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NOT FOR PUBLICATION

Astor House Hotel
Tientsin, China
April 9, 1948Mr. Walter S. Rogers
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Dear Mr. Rogers:

I am moving south, but for the moment at least I am bogged down. The civil war developments of the past few weeks made me come to the conclusion that I should not attempt to make a study of a village in North China, and I am now en route to Nanking where I hope I will be able to complete the arrangements for moving into a village in a more stable region. The transportation problem has me stymied temporarily, however. Delegates to the National Assembly, which opened in Nanking a few days ago, have monopolized all air transportation out of Peiping. Six days ago I came by train to Tientsin, hoping I would have more luck trying to get south from here, but a seemingly endless stream of stragglers to the Assembly continues to fill the available plane space. I am still waiting and hoping. If the delay continues I may be forced to go the long way around, by boat via Shanghai.

My detour to Tientsin, although not in my original plans, has been of considerable interest. Although I have been impatient to move on I have spent the last few days interviewing persons in and out of the government, getting acquainted with the city, and investigating the present condition of trade and industry here. I have been given access to some recent, unpublished reports by competent economic analysts, and the information in these reports has supplemented what I myself have learned in conversations and interviews and by direct observation.

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Tientsin is a great, sprawling, commercial and industrial city lying a few miles inland from the Gulf of Po Hai in North China. A small river, the Hai Ho, twists its way from the city to sea outlets at Taku Bar and Tangky. Hugging the banks of this stream are wharves and docks capable of accomodating small ships, and back from the banks stretch the Westernized downtown sections of the various pre-war concessions which constitute the heart of the city. Like Shanghai, and other major coastal cities in China, Tientsin owes its modern economic development primarily to the stimulus of foreign capital and activity, and the city is a heterogeneous, cosmopolitan mixture of Western and Chinese elements. Pre-war maps of Tientsin show a colorful checkerboard - British, French, Japanese, and Italian concessions, together with "special areas" converted from relinquished concessions of other countries such as Russia, Germany, and Austria made up the central portions of the city. To the north was the old Chinese City, a symmetrical square surrounded by broad streets which replaced the

original city wall, and on all sides were the other areas under Chinese administration. Today this anachronistic checkerboard has disappeared from the maps, erased by the administrative unification which took place under the Japanese, the relinquishment of special rights by the Western nations, and the post-war administrative re-organization under the Chinese. Tientsin is now one city, a Special Municipality under the Executive Yuan (with a governmental structure similar in all essential to that in Peiping - see my letter no. 9), and ten administrative districts have taken the place of the pre-war municipal divisions.

The port facilities available to Tientsin at Taku Bar and Tangku are poor, to say the least (although work on the Tangku New Harbor, started by the Japanese, is continuing), but North China is singularly lacking in good harbors, and Tientsin was and is the natural sea outlet for all of North and Northwest China. Tsingtao serves the Shantung peninsula, and to the north Chinwangtao serves a limited hinterland (mainly as an outlet for Kailan coal from Tangshan), but practically speaking Tientsin serves the tremendous hinterland of China between Shanghai, the Yangtze outlet, and Dairen and Port Arthur (plus Yingkow, Hulutao, and Antung), the Manchurian outlets. This huge area includes not only North China and Inner Mongolia, but to a lesser extent far western regions such as Sinkiang, and even fringes of Manchuria. This commanding position makes the city a natural trade center. China's major trunk railway lines in North China converge in Tientsin and link it with this extensive hinterland in normal times. The Tientsin-Pukow (Nanking) Railway connects the city with Central China, and the Peiping-Mukden Railway passes through Tientsin, connecting it with Manchuria and with lines leading into Inner Mongolia. Secondary lines tap the important areas of all North China. Tientsin's location and transportation facilities have made it one of China's foremost centers of trade and industry in modern times.

Barges and small boats still go up and down the Hai Ho, steamers still call at Taku Bar and Tangku, and some trade continues, but present trade activity is small compared with pre-war years and disappointing in view of the city's potentialities. Tientsin is one of the many indirect casualties of the civil war in China.

Tientsin's import trade is rigidly limited by the Central Government Revised Foreign Trade Regulations of November 17, 1946, which provide for strict regulation of all of China's foreign trade. Import commodities are divided into various categories, and the amounts which can be imported by any one region are centrally allocated and strictly regulated by a system of import licenses. The allotment of these regional quotas have cut the imports of the Tientsin region (which includes Chinwangtao) to a figure considerably below its pre-war percentage share of the value of China's total imports. In 1947 imports via Tientsin were limited to about 15 percent of China's total imports by value, whereas before the war, according to the U.S.

