

over, the question of profit and loss, vital to the merchant, does not have to be considered by the monopoly in any one direction.

"The remedy proposed by Mr. Greene is not even plausible. Had he been familiar with the Chinese characteristics, with the country, with trade conditions in Manchuria, he would not have made his statement in its present form. The port of entry for imports into China for its northern markets is Shanghai, and has been so for many years, and there is no indication of change. From time to time attempts have been made by merchants, American, English, and of other nationalities, to establish direct trade relations with ports at the North, but no permanent success has followed. Japanese goods very naturally are shipped to Tairen (Dalny), their own port, to which subsidized steamers run, and from which their own railroad extends. This direct trade has always been opposed by the Chinese merchants, the most potent factor in the distribution of goods to the interior, and that which will dominate by reason of the conservatism of the Chinese nature and the difficulty foreigners experience in penetrating their reserve or breaking down their customs. But in that respect the situation is not very different from that of the home trade. Let Mr. Greene discover that the inhabitants of Ohio are not using as much as he thinks they ought of a certain cloth, and call upon the manufacturers of it to remedy the great neglect of that market by establishing direct trade relations with it, 'Combine to send a well qualified agent, acquainted with Ohio business, to reside, say, at Cincinnati,' etc. Would he seem any more absurd than he does to those who know China's trade in cotton goods? For many years American merchants have been laboring in China to build up that trade, inspired by the incentive of making their business pay, and increasing it, and by the competition of merchants of other nationalities who buy in the cheapest market and do buy such American goods as can compete with others. It is nothing new and untried. Mr. Greene has not discovered anything. Even his suggestion to carry stocks of American goods within reach of the interior is anticipated. It is within my knowledge that at least one American firm has now and for a long time had stocks at Kwangchengtzu and Antung, and had for nearly a year one of the best qualified men in China stationed at the former place and going about just as Mr. Greene suggests.

"If Mr. Greene's statement were to be seen by those only who know how uninformed he is no harm would be done; but it is widely circulated on the authority of the Government, and will come under the notice of some who may think that here is a new field for trade. They will be unable to do any more than is now being done, no matter what sacrifices are made, but will be excited and perhaps stirred to do something that will be expensive to them and jeopardize the share of trade they now have. The statement is mischievous and should be counteracted by everyone having at heart an increase of the trade of this country with China.

"The attitude of the Japanese Government toward her export trade with China, where she has an armed representation, needs the closest scrutiny of other governments who think that the 'door is open.' HOWARD AYRES."

#### DIVISION OF FAR EASTERN AFFAIRS.

#### REPLY TO COMMUNICATION OF HOWARD AYRES, SECRETARY CHINA AND JAPAN TRADING COMPANY, TO JOHN FOORD, RE REPORT ON AMERICAN COTTON GOODS IN MANCHURIA.

1. Mr. Ayres attributes to me the statement that Japanese competition is the sole cause of the recent decline in the demand for American goods. On page 3 of my report it is stated that speculative imports and the consequent reaction were responsible for the extremely large imports during and after the war, and for the small demand thereafter. I also pointed out that the last fiscal year showed a very marked improvement owing to the absorption of the former excess supplies, the improvement of transportation and good crops.

2. He also quotes me as attributing to Japanese competition the danger of entire loss of American cotton goods trade in Manchuria. This I fully admit. Though a somewhat strong statement and one that can be completely verified only by the lapse of time, from association with merchants of all nationalities in Manchuria I have found that they entertain very serious apprehensions on this score, and I believe that Mr. Ayres, if he has recently visited China, will confirm this.

Is this fear justified? Japanese sheetings imported at Newchwang in 1896 were recorded as 1,402 pieces. In 1908 they were 151,400 pieces, while the new ports of Dalny and Antung brought the total to 190,214. No imports of Japanese shirtings were recorded at Newchwang in 1896, and even in 1900, but in 1908 they amounted, in Newchwang and Dalny together, to 174,440 pieces. Japanese drills imported increased from 360 pieces to 70,391. In other words, in these three principal lines Japanese imports have increased in twelve years from 1,762 pieces to 435,045, or about 250 fold. (These figures are from Chinese Customs returns.) Is there not here just cause for apprehension? Mr. Ayres fears that my report may cause some "restlessness" among the manufacturers. That was precisely my purpose in writing it, and, in the face of this record, such restlessness is not only reasonable but is likely to have beneficial results.

