreign "spheres of influence" with its accompanying restriction on China's activities to shape her own future will no longer be present, but it remains to be seen whether China's former role of that of the "exploited" will change to that of the "exploiter". Such a turn would be a tragic one from the point of view of foreign trade. While the natural tendency might be to pay back past deeds in kind, it is felt that China has an obligation to cooperate fully with the foreign business men who desire to work with the Chinese people on a common footing --and it would be foolhardy if a misguided sense of nationalism prompted China's leaders to discriminate against foreign participation in the "China Market."

It is felt that China shares in the general realization that trade must be planned on a multilateral basis, and in undertaking this planning she will not have the problem of surmounting the type of difficulty which will face those countries whose economies have been built upon bilateral trade agreements.

The "China Market" has always been one where the goods of all countries enter under a uniform tariff, and it may safely

be assumed that this basis will prevail in the postwar. Therefore, while certain considerations may govern the sources of supply of government purchases, the civilian patronage will be largely governed by "quality" and "price".

At the moment, it would appear that the United States is in a favourable position to secure the bulk of the business which will be placed through Chinese government agencies in the transition period, and it is predicted that the shares of this trade which will fall to other interested countries, will be dependent upon the credits and/or loans they are prepared to extend.

On the other hand, however, and provided the requisite "foreign exchange" is available, all countries will be afforded the opportunity of catering to the demand of "private business", and if this demand is free of government interference, it will constitute an attractive field for overseas exporters.

In conclusion, it may be said that despite the "unpredictables" of the early postwar situation in China, as far as import trade is concerned, and irrespective of whether or not immediate results will accrue from a cultivation of the market, from a long range point of view, there is ample grounds for optimism; for, even with the attainment of only a partial degree of economic stability, the "China Market" would be capable of absorbing a volume and range of goods far above the highest level yet attained in China's history of foreign trade.

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