Consulate in Tientsin, they were between 18 and 25 percent. The import quota announced in February for certain categories of goods, including industrial raw materials, limited Tientsin to 7.8 percent of the total of the commodities involved, which is roughly one-half of the share it imported before the war in these commodities. This system of allocation makes many Tientsin businessmen feel that the Central Government is consciously discriminating against the city and against North China as a whole. The head of the Tientsin Regional Office of the Central Government Export-Import Board admitted to me that the system in fact results in a kind of discrimination, but he does not admit that there is any malicious intent behind it. Some private businessmen in Tientsin, however, attribute the motives for discrimination by the Central Government to a desire to favor business interests of government officials in Shanghai and other areas outside of North China and to a fear that the North China situation is so precarious that a minimum of assets should be risked in the area at present. The resentment of certain Tientsin businessmen is increased by the fact that they feel that the volume of imports to any region should be related to the volume of its exports. Although Tientsin in the past has had an import surplus in domestic, coastal trade it has always had an export surplus in foreign trade, and these people feel it is "unfair" that the city is not allowed to use all of the foreign exchange accumulated by its exports.

Although Tientsin still maintains an export surplus in its foreign trade, the total volume of its exports (as of its imports) is gradually dwindling. The CNC value of declared exports last year was CNC\$ 472,088,074,517, a figure which is relatively small when converted into U.S. dollars. Exports last year to the U.S. (which absorbed by far the largest share of Tientsin's exports) amounted to only U.S.\$13,869,817. By comparison, in the peak pre-war year, 1925, exports to the U.S. were over U.S.\$47.48 millions. This comparison is not altogether fair, because in some poor pre-war years exports have been below 1947 (notably in the depression year 1932 when exports to the U.S. fell to U.S.\$7.87 millions), but it is significant that last year's figure is far below those of the more "normal" pre-war years 1936 and 1937 (U.S.\$24.24 millions and U.S.\$23.89 millions respectively) and is only about two-thirds of the 1946 figure (U.S.\$20.56 millions) when accumulated wartime demand resulted in a short-lived post-war trade boom.

The most important reason for the continuing process of contraction afflicting Tientsin's export trade is, of course, the constant widening of civil war zones in North China which has cut off Manchuria (the Peiping-Mukden Railway currently goes only as far as Chinchow) and has reduced the North China hinterland to thin ribbons of territory bordering the railway to Peiping and the Tientsin-Pukow Railway as far as Tangkuan~~tan~~, about forty miles south of Tientsin. Within the past two weeks, a flare-up of fighting in Chahar, northern Shansi, and Suiyuan has cut off the Inner Mongolian hinterland. The hinterland continues to shrink, and Tientsin's export trade continues to dwindle.

Egg products formerly came from North Honan and South Hopei; the

railways there are now cut. Casings came from Kansu and Sinkiang; this trade fell to a low level even before the recent disruption of the railway to Paotow, the collection center for trade in the west. Shelled walnuts are a major export product of the Fen River valley in Shansi; much of this region is now in Communist hands, and the rest is surrounded by Communists. Strawbraid was an important exportable handicraft of coastal towns in Shantung and Hopei; most of these are now Communist towns. One by one the sources of Tientsin's export products have been cut off from the port.

In some cases, also, factors other than the disruption of transportation have seriously hindered trade. For various complicated reasons the price of raw wool in early 1947 was actually lower in Tientsin than in Paotow. As a result, large amounts of wool, estimated by informed sources in Tientsin to be between 20 and 40 million pounds, accumulated in the northwest and remain there, still unused. The value of wool exports from Tientsin to the U.S. in 1947 was U.S.\$207,976, or under 5 percent of a pre-war year such as 1935. The low price of furs and skins in New York made it unprofitable to export them from Tientsin on a large scale. Tientsin wool rugs likewise were almost eliminated from world markets because of price. In 1947 only 61,787 square feet of woven woolen carpets were exported to the U.S., as compared with over 5 million square feet in the heyday of the trade, 1926 and 1927. The decline of the rug industry has been a particularly severe blow to the city's economy, because it is estimated that the industry directly or indirectly employed almost one-quarter of a million people in Tientsin in past years.

At present the commodities which Tientsin is exporting are bristles, beans (including Soya beans), furs and skins, and casings, with some rugs and carpets, and nuts, and negligible amounts of strawbraid, wool, horsehair, vermicelli, and Chinese medicines. In 1947 bristles alone made up 60 percent of the value of total exports, while beans accounted for 18 percent, furs and skins for 13 percent, and casings for 2 percent. The export of bristles, which is almost as large as in the pre-war 1935-1940 period, is virtually the only thing at present maintaining Tientsin as an important exporting city.