Mr. Ayres quotes figures which show the utter inability of Japan to supply the whole demand in China at present, and I agree with him that it will be many years before Japanese manufactures could possibly be developed to supply that demand. But I would point out that I limited my remarks to Manchuria, where the Japanese are concentrating their efforts.

Japanese statistics show that during the year 1908, out of \$1,368,914 worth of gray shirtings and sheetings exported to China, \$1,095,368 worth went to Dalny and other Manchurian ports. This is undoubtedly the result of the systematic efforts made by the Japanese cotton syndicate, and I believe that combination on the part of our competitors must be met by combination on our own part.

Mr. Ayres attributes the success of Japanese textiles in Manchuria to the special favors granted by the Gov-

ernment to manufacturers and shippers, and consoles himself with the thought that there must be some end to this system. Therefore he deprecated any uneasiness on the part of our manufacturers at the rapid strides which the Japanese are making. He ignores entirely the advantage enjoyed by the Japanese in their low labor cost, their proximity, their interest in the Manchurian export trade, making possible great savings in exchange, etc. Whether or not special favors were granted, Japanese success can be explained largely by these other circumstances, which are permanent, and to which must be added, as time goes on, increased efficiency on the part of Japanese operators and others engaged in handling the goods.

After showing the limited nature of Japanese manufacturing facilities, he leaves it to be inferred that the likelihood of expansion is slight. It may be of interest to note, in this connection, that one of the principal spinning companies in Japan, which at present operates 310,000 spindles, has just started to engage in the weaving business on a large scale. It is also noteworthy that money is now cheaper and more abundant in Japan than ever before. These straws do not point to any contraction in the textile output of Japan.

In stating my belief that the conditions were such as to make competition difficult, if not impossible, with the methods hitherto used by the commission merchants, I was not intending to cast any aspersions on the ability, energy and familiarity with local conditions of those traders, for they are undoubtedly responsible for the large measure of success which American manufacturers have obtained abroad. But the question must arise with them how far it is profitable to go in competition with a foreign combination, involving perhaps the expenditure without immediate return of large sums of money which they could use more profitably elsewhere, and this to establish a market for an article which, after all, is not their own, and which might finally be taken out of their hands by the manufacturers.

It is true that there was little new in what I had to say. Most of the points have been repeatedly made by American Consuls in Manchuria, and a similar report from the Consul at Newchwang has just appeared. We have not been addressing the merchants in Shanghai, but have been endeavoring to bring to the attention of manufacturers in the United States facts which should be of interest to those whose goods go abroad. We have also suggested a remedy for existing conditions, and, concerning as it does a trade of millions which now seems threatened, I do not believe that the expenditure by manufacturers of a few thousand dollars to investigate the conditions and the proposed remedy would be a waste of money, nor that I would jeopardize the share of trade they now have, as Mr. Ayres fears.

I was well aware of the fact that an American firm at Shanghai sent a representative to Kuangchengtzu last year with stocks, but had reason to believe that a more permanent representation with more solid support from the manufacturers was required. This representative was indeed withdrawn for a time. It seems probable

that the manufacturers might be able to co-operate with the merchants, using them as their permanent representatives, but relying largely upon their own representatives to push the trade. An arrangement analogous to this appears to have met with favorable results in another line. In this way the cotton manufacturers would be able to avail themselves of the valuable experience of the commission merchants. But I feel strongly that whatever the details may be, the manufacturers must have their own men on the ground with stocks at their command at places within easy reach.

#### MR. MCKELLAR'S REPLY TO MR. AYRES.

As a further contribution to the discussion of questions referred to in the preceding correspondence, the following letter, addressed by Mr. R. L. McKellar to Mr. Howard Ayres, in reply to a communication published in the September issue of the JOURNAL, may be found interesting:

##### DEVELOPMENT OF FOREIGN COTTON GOODS TRADE.

Your letter of August 23 has awaited my return from an extended trip to the Pacific Coast, made partly in the interest of our export and domestic cotton goods business. I made a careful inspection of every Pacific Coast terminal through which any of our foreign cotton goods are likely to pass, and I also familiarized myself with the domestic market in that section.

