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A REVIEW OF THE CHINESE ECONOMIC SITUATION DURING APRIL 1948

Shou Chin-wen

I. COMMODITY PRICES

Commodity prices for the month of April continued to rise, but the rate of increase dropped considerably from that registered for previous months in 1948. According to the wholesale index for Shang-hai, prices rose 19.9 percent in April compared to an average increase of 31 percent for the first four months of 1948 and 46.7 for the first three months. The main reason for the slowdown in inflation was a constriction of the money market, with a subsequent decrease in purchasing power.

II. FINANCIAL MARKET

A. Gold and Silver

In a comparison of prices posted by the Central Bank for the last weeks in March and April, the price of gold rose 26.9 percent and that of pure silver, 8.5 percent.

B. Foreign Exchange

On 6 April foreign exchange rates underwent further reorganization. American rates increased 27 percent, from 258,000 CMC to one American dollar to 324,000 yuan. English rates advanced to a comparable degree, from 765,000 yuan per English unit to 972,000.

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The fee charged by banks for purchasing and selling in foreign exchange also underwent realignment on 6 April, the rate increasing from 3,500 ytan per American dollar to 4,000, and from 12,500 per British pound to 12,500.

### C. Securities

On 4 April 1948 a joint order was issued by the Ministries of Finance and Economic Affairs to the Shanghai Stock Exchange to the effect that from 5 April the practice of deferring payments for purchased securities was to be discontinued. A wave of selling followed the announcement, leading to a decline in share prices on the opening day of the week. On the following day, however, high quotations for foreign exchange were posted and the market recovered. During the first week, Wing On Textiles shares had a high of 2,050 ytan, and a low of 1,345, representing a margin of fluctuation of more than 705 ytan. After the increase in foreign exchange rates was posted, foreign shares rose rapidly, reaching a new high on the fourth day of the week and then retiring somewhat on the fifth and sixth days. For the week, Ewo Cotton showed a high of 2,600,000 ytan and a low of 1,810,000, a fluctuation of 790,000 ytan. Consolidated Bonds Type C posted a high of 113,000 ytan during the week and a low of 87,000, a margin of 26,000.

The money market was restricted during the second week and shares were in a depressed condition. The amount of exchange taking place was also greatly decreased as compared to the previous week. Wing On Textiles registered a high of 1,950 and a low of 1,745 ytan. Demands for foreign shares ran strong following rumor of a change in foreign exchange rates, with Ewo Cotton registering a high of 2,720,000 and a low of 2,400,000. Consolidated Bonds were slightly depressed, Consolidated C hitting a high of 107,000 ytan and a low of 19,000.

Domestic shares for the third week showed little fluctuation; Wing On Textiles reached a high of 2,118 and a low of 1,865. A sudden contraction of the black market in gold notes and Hongkong exchange brought about an increase in the value of foreign shares; Ewo Cotton registered extremes of 2,960,000 and 2,730,000. Consolidated Bonds also advanced, Consolidated C registering a high of 114,000 ytan and a low of 96,000.

Domestic shares continued to be steady in the fourth week and, aside from a rise in Wing On Textiles, little change was registered. Highs and lows for domestic and foreign shares and Consolidated Bonds are as follows:

Wing On Textiles, 2,250 and 1,979; Ewo Cotton, 3,830,000 and 3,110,000; Consolidated C, 122,000 and 108,000 ytan.

### D. Interest Rates

A loose money market at Shanghai over the month resulted in a depreciation in interest rates, the black market rate calculated ytan per ytan per month, falling to 0.225 by the end of the month from a high of approximately 0.3 at the beginning. The call loan rate closed at 6 ytan. No change was registered for call loan rates, calculated in ytan per thousand ytan per day, of the Native Bankers' Association, which stood at 8 ytan, and those of the Trade Associations (T'ung-yeh) and Treasury Bonds, quoted at 6 ytan.