Although the gradual extension of Communist control, the spread of fighting, and the disruption of transportation in North China have been the most obvious and undoubtedly the most important causes of Tientsin's trade decline, it is the strong and definite opinion of many persons in Tientsin that the Central Government's economic policies, interference, and regulation have crippled even the trade which might have been expected under existing conditions.

The large and unrealistic gap between the official and black market rates for foreign exchange is the main cause of complaint. On the black market a constant process of CNC devaluation goes on as the government printing presses keep working at capacity and as higher denominations of currency periodically appear. The black market value of foreign exchange keeps going up in reverse ratio. It is true that

at present the official foreign exchange rate is periodically adjusted, but even though adjustments have been more frequent since the establishment of an "official open market" rate on August 17, 1947, the gap between the official rate and the black market rate is never reduced to realistic proportions. The effect of this large gap is the imposition of an indirect tax of fifty to sixty percent on exports and an indirect subsidy of a similar amount to those favored importers who are granted import licenses. (One hears constant accusations of discrimination in the allocation of import licenses.) The prices of Chinese export products, therefore, is artificially kept at an extremely high level in terms of foreign exchange, and traders claim that without this artificial price handicap the export of products such as wool, furs and skins, and rugs might have been a different story during the past year or so. The resulting decline in exports (as well as in Chinese emigrant remittances from abroad) further reduces China's resources of foreign exchange, which in turn limits imports, in a process which is an inevitable downward spiral. Because of these facts, businessmen say, the government's regulations, which may have been sincerely designed to conserve foreign exchange and allocate it wisely for much-needed essentials, in fact result in an ever-decreasing volume of exports, and consequently a shrinking supply of foreign exchange and a smaller volume of even the most essential imports.

Industry in Tientsin is affected by many of the same factors crippling trade, and industrial rehabilitation since the end of the war has been extremely slow. In addition to the sizeable pre-war industrial plant in Tientsin the Japanese during their occupation invested large sums of capital (estimates which I have heard of its probable value vary from U.S.\$100 millions to U.S.\$250 millions) in further industrial development in the city. Although a number of the major industrial plants which operated under the Japanese have continued operation, and a few have even expanded operations and output compared with 1945 and 1946, most of the intermediate and smaller ex-Japanese plants have been dismantled or have remained idle, with the prospects for their effective utilization getting poorer each month. In many cases, ex-enemy factories sold by the Chinese government to private entrepreneurs have been dismantled for scrap, or sent to locations farther south.

Among the factors which have retarded those industries which have tried to keep on operating or to commence operation are raw material shortages, rising costs of labor, power, fuel, raw materials, equipment, and financing, further disruption of inland transport adding to the inaccessibility of raw materials and inland markets, and the general rising, inflationary spiral. Although the existing import quota and licensing system is supposed to give priorities to capital goods and essential raw materials from abroad, in practice the complicated mechanics of the system often hamper deliveries. Raw materials from the interior are extremely difficult to get also. Normally, for example, the Tientsin cotton textile industry (the city's major modern manufacturing industry) relies almost completely on Hopei cotton, but

recently it has been forced to obtain 80 percent of its requirements from abroad.

The one important essential raw material which is still reliably available in adequate quantities is coal, from the Kailan mines in Tangshan. These mines produced almost 5 million tons of coal last year. They have even been compelled to slow down output recently, because their production of coal has exceeded the capacity of available railway rolling stock to haul it, and inventories have at times been almost unmanageable. The adequacy of coal supplies has been the brightest spot in the industrial picture at Tientsin, but it hasn't been able to compensate for the many other shortages and obstacles.

The largest production increases in the past year have been in the cotton mills which produced about 200,000 bales of yarn and well over 4,000,000 bolts (40 yards each) of cloth in 1947. The government-owned mills, which include all of the largest ones, increased production by 100 percent over the previous year. But many other industries have received serious set-backs. For example, in January of this year, 21 out of 54 soap factories temporarily suspended operations and 10 of these then closed down completely, while all 36 vegetable oil refineries in the city were forced to close their doors.

The most important industry operating in Tientsin at present, cotton textiles, is almost entirely government-owned. Of the nine cotton mills in and around the city, the seven major ones, which were taken over from the Japanese, are a part of the China Textile Industries, Inc., which is under the Ministry of Economics. Some other local industries are owned and managed by the National Resources Commission.