Your caustic criticism of my article does not offend or disturb me; to the contrary, I am very glad to have the benefit of your views, which are frank, outspoken and easily understood, as you have not permitted their force and emphasis to be disguised or destroyed by the employment of delicately veiled or diplomatic terms. It is, no doubt, a good idea to be entirely clear where a personal acquaintance does not exist.

I have heard from my article from several parts of the world and from innumerable readers, and yours is the second adverse criticism of its essential features. It was delivered in response to an invitation of the Cotton Manufacturers' Association, and confined to the scope authorized in that invitation. The motive that prompted its preparation and delivery was wholly in the interest of the manufacturers of cotton goods in the Southern States, and the correctness of the data presented was substantiated to my own satisfaction. Developments subsequent to its delivery, including your severe arraignment, have not caused me to change the views that I expressed therein; to the contrary, there has been a steady march in the course of my suggestions, probably not at all by reason of those suggestions but in response to an intelligent and concerted move in that direction, resulting from a logical analysis of self-evident facts and impelling forces.

Deference to views contrary to your own does not permeate your communication like the perfume of roses nor illuminate it with an effulgent glow, and if your letter has made the impression on my mind that your protest against the Southern manufacturer making a closer study of foreign trade is prompted rather more from self-interest than otherwise, I am quite willing to dis-

miss those thoughts as being irrelevant, and confine my reply to a friendly discussion of the subject matter, except that I do not think that in justice to themselves that our Southern cotton manufacturers can afford to rely wholly upon your good selves and other intermediate handlers of their goods for all the information and knowledge they require in regard to foreign trade.

I am reasonably sure that you also have at heart the interest of the Southern cotton manufacturers, and that it is both your interest and your desire to use your knowledge and influence to increase their foreign trade as far as possible, and if there are any material differences in our views with respect to the best methods of increasing this trade, I am disposed to believe that such differences are probably the result of a difference in viewpoint. You are, no doubt, considering the proposition, at least in some of its phases, from the standpoint of American mills as a whole, whereas my consideration is almost entirely from the standpoint of our Southern mills. In the second place, it is clearly apparent that you are of the opinion that a more intimate knowledge on the part of the manufacturers of the needs and requirements of the foreign consumers is a menace to New York exporting houses such as yours, and at first blush it might appear that closer relations between the manufacturer and the consumer would adversely affect the middleman, but, as I pointed out in my article, it is my belief that the field in the Orient is so immense that a more intimate knowledge of the trade itself on the part of the manufacturer would lessen the burdens of the large selling companies and prove an actual benefit to the entire trade. It would stimulate the interest of the manufacturer in a large and inadequately supplied market, and would create business, both for himself and the middlemen.

As further illustrating this point, I will cite the method in vogue with some of our largest tobacco manufacturers in Kentucky. These manufacturers market their products through wholesale jobbing houses, to whom they either sell outright or allow commission on sales to dealers, and in order to increase sales to consumers and to come in closer touch with the trade, these manufacturers send their own representatives along with the sales agent of the jobbing houses, and these representatives not only gather useful information for the benefit of the manufacturers but they also assist the representatives of the commission houses in selling their products, and I am told that the plan is a very effective one and exceedingly beneficial to both the manufacturer and the jobber. In this way the manufacturer learns through a receptive, direct and reliable source, the peculiarities and requirements of the trade itself, and at the same time insures the sale of his own goods. If, however, I interpret your views correctly, the progress of our Southern manufacturers is fully up to reasonable expectations, and that they should be content to rely upon the "natural laws of the physical world for the development of their trade along certain lines determined by laws beyond the power of men or government to permanently alter." If this was true we would be sitting under the tree waiting for ripe fruit to drop into our laps instead of climbing for it and getting our full share of the best that was to be had, and the Atlantic would still be crossed in wooden sails in four and one-half weeks instead of modern steamers in four and one-half days, and Fulton would not be dividing honors with Hudson in the celebration now in progress in your city. It is claimed that in carrying things from where

they are plentiful to where they are needed that the progress of the world in the last fifty years has been equal to that of the preceding 500 years; therefore in considering the progress that is being made in any line of business we must also consider what progress is being made by our competitors.