There were three reasons for the existence of a loose money market during the month of April: (1) Commodity prices were stabilized and the

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market situation was slow, with the result that demand was not high. (2) Interest on short-term American Treasury Notes was issued on 31 March, increasing the amount of capital on the market by more than one trillion yuan. (3) Agricultural loans for the most part flowed back into Shang-hai after the loans were made. The Central Bank floated an issue of short-term National Treasury Notes on 30 April, but they appeared on the market too late to have a noticeable effect on April activities.

#### E. Clearing of Negotiable Bills

The total number of bills cleared in Shang-hai during the month of April reached 5,628,223, an increase of 158,830 over the previous month. Calculated monetarily, the bills represented a total of 442,676,881,768,883 yuan, an increase of 122,307,570,671,709 over March totals. Bills returned amounted to 83,083, a decrease of 30,168 over March. Value of bills returned totalled 2,262,246,675,564 yuan, a decrease of 2,638,373,158,104.

### III. ECONOMIC ADMINISTRATIVE ACTIVITIES

At a meeting of the Seventh Plenary Session of the National Assembly held on 13 April 1948, Finance Minister Yu Hung-chen reported on the present financial, monetary, and trade situation:

Postwar economic policies were designed to repair the after-effects of the war, balance the budget, stabilize prices, speed production, etc. Controls over raw cotton, yarn, and cloth were established and the tax laws revised in order to achieve a gradual balance between revenue and expenditure. The objectives of Ministry of Finance activities may be divided into three parts:

1. Correlate rebellion suppression, national reconstruction and mobilization of manpower, resources and finances.
2. Correlate economic and financial policies, e.g., tax revenues.
3. Gradually stabilize the currency by balancing revenues and expenditures, providing a basis for reform of the currency system.

Actual conditions existing with regard to various activities of the Ministry of Finance are as follows:

1. Unfavorable balance between receipts and disbursements in the National Treasury — An unfavorable balance of 30 percent existed before the war, and the same condition, more intensified, has continued until the present time. This year the government, for rebellion-suppression purposes, divided the budget into two types, general and special, and concentrated on maintaining a balance in the general budget only.

2. Taxes — Tax reform has been introduced to expand revenues and ensure equitable distribution of the tax load. The income tax is the most important of the direct taxes and has been revised to meet all needs. Anti-smuggling activities have been diligently pursued, especially in the south. Last year more than 20,000 cases of discovery and arrest were entered, and confiscated goods amounted to over 3 billion yuan. So far this year there have been over 2,900 arrests. An antisnuggling agreement has been made with

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Hongkong and one is being negotiated with Macao.

3. Financial Controls -- In regard to finance, the emphasis has been on contraction of credit, strict control over banking, and the making of food loans, production loans, and agricultural loans. The objective of the loan policy is entirely to expand production.

4. Printing of "Fa-pi" -- The total amount of "fa-pi" issued up to the end of last month (April) amounted to more than 62 trillion yuen. Income from the total amount of sales [of U.S. goods] was used for "fa-pi" reserve.

5. International Trade -- Foreign trade transactions are regulated by the Central Bank of China. The export of goods was encouraged on the one hand and imports expanded on the other. In addition, a flexible foreign remittance policy has been adopted.

6. Local Finances -- Both provinces and hsien are in bad financial condition. The Ministry of Finance has again adopted a new system for income and expenditure in accordance with the situation existing in individual provinces. Sufficiency in local financial resources is necessary for complete self rule and to comply with the constitution.

(End of Finance Minister's report)

The next speaker was Ch'en Ch'i-t'ien, Minister of Economic Affairs:

North China and the Northeast are self-sufficient in regard to coal, and the Northwest is improving, but the situation is unsatisfactory in South and Central China. At present the mines in the Southern Huai section are increasing production to supply the Manching-- Shang-hai area.

The present policy with regard to industry is to concentrate and expand the textile industry first and develop others later. Efforts are being directed towards utilizing yarn to secure foreign exchange, and competing in the South Seas market. The Central Bank is strengthening the fa-pi reserve.