Private enterprise is hanging on, however, in the remaining important industries - chemicals, including soda ash, caustic soda, ammonium sulphate, and salt, rugs, cement, etc. - but it is subject to continuous government pressure, regulation, and intervention. Although there is talk of the government selling its textile enterprises to private business during the coming year, there are indications that perhaps government participation in business may increase rather than decrease. A top official in the biggest chemical company in Tientsin told me that the government has repeatedly tried to force its way into control of the company - and is still trying to do so. The omnipotence (relatively speaking) and the omnipresence of the Central Government in economic fields has made the sledding rough for private enterprise in Tientsin since the end of the war.

One reason why the failure of local industry to recover has been doubly disappointing to Tientsin businessmen is the fact that prospects for private business in the city seemed good immediately after the war. Businessmen believed that the industrial expansion resulting from Japanese investments offered new opportunities to Chinese business when the Japanese assets were taken over. It now seems to be a general opinion, however, that much of what the Japanese built up has already been destroyed to a large extent by dismantling and disuse. One major

example of this is the steel and metals industry built by the Japanese which is now completely unused and inoperative. An American in Tientsin claimed to me that the whole collection, manufacturing, and distribution system of the city's economy has disintegrated since the end of the war.

I visited one large factory in the city - the No. 2 Mill of the China Textile Industries Inc. Built by the Japanese, it is a spotless, well-managed, smoothly-running plant, and I was told that its daily production (on a two-shift, twenty-hour basis) is at present considerably higher than its peak under the Japanese. But I also saw the empty buildings and smokeless stacks of many idle factories in the city's suburbs which were an indication of the over-all business depression in the city as revealed in statistics and by informed local persons.

The present economic depression in Tientsin causes a good deal of hardship, but there are not many signs of unrest. It is particularly surprising that the labor scene, according to both Chinese and foreign observers, is normally quiet. One reason given for this is the fact that the government is following a definite policy of keeping wages high to placate labor. Another, as the Garrison Commander told me, is that a constant and strict vigil is kept by the military and police authorities for any indications of unrest or disloyalty among the working class, and prompt action is taken when any such indications occur. At least one American businessman claims, also, that in labor disputes "all" decision of the municipal Bureau of Social Affairs (the final arbitration authority for serious disputes) are made in favor of labor. Nonetheless, it is somewhat surprising that Tientsin, which is almost surrounded by the Communists who are 30 miles west of the city, 40 miles south, and 30 miles northeast, contains one of the largest concentrations of industrial proletarians in China, yet this laboring force seems to be almost free from Communist infiltration and influence. It is a striking example of at least one of the differences in emphasis and methodology distinguishing the Chinese Communist Party from its counterparts in most Western countries where the urban proletariat is often the basis of Communism's strength.

Although the working industrial labor force in Tientsin receives preferential treatment in regard to wages, there are large numbers of unemployed persons, as well as refugees, in the city who are not so well off. The population is constantly growing from the influx of refugees and has increased, according to the municipal Bureau of Police figures, from 1.68 million to 1.8 million in the last year. According to figures released within the past month by the national Ministry of Interior, Tientsin is now the most thickly populated city in China and has a density of 9,103.65 per square kilometer. Everyone in the city, furthermore, suffers from the chronic inflationary spiral which is ubiquitous in China today. Although inflationary forces are said to be less severe than in Shanghai and Peiping (and consequently much less than in cities such as Taiyuan and Mukden), during the last month (March) alone the price of cotton cloth in Tientsin rose by 89 percent, and food prices by 30 percent. During the same period the black market exchange rate for U.S. dollars jumped 114 percent, to over 500,000 to 1.

The most serious problem affecting the man in the street has been the shortage of food. Not only is Tientsin cut off from most of its food-producing hinterland, but last year's Spring harvests were 20 to 25 percent below the previous year because of insufficient and late rains, and good summer crops did not completely off-set these losses. The main cause of the food shortage, however, has been the military loss of food areas, for recent reports indicate that the crop prospects in nearby Communist areas are so good that large increases in cotton acreage (about 35 percent over 1946) have been permitted. North China rural areas have remained self-sufficient in food, but Tientsin (and Peiping) have become areas of serious food deficits.

During 1947 the food shortage became increasingly serious and the local authorities increasingly alarmed. In March, 1947, the Central Government had suspended direct commercial purchases of wheat and flour from foreign markets to conserve foreign exchange, and although it undertook to guarantee that North China would be supplied with cereals from the Yangtze Valley shipments were not delivered during the latter part of the year. In June the Communist capture of Tsanghsien, an important grain-collecting center south of Tientsin, cut off a major source of supply. Grain supplies from Inner Mongolia began to fall off because of the requirements of the military forces there. By January of this year the food situation was becoming dangerously critical.