There is no question but what the American cotton manufacturer, and particularly the Southern manufacturer, has very strong competition to meet in the Orient, and especially in China. It is also true that occurrences have recently taken place which will serve to bring the manufacturers in the United States in closer touch with conditions in the Chinese Empire; first, the interest that is being taken in this trade by governmental administration at Washington, including the personal interest of the President; second, the pressure that was brought to bear by our banking interests which resulted in participation to the extent of one-fourth in the Chinese loan of \$30,000,000 for the building of the Hankow-Zechuen Railroad; third, the opening of a news bureau by the New York *Herald* at Peking to be used as a medium of transmitting desirable trade information to the United States respecting conditions in China; and fourth, the appointment by the President as Minister to China of a practical business man in the person of Mr. Chas. R. Crane, a highly representative merchant of Chicago. The speech of the latter at Delmonico's on September 20 has no doubt been generally read.

These and other things are serving to give quite an impetus to Chinese trade, and I find from personal observation in various parts of the United States that there is a growing disposition on the part of manufacturers in all parts of the country to extend their export trade, and the Chinese market is looked upon with interest and favor; in fact, Chinese trade is now so much in the limelight that an exporting manufacturer who is not studying this trade is arguing himself unknown. As someone has aptly asserted, "probably in no previous period of the history of the human race has there been awakened such concentrated attention to one portion of the earth and its inhabitants." A learned Chinaman, now in this country, expresses it thusly:

"The twentieth century is pre-eminently the century of international commerce. The struggle for fresh markets, to dispose of the surplus products of the field and the factory after the full supply of home consumption, is a very keen one. China, with her teeming population gradually being infected with the desires and wants of the twentieth century, but possessing only the facilities of an agricultural people to gratify them, will become the biggest buyer of the world in the near future. A large share of this trade will come to America, if the statesmen and merchants of America are wise enough to seek for it. Ultimately, the national welfare and prosperity of the United States must depend on foreign markets, and the securing of the commercial prize of the Orient is a coup worthy the attention and thought of all patriotic Americans. In this competition for commercial supremacy the good will of our people is an asset not to be despised by this nation."

Our trade with Japan is of much less importance, and, in my opinion, it will continue so. They are themselves manufacturing, and all indications point toward that nation becoming formidable competitors of our country, particularly in the manufacture of cotton goods for the Chinese market. If they make the same progress in manufacturing cotton as they have in building up their merchant marine, we will shortly be feeling their competition in cotton goods almost as much as that of England. The Special Trade Delegation from Japan that is now touring the United States means much more to Japan in the way of informing them of our trade methods than it does to us, and President Taft, who is himself familiar with trade conditions in the Orient, no

doubt recognized and fully appreciated this fact when he welcomed the delegation a few days ago, and said to it that the prospect of war with Japan is not one of armies and navies, but a commercial war. This unofficial but highly representative Japanese trade delegation is another practical demonstration of what one of our most active competitors is doing in the way of obtaining a more intimate knowledge of foreign trade conditions. The shrewdness and adaptability of the Japanese in trade is well recognized, and if the tour of this country by this delegation proves beneficial to them, a similar investigation of Chinese trade on the part of our manufacturers would doubtless prove equally as beneficial to our interests.

My statement that we are manufacturing only one-third of our raw cotton was not intended as a reproach, but a statement of fact worthy of analysis and thoughtful consideration.

I am unable to verify from any official record your statement that our manufacturers are selling their products to all markets of the world, to the exclusion of other producing countries. Our Southern manufacturers are unquestionably making progress, but as yet little more than a good beginning has been made, and if I correctly understand their spirit, character and determination, they will be satisfied with nothing less than a fair division with England, Germany and France, and a forestalling of Japan.

From the standpoint of leaving a pleasing impression, my failure to flatter our Southern manufacturers on the progress that they have made in securing foreign trade is, no doubt, reprehensible. My object, however, was not to flatter, but to offer some food conducive to thought and discussion, and I am not yet convinced that I missed the mark entirely. As for insulting them in summarizing and submitting certain suggestions, nothing was further from my thoughts, and I am reasonably sure no such idea was gained by any of my hearers, and I hardly think your statement in this connection was intended seriously. The cotton mill interests on the Southern Railway have been fostered by our company from its first organization. We now have 751 textile mills, representing 70 per cent. of all the cotton spindles in the entire South, located on or adjacent to the rails of the Southern Railway system, and these mills are regarded as one of our most valuable industrial assets, and their interests are considered along with our own. A few years ago we recognized the necessity to establish certain rates on raw cotton from Western territory to these mills, and a controversy with practically every line in the South was precipitated when we submitted the line of rates we proposed to establish, and so strong was the opposition that it was finally concluded to submit the question to arbitration, the result of which was satisfactory to our contention. It is highly probable that in the natural course of commercial progression that we will encounter similar necessities in behalf of these interests, and if we do we are prepared to meet and dispose of them according to their merits; thus you will see that with the interests of the mills and ours so closely allied, it is not likely that offense will be offered or umbrage taken in absence of ample provocation.