(End of Report by Minister of Economic Affairs)

Ma Ta-wei then gave a report on communications:

At present there are only 600 kilometers of railway lines operating in the Northeast. In North and Central China the Lang-Hai and Pei-Ning lines are still open, but the Chiao-Chi and Cheng-T'ai are completely closed. In South China, the Yuh-Kan is adding a bridge and the Che-Kan is open from Hang-chou to Nan-ch'ang. The total mileage of the country open to traffic amounts to only 13,000 kilometers. The route [sic] from Kuang-chou-wan to Ti-hua in Sinkiang has been divided into sections for purposes of repair. Sections extend from Kuang-chou (Canton) to Liu-chou, Liu-chou to Kwei-yang, Ch'ung-ch'ing to Ch'eng-tu, Ch'eng-tu to T'ien-shui, and T'ien-shui to Ti-hua.

Highways are in much the same situation as railroads. There are now more than 1,600 kilometers of highways in Sinkiang.

As for shipping, the total tonnage is now 1,030,000 and routes have been extended to the South Seas.

There has been some progress in stabilizing air travel, and a route has been established to San Francisco.

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Telegraph equipment is now more extensive than before the war and the service is faster.

The postal service handled one billion pieces of mail over the past year.

(End of Report by Minister of Communications)

#### IV. FLOATING OF SHORT-TERM NATIONAL TREASURY BONDS

After a long period of discussion and argument the 1948 Short-Term National Treasury Bond Act was passed by the Legislative Yuan on 20 April. Bonds are of three types, 1, 2, and 3 months, and in five denominations, 10 million, 50 million, 100 million, 500 million, and one billion yuan. Interest rate is fixed at 5 percent per month, to be paid with the principal at maturity. They were first offered on the market at Shanghai by the Central Bank on 30 April, and were discounted to 87.3 percent. A 10-million-yuan one-month bond purchased on that day would thus cost the buyer 8,730,000 and would return him 10,500,000 yuan at the end of the month, representing a profit of over 20 percent.

#### V. DISCOUNT AND LOAN COMMISSION OF THE CENTRAL BANK

The Discount and Loan Commission of the Central Bank of China was established in April 1947 to promote cooperation with commercial banks, aid productive enterprises, and encourage exports and the circulation of articles of daily necessity. The function of the Commission in this respect is to approve requests by commercial banking establishments and financial consortiums for rediscounts on mortgages and bills of exchange. From the beginning of Commission activities on 17 April to termination on 30 November 1947, loans amounting to 141,140,000,000 yuan were approved. Industrial loans amounted to 91.3 percent of the total; export loans, 4.5 percent; import bill of exchange loans, 2 percent; and export bill of exchange loans, 2.2 percent.

At the 399th board of directors meeting of the Joint Board of the four government banks held on 11 March 1948, allowance was made for the re-establishment of the Discount and Loan Commission of the Central Bank. The Commission is empowered to review all discount matters involved in business loans extended by the various banking authorities, and to decide on amounts and interest rates following study of the market situation. At the 362d session of the board of directors held on 8 April it was decided to make all business loan plans formulated by the various banking agencies subject to an opinion by the Commission and a decision by the board of directors. The scope of the Commission is thus broadened beyond commercial banks and financial consortiums.

According to the organizational regulations of the new Commission, its functions are outlined as follows:

1. To decide on matters concerning discount and loan policies of the Central Bank.

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2. To decide on rediscount rates and on interest rates on loans.
3. To deal with other matters concerning loans and discounts.

The Commission held an inauguration conference on 27 April. The governor of the Central Bank, Chang Chia-ao, acted as chairman and attendant conference members were Hsi Pai-yuan, Li Ming, Hsi Chi-ch'ing, Chao Ti-hua, Liu Kung-yin, Hsu Pao-shu, and Ch'en Hsi-shui, with Fang Shan-kuei as chief secretary.

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