The deus ex machina which promises to save what might have been a disastrous situation is a four-month food rationing plan which is about to be introduced in the city (it has already been put into effect in Shanghai and will soon be introduced into Peiping, Nanking, and Canton as well). This program is related to the efforts and activities of the present U.S. China Relief Mission, and the formulation of the details of the program took months of planning and negotiation between the Mission and the Chinese Government (an Executive Yuan Commission for American Relief Supplies was established as special liaison). Although the North China Regional Director of the Mission states that the rationing itself is intended to be primarily a price stabilization rather than a direct relief measure its effect will be to supplement the food supplies in Tientsin and to prevent what might have been a real food crisis.

According to the plan, ration cards will be distributed to every citizen in Tientsin, and these cards will entitle the holders to buy fifteen "shin" (somewhat over fifteen pounds) of wheat flour a month at a fixed monthly price. The fixed price is to be set on the basis of the price of flour for the last five days before the plan's date of commencement at a rate five percent below the market price on those days. One half of the supply of rationed flour is to be provided by the China Relief Mission and the other half by the Chinese (divided equally between the Central Government which is to contribute flour from the Yangtze Valley and the city authorities who are also to contribute a share). The plan calls for the shipment of about 600,000 bags of non-commercial flour per month to Tientsin, to supplement normal supplies obtained through other channels which will be sold as usual. It is expected that these normal supplies will be sufficient

to provide about fifteen more "chin" of unrationed flour per person.

Although the beginning of the program has been delayed from its April 1st deadline, initial shipments of flour (and of grain to be converted to flour in Tientsin's mills) and ration books have been received, and the program is expected to start in a few days.

The plan does not, even in theory, solve the problem of the high cost of flour at present in the city, but it does attack the problems of overall supply and price stabilization, and the receipts from the rationed sale of the China Relief Mission flour is to be used for various direct relief projects. During the next four months, at least, the program should ease Tientsin's food problem, and it will be an important experiment, for many people have insisted in the past that any rationing scheme is unworkable in China.

If the food crisis is successfully met, Tientsin can probably expect a continuance, in the immediate future at least, of its internal stability and calm (which is in marked contrast to recent disorders reported from Shanghai). It has a good municipal administration, praised by both Chinese and foreign residents, which is doing its best to meet the city's serious problems arising from economic isolation and stagnation. Mayor Ta Chieh-shih, Police Chief Li Han-yuan, and other municipal leaders are widely commended for their efforts, and their accomplishments, under an awkward governmental set-up which makes the city government an orphan branch of the Central Government.

There seems to be very little regret in Tientsin regarding the demise of the foreign concessions. The Chinese I talked with seem to be generally satisfied that the foreign governments are no longer in a position to discriminate against Chinese nationals in their home country, and the foreigners with whom I talked feel that the Chinese municipal authorities are functioning satisfactorily, even if government efficiency is not 100 percent up to pre-war foreign efficiency in their opinion. The complaints of the foreign residents of Tientsin are directed mainly against the long arm of the Central Government. This resentment is intense in many cases, however. A private, written report of several months ago asserted that economic discrimination against foreign groups was gradually forcing a liquidation of the foreign communities in Tientsin, but it appears to me that the important foreign minorities are trying to hang on.

Although a great many people, including Chinese military officers I talked with, believe that the Communists could take Tientsin if they concentrated their efforts on the job, at the moment there is no important military activity around the city. The Communists are busy elsewhere. On the other hand, however, as in the other areas which I have visited personally in recent weeks, there is not much evidence that the Nationalists are serious thinking in terms of offensives or counter-offensives. Last year a 25 kilometer defense moat was dug around Tientsin (at an estimated cost of CNC\$24 billions raised by "voluntary" contributions from the Chinese Chamber of Commerce, local industries,

and others), and about 300 brick and concrete pillboxes were built around the city's perimeter. These are significant indications of the apparent defense mentality prevalent. I did not have an opportunity to talk with General Shan Kuan, Fu Tso-yi's deputy in the Tientsin-Tangshan region (under whom are the Tientsin Garrison Forces, the 92nd Army in the Tientsin area, and the 62nd Army in the Tangshan area), but the Tientsin Garrison Commander, General Ma Fa-wu, gave me the impression that not much offensive action is to be expected from the Nationalists in the Tientsin area at present. General Ma believes, however, that the Communists will leave Tientsin alone for some time to come because, he says, they aren't qualified or ready to take it over and administer it. This is a belief, or at least a hope, of many others I talked with in Tientsin.

Sincerely yours,

Doak Barnett

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