In the matter of credits, to which I referred in my article, my authority was largely ex-Secretary of War Luke E. Wright, whose opportunity for correct and reliable information has been exceptional, and his views in the main have been confirmed by a well informed representative of one of our leading mercantile agencies, and also by our own correspondents in China. This credit information is, of course, general, and if used by one of our manufacturers his usual investigation would, of course, be specific.

I note you say that American goods are shipped to China, the largest market, at about half the freight cost paid for English goods, from which I infer that the present through rates are satisfactory. This being the case, I assume that you have no real interest or concern in the subdivision of these total rates as between the Southern Railway and its connections.

As to the reopening of Pacific ports for Oriental trade, this is having our constant and watchful attention. Two lines are now open, the Canadian Pacific through Vancouver and the Chicago, Milwaukee & St. Paul through Seattle and Tacoma, and we have good reason to believe that the day is not far distant when the other transcontinental lines and their ports will also be open to this trade.

As to the matter of a subsidized merchant marine, this was merely mentioned by me as being incidental to this foreign trade, and what I had to say on this subject was largely an expression of my personal views. Our Government is expending over \$300,000,000 to dig the Panama Canal, largely as a commercial enterprise, and with no commercial vessels of our own to use it. When our people fully digest this fact, it will not take much of a prophet to foretell what will be done. All along the Pacific Coast this is a live question, and the only opposition to a ship subsidy that I learned of on my visit to that section was one Portland editor of the old school, who is still clinging to ante-bellum prejudices.

In this connection, at San Francisco I had pointed out to me as an object lesson the anchored and abandoned fleet of the Oceanic Steamship Line to Australia, put out of business on account of being unable to compete with the subsidized vessels of other countries. It is claimed that one of the Japanese steamship lines that recently opened up service between our Pacific Coast ports and the Orient is in position to operate without loss upon its government subsidy alone. It is by no means the rate of transportation alone that makes advantageous to our manufacturers the handling of our commerce in our own vessels; it is the influence of the flag and the social and commercial intercourse resulting from direct and interested steamship connections. Our consular reports from almost every foreign country teem with emphatic and conclusive evidences to this effect. Our leading commercial rivals treat this as a commercial question from a commercial standpoint, whereas we have heretofore persisted in treating it from a political and partisan standpoint. We are now considering it from its logical standpoint. President Taft, in Seattle this week, forecasted, or rather announced, the position of the administration, and many of our Southern Congressmen, who heretofore opposed a ship subsidy, are now beginning to realize what it means to Southern manufacturers in anticipation of the opening of the Panama Canal. The final result, in my opinion, is now a foregone conclusion.

This feature of the cotton goods trade, however, is one that we can possibly afford to leave to our statesmen, our lawmakers and their interested constituents, and if you are prepared to accept my statement that my interest in the development of the foreign cotton goods trade is neither vicious, incendiary nor mischievous, I will be glad to drop in on my next visit to New York and meet the writer of your letter and discuss with him further our mutual interest in this absorbing and fruitful subject, as I am confident that the interests I represent can be of value and service to your company, and that your company can be of value to our railroad in patronage and in promoting the development of one of its most important manufacturing interests.

It is my earnest desire that you appreciate the fact that we recognize in your company an ally to our Southern mills, and a strong factor in developing their foreign trade, and to the extent that your knowledge of the business and influence is exerted in their behalf we are also interested in your welfare, and we are prepared to give you our co-operation in the further development of your own business derived from the section of country that is served by the Southern Railway. It is not my purpose to injure your interests, and as I consider them entirely favorable to us, I wish you to be assured of the sincerity of this statement.

I must apologize for the length of my reply along with the admission that the subject as a whole interests me greatly. Very truly yours,

(Signed) R. L. McKellar.  
Michael Sol Collection